



**BULGARIAN  
DEVELOPMENT BANK**

**BULGARIAN DEVELOPMENT BANK EAD**

**ANNUAL SEPARATE MANAGEMENT REPORT  
INDEPENDENT AUDITORS' REPORT AND  
ANNUAL SEPARATE FINANCIAL STATEMENTS**

**31 December 2021**

*Unofficial translation from Bulgarian*



**BULGARIAN  
DEVELOPMENT BANK**

**BULGARIAN DEVELOPMENT BANK EAD**

**ANNUAL SEPARATE MANAGEMENT REPORT**

**31 December 2021**

*Unofficial translation from Bulgarian*

**TABLE OF CONTENTS:**

1	GENERAL INFORMATION .....	3
2	INFORMATION ABOUT THE BANK.....	4
3	HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2021.....	12
4	OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2021 .....	22
5	OVERVIEW OF ACTIVITY AND SELECTED FINANCIAL INFORMATION.....	24
6	DEVELOPMENT STRATEGY OF the bank.....	30
7	INTERNAL CONTROL.....	33
8	RISK MANAGEMENT .....	33
9	CONTROL ENVIRONMENT.....	37
10	BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN LEGISLATION .....	39
11	INTERNATIONAL COOPERATION.....	40
12	BANK GOVERNANCE .....	41
13	TRANSACTIONS WITH COMPANIES UNDER JOINT CONTROL OF THE STATE .....	49
14	POST-DATE EVENTS FOR THE FINANCIAL REPORT FOR THE YEAR ENDING ON 31 DECEMBER 2021... 49	
15	MANAGEMENT STATEMENT.....	56
1	PRINCIPLES OF CORPORATE GOVERNANCE.....	58
2	THE BDB GROUP .....	58
3	BDB GROUP RISK MANAGEMENT .....	66
4	BANKING REGULATORS UNDER BULGARIAN AND EUROPEAN LEGISLATION .....	78
5	CONTROL ENVIRONMENT.....	78
6	MANAGEMENT OF BULGARIAN DEVELOPMENT BANK EAD.....	80
7	MANAGEMENT OF SUBSIDIARY COMPANIES .....	93
8	TRANSACTIONS WITH COMPANIES UNDER THE JOINT CONTROL OF THE STATE .....	102
9	STRATEGY FOR DEVELOPMENT AND BUSINESS GOALS.....	102
10	SOCIAL RESPONSIBILITY AND DIVERSITY POLICY .....	104
	Appendix №1: CORPORATE GOVERNANCE DECLARATION OF BDB GROUP .....	54

## 1 GENERAL INFORMATION

### **Bulgarian Development Bank EAD**

The shareholding structure as of 31 December 2021 - the state through the Minister of Economy – 100%.

The shareholding structure at the date of approval of this report: the state through the Minister of Innovation and Growth – 100%.

### **Supervisory Board (SB)**

<b>SB as of 31 December 2021:</b>	<b>SB at the date of approval of the annual financial statements:</b>
<ul style="list-style-type: none"> <li>- Valentin Lyubomirov Mihov – Chairman of the SB</li> <li>- Vasil Atanasov Shtonov - Deputy – Chairman of the SB</li> <li>- Stamen Stamenov Yanev – Deputy – Chairman of the SB</li> <li>- Mitko Emilov Simeonov – Deputy – Chairman of the SB*</li> <li>- Velina Ilieva Burska – Member of the SB*</li> </ul>	<ul style="list-style-type: none"> <li>- Valentin Lyubomirov Mihov – Chairman of the SB</li> <li>- Vasil Atanasov Shtonov - Deputy – Chairman of the SB</li> <li>- Stamen Stamenov Yanev – Deputy – Chairman of the SB</li> </ul>

\* A decision of the sole owner of the capital of BDB was entered in the Trade Register on 13 January 2022 by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

### **Management Board (MB) as of 31 December 2021 and at the date of approval of the annual financial statements:**

- Krum Georgiev Georgiev – Chairman of the MB
- Vladimir Rashkov Gueorguiev – Member of the MB and Executive Director
- Tsanko Rumenov Arabadzhiev - Member of the MB and Executive Director
- Jivko Ivanov Todorov – Member of the MB and Executive Director

### **Head office and registered address as of 31 December 2021:**

1000 Sofia, Sredets area, 1 Dyakon Ignatij Str.  
Registration Number - UIC 121856059

### **Joint auditors of Bulgarian Development Bank EAD:**

Deloitte Audit OOD  
103, Al. Stambolijski Blvd.  
1303 Sofia  
Bulgaria  
cebgreceptionteam@deloittece.com

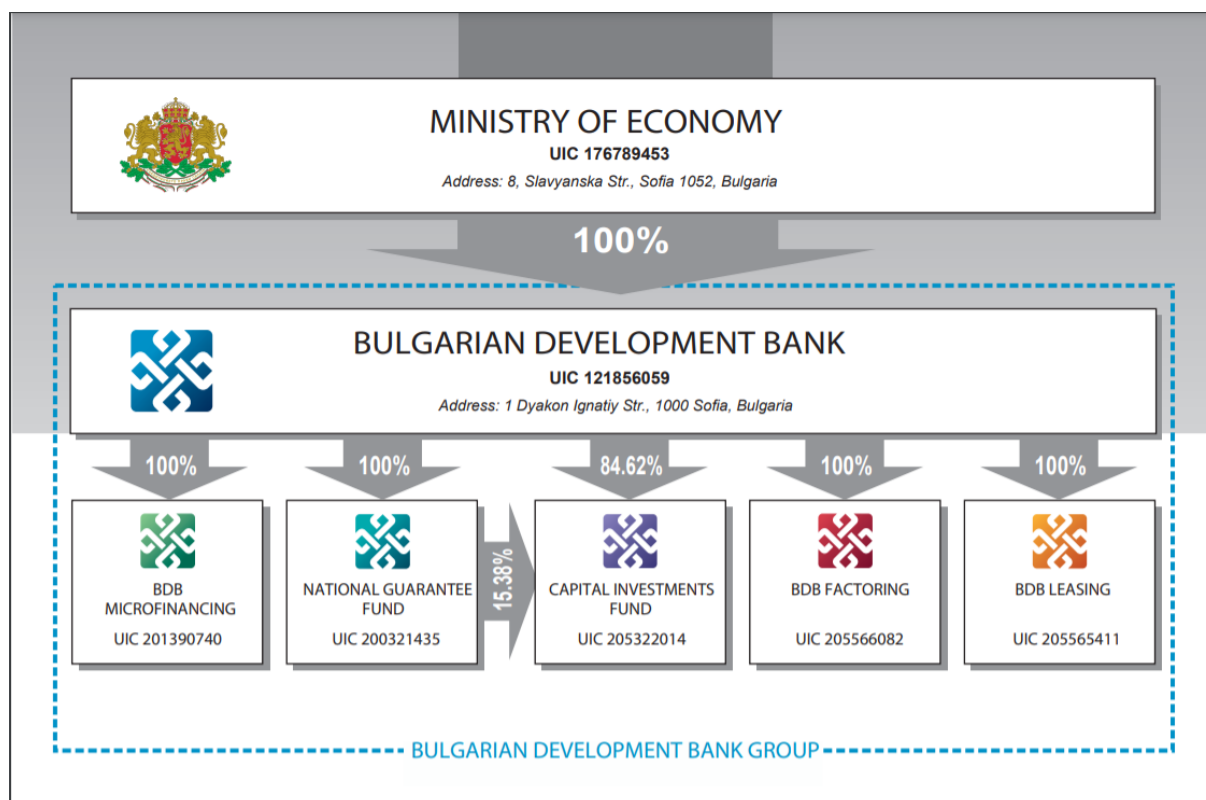
Grant Thornton OOD  
26, Cherni Vrah Blvd.  
1421 Sofia  
Bulgaria  
office@bg.gt.com

## 2 INFORMATION ABOUT THE BANK

### 2.1 THE BDB GROUP

As of the end of 2021 and as of the date of approval of this report, the Financial Group Bulgarian Development Bank (the „Group“<sup>1</sup> or the „Financial Group“) comprises Bulgarian Development Bank EAD<sup>2</sup> („BDB“, the „Bank“) and its subsidiaries – National Guarantee Fund EAD („NGF“), BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD<sup>3</sup>) („BDB Microfinancing“), Capital Investments Fund AD (CIF) and the established in 2019 subsidiaries – BDB Leasing EAD („BDB Leasing“) and BDB Factoring EAD („BDB Factoring“).

The Group has the following organizational structure as of 31 December 2021:

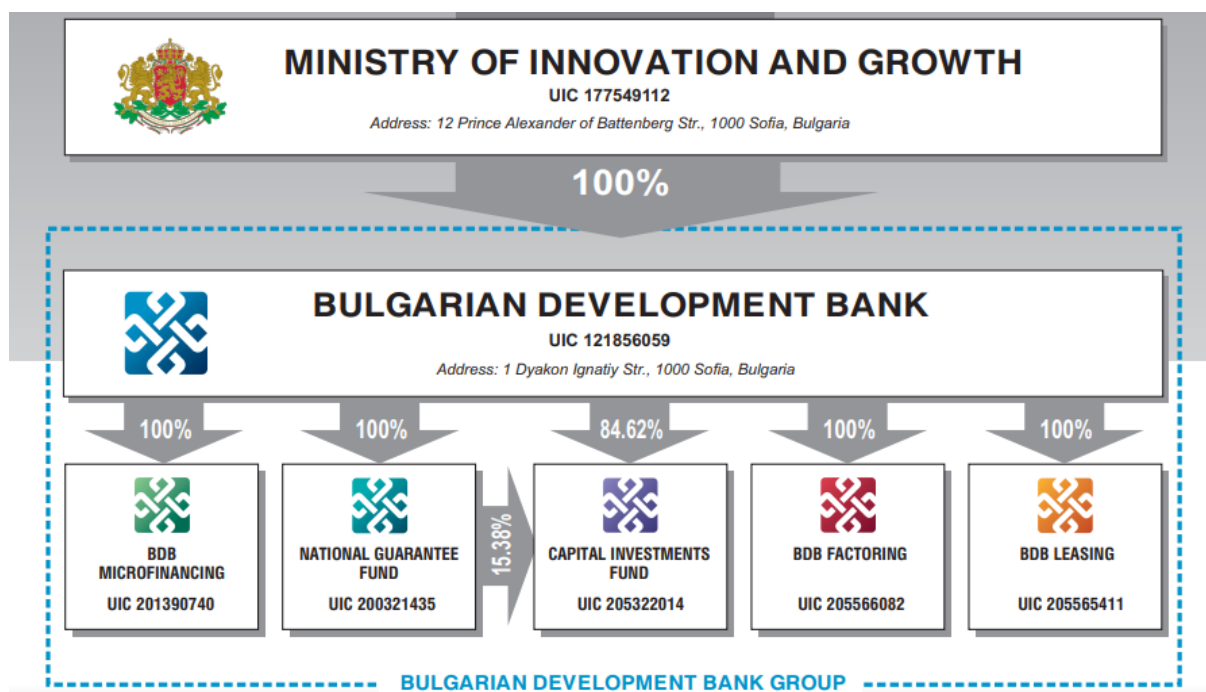


<sup>1</sup>At the end of 2021 the Bank is a sole owner of the capital of TC Maritsa EOOD (TCM), however, the company is not a part of the strategic business model of the Financial Group of BDB.

<sup>2</sup> On 4 June 2021 the Bulgarian Development Bank was registered in the Commercial Register and Register of Non-Profit Entities as a sole owner joint stock company owned by the Bulgarian State. The rights of sole owner are exercised by the Minister of the Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

<sup>3</sup> The name of the company Microfinancing Institution Jobs EAD was changed to BDB Microfinancing EAD effective as of 12 April 2021.

As of the date of approval of this report the organizational structure of the Group is as follows:



## 2.2 BULGARIAN DEVELOPMENT BANK EAD

Bulgarian Development Bank EAD was established on 11 March 1999 as a joint-stock company under the name of Encouragement Bank AD. By means of the Bulgarian Development Bank Act (BDBA), promulgated in the State Gazette, issue 43, 2008, the name was changed and the scope of activity of the Bank was expanded.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank. This decision approves the increase in the shareholding of the state in the capital of Bulgarian Development Bank AD by acquiring by donation all shares held by DSK Bank EAD in the capital of Bulgarian Development Bank AD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of Bulgarian Development Bank AD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

The objectives of Bulgarian Development Bank EAD (BDB) as set out in the Statute are:

1. Improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to finance;

2. Attracting and managing medium- and long-term local and foreign resources necessary for the realization of the economic development of the country;
3. Implementation of schemes and instruments to finance public investment and projects that are a priority for the country's economy;
4. Raising funds and managing projects from international financial and other institutions;
5. Raising funds and providing funding in order to reduce regional imbalances in the country;
6. Financing projects of local companies creating export, innovation, high employment and/or added value;
7. Financing of companies operating in priority sectors of the economy, in accordance with the adopted government economic development policy, as well as such implementing strategic projects and/or projects of national and/or regional importance.

In carrying out its activities, the Bank is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice. BDB creates conditions for compliance with the requirements for ensuring confidentiality, prevention and disclosure of conflicts of interest by all its employees. The Bank does not have as its main goal the achievement of maximum profit.

The exposure to a single client or group of related clients other than credit institutions, central governments and central banks follows the requirements and limitations of Regulation 575/2013/EU, taking into account the effect of credit risk mitigation in a procedure set by the Managing Board.

Bulgarian Development Bank EAD is a credit institution that holds license No B25/1999 for carrying out banking activities by the Bulgarian National Bank with the last update of the license under Order No RD22-2272/ 16.11.2009 of the Governor of the BNB.

Bulgarian Development Bank EAD provides investment services and carries out investment activities under Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA), as well as additional services under Art. 6, para. 3 of MFIA on the basis of the license issued by the Bulgarian National Bank. The Bank does not provide investment services and activities under Art. 6, para. 2, item 8 and 9 of MFIA – organization of a multilateral trading facility and an organized trading facility.

BDB is governed in accordance with Article 5 of BDBA, according to which the Bank has a two-tier management system and as of the date of preparation of this report the rights of the State as a sole owner of the capital of the Bank are exercised by the Minister of the Innovation and Growth. Members of BDB's management bodies are appointed in compliance with BDBA, Credit Institutions Act, Commerce Act, and the Regulations on their implementation, adopted by the Bulgarian National Bank.

As of 31 December 2021, the capital of the Bank amounts to BGN 1,441,773,500 and consists of 14,417,735 ordinary registered shares with voting rights with a nominal value of BGN 100 each. At the date of approval of the report, the entire amount of capital was paid in, with the ownership of the capital distributed as follows: 100% is owned by the Bulgarian state.

With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

Bulgarian Development Bank EAD has not acquired its own shares under Art. 187e of the Commerce Act (CA) in 2021.

There are no shares acquired, owned or transferred by the members of the management bodies during the year. Pursuant to Art. 6, para. 4 of the BDBA, the members of the management and control bodies, procurators and senior management may not hold shares, and no options may be granted to them on BDB securities, and no arrangements may arise in subsequent reporting periods, as a result of which changes in the share held by current shareholders may occur in the future period.

The number of employees of the Bank at the end of 2021 is 231.

Bulgarian Development Bank EAD has no branches.

The head office and registered address of BDB is at 1, Dyakon Ignatij Str., 1000 Sofia City.

BDB complies with the applicable Bulgarian and European environmental protection legislation. The Group conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, BDB Group requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects. In case there are stricter environmental requirements set out in the loan agreements with external creditors, the Group requires compliance with these higher standards by its clients and monitors their performance.

A key factor in the realization of the new strategy and business objectives of the BDB Group is human capital. In 2021, the management team focused its efforts on providing a productive and effective working environment by retaining valuable specialists, discovering and attracting new talent, motivating, engaging and developing employees, training to increase qualifications and upgrade their competences. A tendency to ensure work-life balance is promoted in order to maintain commitment and ambition to achieve optimal performance of employees in the Bank.

There is no specialized unit for research and development activity in the Bank, and no research and development has been carried out during the reporting period.



### **2.2.1 Significant changes in the management and structure of the Bank in 2021 and in 2022 until the date of approval of the report on the activities:**

In 2021 and 2022, the Bank made the following changes in governance and structure.

#### **2.2.1.1 Changes in the Bank's Management Board**

By Decision of the Supervisory Board under Protocol No 18 of 30 June 2021 Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of BDB's Management Board. This circumstance was entered in the Trade Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021, Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev are authorised to represent and manage the Bank as Executive Directors. This circumstance was entered in the Commercial Register on 7 July 2021. Mr. Krum Georgiev was elected as chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov Dimitrov and Panayot Iovov Filipov were deregistered in the Trade Register as members of the Management Board.

#### **2.2.1.2 Changes in the Bank's Supervisory Board**

By decision of the sole owner of the capital of BDB under a Protocol of 25 June 2021, Valentin Lyubomirov Mihov and Vasil Atanasov Shtonov were elected as members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as chairman of the Supervisory Board of the Bank.

As of 31 December 2021 the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is declared to be entered in the Trade Register. The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is entered in the Trade Register on 13 January 2022.

### **2.2.2 Change in the structure of the Bank**

#### **Change in the responsibilities of MB members in 2021 and 2022**

Following the changes in the MB and SB membership in 2021 the current organizational structure as of the date of preparation of this report is as follows: it is grouped into four main sectors, the allocation of the resources among MB members and executive directors being as follows:

#### **Sector № 1 with a structure subordinate to Mr. Krum Georgiev Georgiev, Chairman of MB:**

- Risk Division
- Credit Administration Division
- Non-performing Loans Division
- Classified Information Division
- Security Division
- Personal Data Protection Officer

**Sector № 2 with a structure subordinate to Mr. Vladimir Rashkov Gueorguiev, Executive Director and member of MB:**

- Corporate Banking Division
- Investment Banking and Project Finance Division
- Legal Division
- Operations & Customer Service Division
- Secretariat Department

**Sector № 3 with a structure subordinate to Mr. Tsanko Rumenuv Arabadzhiiev, Executive Director and member of MB:**

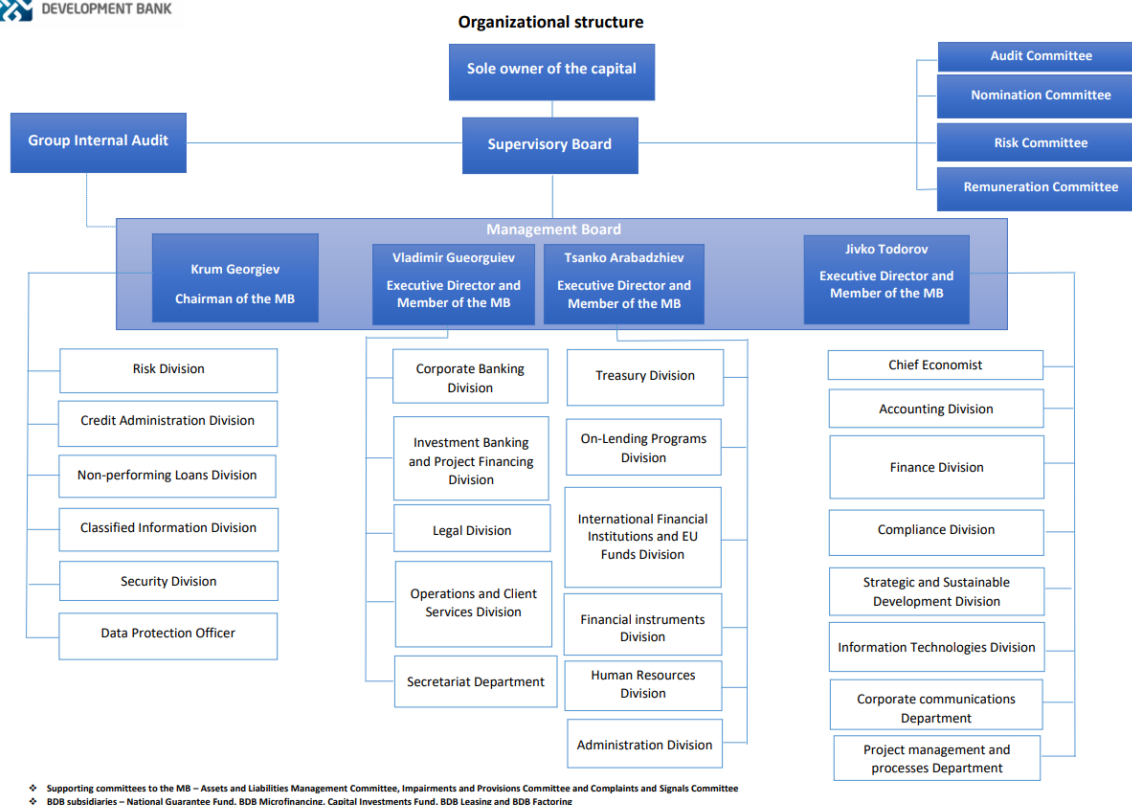
- Treasury Division
- External Programmes Division
- International financial institutions and EU funds Division
- Financial Instruments Division
- Human Resources Division
- Administrative Division

**Sector № 4 with a structure subordinate to Mr. Jivko Ivanov Todorov, Executive Director and member of MB:**

- Chief Economist
- Accounting Division
- Finance Division
- Compliance Division
- Strategic and Sustainable Development Division
- Information Technology Division
- Corporate Communications Division
- Project and Process Management Division

“Internal Audit” of the Group - the internal audit function of the Group is independent and in direct communication with the Supervisory Board/Management Board.

The chart of the Bank’s current organizational structure is as follows:



In 2021 and 2022, until the approval of this annual separate report, the following changes occurred in the organizational structure of the Bank:

By decision of the Management Board, as of 12 August 2021, the name of the Monitoring and Financial Instruments Division has been changed to Financial Instruments Division in order to focus on the main activity while maintaining the previous functions, and the change is also reflected in the organizational structure of the Bank.

By decision of the Management Board of 11 August 2021 and 24 August 2021, approved by decisions of the Supervisory Board of 25 August 2021, as of 1 September 2021, the following changes were made to the Sector No 4:

- Accounting Division is structured by functions, creating Internal Accounting Department, Business Accounting Department and Tax Methodology Department.
- Strategic Analysis and Development Division is restructured in Strategic and Sustainable Development Division and switches to direct submission to the executive director, resulting in the dropping of ineffective functions by the unit.

By decision of the Management Board of BDB of 5 October 2021, a Call Center unit was established in the structure of the Secretariat Department to assume the flow of incoming telephone inquiries from potential clients, providing information and clarifications on the conditions and provision the products offered by the Bank.

As of 6 November 2021, Corporate Banking Division has established a "Loans under restructuring" unit, which will be responsible for loans that are overdue for more than 30 days but are not payable under court proceedings and are not in insolvency proceedings.

By decision of the Management Board of the BDB of 25 November 2021, the name of Planning, Analysis and Regulation Division changes to Finance Division, which actually corresponds to the activities and responsibilities of the financial function of the Bank performed by the unit.

As of 1 December 2021, the activities related to the preparation of expert opinions on collateral assessments by external valuers and the on-the-spot checks carried out have been transferred from the Credit Administration Division to the Risk Division, and for this purpose Valuers Department within Risk Division has been established.

By decision of the Management Board of BDB of 16 December 2021, the Concessions Department was closed due to the lack of sufficient workload for its existence as a separate structural unit in BDB.

In relation to the introduction of a strategy for more active direct lending to business, in accordance with the change of the Bank's Statute and in order to increase the loan portfolio, the Management Board decided to create Business Development Unit within Corporate Banking Division effective as of 30 September 2021, and Call Center unit within the Secretariat Department as of 6 October 2021. The activity of the new units is focused on offering new attractive banking products, new client programmes supported by the Pan-European Guarantee Fund (EGF), starting a digital platform and providing remotely up-to-date information on specific issues raised, given the lack of a branch network of the Bank.

By decision of the Management Board of BDB of 22 February 2022, approved by decision of the Supervisory Board of 4 March 2022, the name of the Public Relations Department is changed to Corporate Communications Division in order to respond more precisely to the functions and activities of the unit, and the change is also reflected in the organizational structure of the Bank.

By decision of the Management Board of BDB of 15 February 2022, approved by decision of the Supervisory Board of 4 March 2022, the structure, functional responsibilities and name of the Strategic Analysis and Development Division were amended and the unit changed to Strategic and Sustainable Development Division. The Division has been entrusted with functions related to ESG regulatory framework implementation activities, climate tracking and compliance analysis, the introduction of green, sustainable and climate neutral credit models for SMEs, advisory and consulting assistance to SMEs, evaluation of contributions and monitoring of activity.

### 3 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2021

#### 3.1 KEY EVENTS AND PROCESSES

##### 3.1.1 Regulatory changes

In 2021 the following may be indicated as the most significant changes to the regulatory framework of the BDB Group: Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk (EBA/GL/2021/02), applied as of 30.06.2021; Guidelines on internal governance (EBA/GL/2021/05), applied as of 31.12.2021; Guidelines on sound remuneration policies (EBA/GL/2021/04), applied as of 31.12.2021; Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06), applied as of 31.12.2021; Guidelines on the assessment of breaches of the large exposure limits (EBA/GL/2021/09), applied as of 01.01.2022; Ordinance amending and supplementing BNB Ordinance No. 4, as well as changes in the Law on Payment Services and Payment Systems, Law on Credit Institutions and Markets in Financial Instruments Act.

##### 3.1.2 Rating

In March 2021, Fitch Ratings revised the outlook for the Bank's long-term credit rating from "BBB" / stable to "BBB" / positive. This is the highest credit rating for a Bulgarian financial institution, and for BDB it is limited to the rating of the sovereign – the Bulgarian state. This rating was confirmed during the regular annual review in August 2021.

<b>Rating effective as of:</b>	<b>Date of preparation of the rating:</b>	<b>Long - term Rating (IDR, SRF)</b>	<b>Outlook</b>
31.12.2019	27.11.2019	„BBB“	Stable
31.12.2020	14.10.2020	„BBB“	Stable
As of 31.12.2021 and the date of approval of the annual financial statements	01.10.2021	„BBB“	Positive

The rating agency's assessment is based on the reliable support of the sovereign - the Bulgarian State, its good capitalisation, and its role in supporting the government's economic policy. The stable outlook shows the existence of a balance in risks associated with credit rating assessments.

The stable equity base contributes significantly to the high capital adequacy. BDB is the institution with the highest level of capitalization in the banking system of Bulgaria, significantly above the statutory minimum.

#### 3.2 BUSINESS HIGHLIGHTS

In 2021, the development of the Bank's product and credit portfolio, as well as the diversification of funding sources continued.

### 3.2.1 COSME+ Programme

At the end of 2021, BDB has concluded agreements under the Programme of Bulgarian Development Bank for development of indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee under COSME Programme of EIF with the support of the European Fund for Strategic Investments (COSME+ Programme) with two commercial banks and six non-bank financial institutions with approved amount of BGN 51,143 thousand. The programme is implemented with the support of the European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee. The mechanism implemented by EIF "Cosme+ Programme" upgrades the Entrepreneurship and Innovation Programme (EIP) established within the period 2007 - 2013. The total budget amounts to EUR 2,300,000 thousand in the period 2014-2020. It covers four areas of support – improving access to finance for SMEs in the form of equity and debt instruments; improving access to markets for SMEs globally; improving the framework conditions for business competitiveness and promoting entrepreneurship. In 2021 a new on-lending agreement for EUR 515 thousand was concluded under Cosme+ Programme and the granted subloans amount to BGN 5,787 thousand. The only request for payment in 2021 under the guarantee commitment of BDB, amounting to EUR 34 thousand is satisfied for which BDB has received a corresponding payment under the counter-guarantee given by the EIF.

### 3.2.2 Leasing Line Programme

In 2021 two new on-lending agreements have been concluded for EUR 5,720 thousand under the Leasing line programme which is aimed at partners which are non-banking financial institutions – lessors registered at BNB and which are carrying out financial leasing. The programme is designed to lend to leasing companies in order to facilitate access to resources for the purchase and leasing of assets used in the business of small and medium-sized enterprises. The cost of financing is 3 months EURIBOR + 2.5%, but not less than 2.5%. Leasing companies finance SMEs up to a maximum of 6.5%.

### 3.2.3 BROD Programme

BDB continue to implement the newest product for **indirect financing to small and medium-sized enterprises BROD Programme**. The Programme budget is EUR 20 million. The financing interest is 6-month EURIBOR + 2.5% margin but not less than 2%. The partners under the BROD Programme finance small and medium-sized enterprises with interest rate of 6-month EURIBOR + 5.7% and maximum APR up to 10%. As of the end of 2021 there are three signed agreements at the amount of EUR 5 million. In 2021 two agreements have been signed at the amount of EUR 3 million and the granted sub-loans for the respective year amount to BGN 4,542 thousand under the Programme.

### 3.2.4 Anti COVID-19 guarantee programmes

In 2020, the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic.

The total amount which BDB may guarantee is BGN 700 million as this amount is fully covered against Bank's capital increase with the same amount in 2020. As of 31 December 2021, BDB issued guarantees for the total amount of BGN 680,938 thousand<sup>4</sup>, guaranteeing exposures under both programmes at the total amount of BGN 649,663 thousand (as of 31 December 2020: BGN 479,462 thousand).

For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related inflow and cash outflow commitments. The methodology is described in detail in the Bank's annual financial statements for 2020 and 2021.

At the end of 2021 the expected credit losses provisions on anti-COVID programmes amount to BGN 176,370 thousand (31 December 2020: BGN 120,308 thousand) which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

#### *3.2.4.1 Programme for companies – Recovery Programme*

By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The programme will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

The guarantee programme, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million (the budget was decreased to BGN 400 million subsequently due to redirection of funds to anti COVID measures for individuals). As of 31 December 2021 companies from all sectors benefit the programme, and companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality, and restaurant business, etc. were financed with priority.

Companies that have encountered difficulties or have fallen into difficulty after 31 December 2019 due to the outbreak of the COVID-19 epidemic may benefit from funding and guarantee.

After the introduction of the renewed conditions under the Recovery Programme, the maximum amount of funding became up to EUR 3 million, regardless of the size of the company, and micro, small, medium-sized companies and so-called "small mid-caps" (with up to 499 employees) from all sectors of the economy can benefit from the guarantee instrument.

Eligible companies must carry out business activity and be registered in Bulgaria, as well as must have at least three completed financial statements, with reported revenue from sales, as well as accounting profit for at least one of the last three years.

The term for repayment of the loans is up to 7 years with the possibility of up to 36 months grace period.

---

<sup>4</sup> For the program for individuals, 100% of the principal exposure of the partner bank to the client is guaranteed. For the program for micro, small and medium-sized enterprises, the BDB guarantees 80% of the principal on loans, at a 50% limit on guarantee payments on a portfolio basis.

Banks should define all pricing elements, including the interest rate on loans, according to their policy, and in forming the price of loans (i.e. interest, fees, etc.), they should apply their internal rules and usual pricing practice, taking into account the guarantee provided by the BDB.

No material collateral is required. The loans are provided against personal guarantees from the beneficial owners, as well as (if applicable) pledges on receivables from accounts under the Law of Obligations and Contracts, Special Pledges Act, as well as through a financial collateral contract under the Financial Collateral Agreements Act.

The loans are provided at short processing deadlines and with optimized approval time, respectively refusal (time-to-yes), namely: up to 5 working days after receiving the documents necessary for the review of the loan request by the Bank and time for utilization (i.e. a time period between the approval of the Loan and the provision of the borrower with the opportunity to make a real utilization), up to 10 working days.

In connection with the sixth amendment to the Temporary Framework and its extension, the deadline for applying for funding under the SME Programme has been extended until 22 June 2022.

As of the end of December 2021, the portfolio guarantees to commercial banks under the Programme for Assistance of Legal Entities in the fight against the consequences of Covid-19 amounted to BGN 397,500 thousand, at a maximum agreed limit with commercial banks of BGN 795,000 thousand. The result of the Programme as at 31.12.2021 amounts to: 2,290 loans guaranteed by BDB with a total confirmed amount of BGN 413,555 thousand.

#### *3.2.4.2 Programme for individuals and households*

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee programme to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB. The programme will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020. (Subsequently, the budget was increased to BGN 300 million due to redirection of funds under the anti-COVID programme for small and medium sized enterprises).

The Interest-free loan guarantee programme aims to support employees on unpaid leave and self-insured individuals who are temporarily unable to work in an emergency state.

The programme parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments.



The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans.

In July 2021, by Decision of the Council of Ministers No 506/2021, the deadline for applying under the Programme for individuals is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted, which comes first.

In November 2021, amendments to certain parameters of the Measure were notified in order to adapt to market demand (SA 59499). The latest changes to the Programme (Recovery Programme) approved by Decision of the Council of Ministers No 578/05.08.2021 entered into force after the Decision of EC C (2021) 7260 taken on 01.10.2021 regarding State aid SA.64711 (2021/N)-Bulgaria COVID-19 for second amendment of State aid SA.56933 (2020/N) adopted by Decision of the European Commission No C (2020) 2342 of 8 April 2020.

The deadline for applying for the measure expired on 31 August 2021 and the deadline for granting and utilization of the loans - on 30 September 2021 and as of 31 December 2021 no applying is allowed.

As of the end of December 2021, a total limit for guaranteeing interest-free loans of BGN 290,543 thousand has been agreed under the guarantee agreements concluded with commercial banks. At the end of 2021 52,925 loans at the total confirmed amount of BGN 236,109 thousand were provided under the Programme for individuals and households (as aggregated data).

### 3.2.5 “Three Seas” Initiative

Within the “**Three Seas**” Initiative<sup>5</sup> BDB organized and participated in number of events to present and promote its activity to the Bulgarian business. In 2021 there were 3 **mini conferences** dedicated to funding opportunities from the Three Seas Investment Fund and a focus on how companies and projects looking for an investor in equity can partner with 3SIIF. BDB has also played an essential role in the organisation of **The Sixth Three Seas Initiative Summit and Business Forum**, together with the Ministry of Economy, Administration of the President of the Republic of Bulgaria and Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA). The event took place with significant interest in July 2021. The event took place in July 2021.

---

<sup>5</sup> **The Three Seas initiative** (Black, Adriatic, Baltic) aims to strengthen investment, relations and cooperation – politically and financially, between member states in the region. By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of the BDB in the **Investment Fund of the “Three Seas” Initiative**. At the end of 2020, Subscription Agreement Relating to Three Seas Initiative Investment Fund S.A. SICAV – RAIF was signed between the BDB and the Fund, by which the BDB formally became a Class A shareholder in the Fund. The Fund is a public-private financial instrument aimed at complementing funding from the Structural and Other Funds of the European Union. As a “Class A” shareholder, BDB participates with one representative in the Supervisory Board and the Management Board of the Fund and actively participates in their meetings.

### 3.2.6 The „InvestEU”<sup>6</sup> Programme

In 2021, the BDB completed Pillar assessment audited by an independent auditor. The final adoption of the evaluation by the EC is expected. In 2021, the BDB also applied in the first announced procedure for financial products of future Implementing Partners, which is expected to be finalised in 2022.

### 3.2.7 New products, programmes and platforms supporting SMEs and specific sectors

#### 3.2.7.1 BDB Programme with guarantee from Pan-European Guarantee Fund (PEGF)

The **Pan-European Guarantee Fund** was created as part of the overall package of measures of EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises within the EU and public enterprises providing important services such as healthcare, medical research, etc. Total funding is expected to reach EUR 200 billion. The Group of the Bulgarian Development Bank applied and was approved as a financial intermediary under the guarantee program of the Pan-European Guarantee Fund, under which its new product was created. In the end of September 2021 BDB presented three new niche products on the Bulgarian market aimed at small and medium-sized businesses, the creative industries sector and manufacturing start-ups. **The programme is in partnership with the Pan-European Fund and has a budget of EUR 40 million**, as through it BDB expects to lend directly with even more facilitated conditions and self-financing depending on the project and business history of the applying companies.

The products under the Programme are as follows:

- 1) **„Creative” for funding creative industries with the following parameters:**
  - Amounts up to BGN 500 thousand
  - With the possibility of 5% self-participation
  - With minimum collateral

---

<sup>6</sup> „InvestEU” Programme provides for a single European investment support mechanism for the new programming period 2021-2027. The programme is based on the successful experience of the implementation of the European Fund for Strategic Investments and current EC instruments. The InvestEU Programme will provide a guarantee from the EU budget that will support financial products provided by the implementing partners of the programme. The funds are allocated to four "windows" (areas) in which financial products will be developed: (1) sustainable infrastructure; (2) research, innovation and digitisation; (3) SMEs and small companies with medium market capitalization; (4) social investment and skills. In 2020 BDB received approval by the Commission that is eligible and can be an InvestEU implementing partner and started carrying out the Pillar Assessment as a mandatory condition for concluding Guarantee agreement with the European Commission as Implementing Partner.

**2) „StartUP“ for financing start-ups in production with the most difficult access to finance, with the following parameters:**

- Amounts up to BGN 250 thousand
- Up to 10% self-participation
- With collateral – the purchased asset

**3) „Business“ for funding SMEs from all sectors and scoped out from Creative & StartUP with the following parameters:**

- From BGN 100 thousand to BGN 5 million
- Term up to 10 years, with up to 18 months grace period
- With the possibility of 5% self-participation
- With minimum collateral requirements

### *3.2.7.2 Green Energy Funding Programme*

In October 2021, the BDB announced **Green Energy Funding Programme**. The Bulgarian Development Bank will finance the construction of photovoltaic plants with power up to 1MW/p for the needs of the business. The credit product is in response to the growing concern of companies about electricity prices in Bulgaria and Europe and rising demand. Switching business to solar energy is a workable solution in the context of depleted non-renewable sources and the EU's carbon neutrality targets.

The Programme parameters are as follows:

- For micro, small and medium-sized enterprises
- Up to 95% of the value of the plants
- Minimum self-participation
- Term up to 15 years

BDB sets as a long-term goal the support of the green transition of the Bulgarian economy and the increase in the share of clean energy sources, as 25 percent of global greenhouse emissions come from electricity production. The construction of green energy capacity is part of the European Commission's package of measures included in the so-called Green Deal aimed at reducing carbon footprint by 2050.

### *3.2.7.3 Digital platform "Business Booster"*

**In December 2021, BDB launched the digital platform "BUSINESS BOOSTER"**. This is the latest platform developed by the Bulgarian Development Bank to help entrepreneurs, small, medium-sized and start-ups. Consulting and financial services are offered, as well as an academy with tips for the realization of the production. Business Booster includes several main components: business academy, online loan application and E-market. The Business academy offers different manuals with clear and specific information.

#### *3.2.7.4 Products to support the tourism sector*

Products **“Support for hoteliers”** and **“Support of restaurateurs”** were created to support the tourism sector most affected by the Covid 19 crisis. Thanks to these products, companies in the sector can benefit from working capital necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs; to refinance existing obligations to the country and to suppliers; to refinance existing liabilities to financial institutions (including overdue up to 90 days); for refreshment and renewal. These programmes were implemented in the first quarter of 2022. Details about the products are presented in section 14.

#### *3.2.7.5 Program “Bulgarian Rose”*

**Product under the Programme “Bulgarian Rose”** – through this product, the BDB strives to meet the demand and need of SMEs for financing, including through niche products for traditional sectors for Bulgaria, such as rose oil production. The product was created in response to the appeal of representatives from the rose processing sector for working finance of their upcoming business year. This product was implemented in the first quarter of 2022. Details about the product are presented in section 14.

#### *3.2.7.6 National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB)*

In 2021 Bulgarian Development Bank EAD continues the activities under the National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB) approved by Decree No 18 of 2 February 2015 of the Council of Ministers of the Republic of Bulgaria (the Programme). The Programme targets the renovation of multi-family residential buildings with a main objective to secure better living conditions for the residents, heat comfort and higher quality of living environment. The implementation of energy efficiency measures in multi-family residential buildings will contribute to higher level of energy efficiency and energy costs decrease; improving the exploitation features; extending the life cycle of the buildings and providing conditions of living in line with the sustainable development criteria. The Programme has significant environmental effect – according to an expert evaluation as a result of the Programme, the expected reduction of carbon dioxide emissions is estimated at 319,000 tCO<sub>2</sub>/year and the energy saving is 726,000,000 kWh/year. The economic effect is also related to giving more opportunities to the economic activity of business – designers, construction industry, companies for technical research, companies for energy efficiency research, materials’ producers, etc., as well as participation in the implementation of the Programme of small and medium-sized companies from all over the country. The Programme achieves also social effects by improving the living conditions in the buildings, energy cost cutting, providing additional employment, establishing traditions in the management of multi-family residential buildings, increasing public awareness of the ways for energy efficiency enhancement. The programme activities cover the entire territory of the Republic of Bulgaria, within 265 municipalities with total financial resource under the Programme at the amount of BGN 2 billion.

### 3.2.8 Selected successful BDB projects

**A company specializing in the construction of heating systems and the production of biomass heating facilities is funded.** The company designs and manufactures innovative facilities with high efficiency, precise quality, and contemporary design. The company has developed its own line of pellet boilers and fireplaces designed for heating residential and commercial premises. Own products are protected by patents and are distinguished by a number of innovations. The additional funding provided by BDB EAD is aimed at supporting business expansion in the country and neighboring countries – opening and supplying 5 own stores in Varna, Sofia and Plovdiv, Bucharest (Romania) and Thessaloniki (Greece). The realization of the project provides additional jobs, promotes the development of the regions and the local economy.

**An investment project has been financed under a contract with the SFA, which is in the process of being successfully implemented. The project is under the measure “Investments in enterprises” under a national programme for support for the wine sector for the period 2019 – 2023.** The borrower is a family company engaged in growing vineyards and producing high quality wine from own grapes. The project provides for expansion and modernisation of the production activity through the construction and commissioning of a wine house for storage, ageing and bottling of wine. The acquisition of its own production base and the purchase of modern equipment are financed.

## 3.3 FUNDING

### 3.3.1 International financial institutions

The policy of the BDB is to attract mainly a long-term resource to finance its credit activity and thus create a natural balance between the term of the asset and the liability. Since its establishment, BDB has concluded more than 30 credit agreements with 17 international institutions at the amount of EUR 1.263 billion. Given the Bank’s high liquidity, in 2021, under cooperation with international financial institutions, the portfolio development contribution is mainly the signed Portfolio Guarantee Agreement with the EIF of EUR 40 million under the Pan-European Guarantee Fund.

### 3.3.2 Bond issue

By decision of the Management Board of BDB of 19.10.2021 (confirmed by the Supervisory Board by decision under a protocol of 18.11.2021), the Management Board of BDB is empowered to take steps to issue unsecured bonds in the volume of up to BGN 1 billion and maturity of up to 7 years. The emission is planned to be used to prepay certain obligations to creditors, mainly to the Development Bank of China, Industrial and Commercial Bank of China and the Export-Import Bank of China. At the date of preparation of this report, the Bank is in the process of preparing final documentation on the emission.

The Bank expects the issuance of the bonds as well as prepayment operations to be carried out in the second quarter of 2022, while it is possible to be postponed for the third quarter, or not to take place due to a change in financial market conditions.

The Bank considers that the bond issue and subsequent repayment of liabilities to international creditors will not materially change the maturity profile (it is expected to be increased) of the liabilities and, therefore, would not have a material impact on liquidity in the short and medium term.

### **3.4 INFORMATION TECHNOLOGIES**

The years 2020 and 2021 were extremely challenging in the context of the global COVID-19 pandemic. One of the main changes for the BDB EAD Group was a change of business model from attendance to remote work. The main focus of the work of the IT teams was to ensure the operation of all business functions and processes from a distance and at the same time ensure the highest possible level of information security.

The IT infrastructure was a further update of the antivirus software for the entire group of BDB EAD – ESET protect and Anti-malware platform. BDB EAD has implemented a solution for hardware and software monitoring of the overall environment, customer support of users and Help Desk solution - Axence Nvision.

Over the past year, a number of business processes in the Bank and subsidiaries have been automated and numerous changes dictated by regulatory requirements have been implemented – changes in SWIFT, certification of BDB EAD for migration of non-budgetary payments to BISERA6 as package payments according to ISO 20022 XML and successfully completed national tests with BORICA AD, changes in the reporting to BNB according to the requirements of the ECB.

BDB EAD implements software changes in connection with the "Progress on NPEEMFRB" report to reflect extraordinary payments (refunds) of amounts under the programme.

An analysis and refinement of the software platform (internal development of BDB EAD) were carried out for SMEs to grant credit under the COVID19 Recovery Programme and interaction with the 12 partner banks of BDB EAD in the financial resource support program of companies and individuals in the context of the COVID-19 crisis.

### **3.5 COMMUNICATIONS AND PUBLIC RELATIONS**

One of the most significant events for BDB in 2021 was the amendment of the BDB Statute and the changes in the management bodies of the BDB – Supervisory Board and Management Board. The new management team was presented to the public and number of activities related to communicating the new strategic focus in the activities of the banking group – support for small and medium-sized enterprises and limiting large credit exposures were carried out.

In the second half of the year, newly created products and funding programmes were promoted, including green energy programme, products with a guarantee from the Pan-European Guarantee Fund to support SMEs, start-ups and creative industries, as well as the activities of the creation of the Bank's new digital platform Business Booster (see 3.2.7).

In 2021, the communication and publicity activities of the government measures implemented by the Bank for affected individuals and businesses from the COVID-19 pandemic were continued (see 3.2.4). The Bank regularly informs about the progress of the measures and continues the practice of maintaining a public register with the companies that have received funding.

As a shareholder in the Investment Fund of the Three Seas Initiative (3SIIF) in the past year, BDB organized a series of events aimed at promoting the fund in Bulgaria and presenting it to the Bulgarian business. Three mini conferences dedicated to equity investments were held, and the Bank took the lead, including a financial role in hosting the Three Seas Initiative Summit and Business Forum (8-9 July 2021, Sofia).

In 2021, the BDB hosted another international forum. Together with BSMEPA the Bank organized the 17<sup>th</sup> annual meeting of the International Network for Small and Medium-sized Enterprises (INSME) in Sofia (9-10 December 2021).

#### **4 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2021**

In 2021, the recovery of the global and European economy was accompanied by higher energy costs, supply chain difficulties and price growth. The high level of prices, especially of energy commodities, has caused inflation to accelerate at the end of 2021. The conflict between the Russian Federation and Ukraine has further complicated the macroeconomic situation. Real GDP growth in the EU will slow due to higher prices, reduced exports to the Russian Federation and Ukraine, the postponement of some of the investments due to high uncertainty, delays/difficulties in the supply of raw materials.

In 2021, the real growth of Bulgaria's gross domestic product reached 4.2% with an expected growth of 3.7% in the forecast to the Updated Medium-Term Budget Forecast (UMBF) 2022-2024 of the Ministry of Finance (MF). Higher growth is due to a larger than expected increase in consumption. The situation in connection with the military conflict has also changed the economic prospects for Bulgaria. Lower growth is expected in 2022 and 2023 compared to 2021, at 2.6% and 2.8%, respectively.

In 2021, regard to the exports of goods from Bulgaria to the EU the highest growth compared to 2020 is in the sectors "Animal and Vegetable Fats, Oils, and Waxes" (106%) and "Mineral fuels, oils and similar products" (99%). Imports from the EU in 2021 increased by 27% year-on-year, with imports from Germany, Romania, Italy, Greece, the Netherlands and Hungary the largest. Only in December 2021, imports increased by 41% compared to the same month of 2020 and amounted to BGN 4.5 billion.

Imports of goods from the EU in 2021 recorded the largest increase compared to the previous year in the sector "Animal and Vegetable Fats, Oils, and Waxes" (168%). There has been no decline in any of the sectors.

In 2021, a process of gradual recovery of employment in the Bulgarian economy began to the levels observed in the pre-crisis months of 2019. The unemployment rate in the country remained low in 2021 (5.3%), with Bulgaria being among the ten EU 27 countries with the lowest values of this indicator. According to the MF's spring forecast, the unemployment rate will follow a steady downward trend, with a value of 5.0% predicted for 2022 and 4.2% in 2025.

From the beginning of 2021, the annual inflation rate in Bulgaria follows a trend of acceleration, which continued at the beginning of the current year. According to the Harmonized Indices of Consumer Prices (HICP), annual inflation in February 2022 reached 8.4%. The main factor with pro-inflation influence was the accelerated appreciation of raw materials on global markets, especially energy and food. Currently, expectations are for continued appreciation of oil and non-energy raw materials in 2022, which will start to slow in the second half of the year. The increase in the overall level of consumer prices will continue to accelerate until the third quarter of the year, after which it will start to slow and inflation at the end of 2022 will reach 10%. Food and energy commodities will make a leading contribution to this.

#### **4.1 BANKING SECTOR**

2021 is characterised by lower impairment costs and accrued provisions, increased lending rates, low and negative interest rates and improved performance of the banking sector. As of 31 December 2021, there are 25 banks in Bulgaria, seven of which are branches of foreign banks. Belgian bank KBC and Austria-based Raiffeisen Bank International have entered into an agreement for KBC to acquire 100% of the shares of Raiffeisenbank Bulgaria EAD, which is a second-group bank, according to the BNB classification.

The net interest income of banks increased by 4.5% on an annual basis (decrease of 3.5% year-on-year at the end of 2020) and as of December 2021 amounted to BGN 2.76 billion in the context of increased credit activity during the year. At the end of 2021, net income from fees and commissions increased by 19.5% year-on-year (decrease of 6.1% at the end of 2020) to BGN 1.24 billion. As at 31 December 2021, the net profit of the banking system was BGN 1.416 billion, compared to BGN 814.7 million a year earlier. The total amount of assets of the banking system increased by 9.2% to BGN 135.41 billion compared to 2020. As at 31 December 2021, the level of Return on Assets (ROA) indicator increased to 1.05% from 0.66% as of December 31, 2020. Return on Equity (ROE) indicator increased to 8.5% from 5.3% for the same period.

At the end of 2021 the coverage rate of gross non-performing loans and advances in the Bulgarian banking system is at a level of 72.1%. By comparison, the coverage rate for European banks, according to ECB data for the third quarter of 2021, is 43.34%. As at 31 December 2021, the volume of non-performing loans (with a delay of more than 90 days; excluding central banks and credit institutions) fell to BGN 3.07 billion, or up to 4.05% as a share.



As part of the Basel III regulatory framework, as of 28 June 2021, a net stable funding ratio (NSFR) is applied in accordance with Art. 430(1)(d) of Regulation (EU) No 575/2013 with a three-month frequency on an individual and consolidated basis, the regulatory requirement being that they maintain a level of ratio equal to or greater than 100%. According to BNB data, the aggregated level of the NSFR for the banking system is 163%.

In September 2021, BNB set buffer rates for other systemically important institutions (O-SIIs) for eight banks, which from 1 January 2022 will be in the range of 0.50%-1%. The increase in the countercyclical capital buffer by BNB as of October 2022, at a level of 0.5% to 1% applicable to local credit risk exposures and the announced increase to 1.5% from 1 January 2023, will also have an impact on capital indicators. In 2021, the regular two-year review of the systemic risk buffer was carried out, with the Management Board of BNB confirming its level of 3% of the size of the banks' local risk exposures.

The activities of the banking system were also influenced by the membership of the Single Supervisory Mechanism and the Single Resolution Mechanism, the established close cooperation between the BNB and the ECB and the inclusion of the Bulgarian lev in the exchange rate mechanism (ERM II). In this context, Bulgaria is working on a plan for the adoption of the euro with a technical deadline of 1 January 2024.

## **5 OVERVIEW OF ACTIVITY AND SELECTED FINANCIAL INFORMATION**

### **5.1 OPERATING RESULTS AND FINANCIAL POSITION**

The Bulgarian Development Bank EAD continues to actively pursue its objectives, maintaining high levels of liquidity and capitalization. With the beginning of the COVID-19 pandemic, the Bank was assigned new tasks, mainly to provide funds to Bulgarian enterprises which were affected by the lockdown periods, as well as to individuals with significantly reduced income or no income at all. These measures, the reduced economic activity, the fall in nominal interest rates, as well as the temporary moratorium on the payment of liabilities, introduced by the members of the Association of Bulgarian Banks and approved by the BNB and effective until the end of 2021, also led to negative pressure on its operating results as follows:

*Comprehensive income for 2021 and 2020:*

<b>Comprehensive income</b>	<b>2021</b>	<b>2020</b>	<b>YoY change</b>
Net interest income	56,678	58,610	(3.3%)
Net fee and commission income (expenses)	(328)	1,117	(129.4%)
Net income on foreign exchange deals	427	457	(6.6%)
Net gain on financial assets at fair value through other comprehensive income	1,101	2,432	(54.7%)
General and administrative expenses	(28,567)	(33,396)	14.5%
Other income from the activity	343	1,232	(72.2%)
<b>Operating profit before impairment and provisions</b>	<b>29,654</b>	<b>30,452</b>	<b>(2.6%)</b>
Expenses for impairment and provisions of non-financial assets	(1,600)	(4,313)	62.9%
Expenses for impairment and provisions of financial assets	(184,010)	(257,346)	28.5%
<b>Loss before tax</b>	<b>(155,956)</b>	<b>(231,207)</b>	<b>32.5%</b>
Income tax benefit	105	352	(70.2%)
<b>Loss for the year</b>	<b>(155,851)</b>	<b>(230,855)</b>	<b>32.5%</b>
Actuarial gains on defined benefits plans, net of taxes	11	14	(21.4%)
Net change in fair value of equity financial assets at fair value through other comprehensive income	(5,005)	(77,858)	93.6%
Net change in fair value of debt financial assets at fair value through other comprehensive income	(1,839)	(2,089)	12.0%
<b>Total comprehensive income</b>	<b>(162,684)</b>	<b>(310,788)</b>	<b>47.7%</b>

During 2021 interest rates remained negative like those in 2020. The prohibition on the payment of dividends, as well as the significant cash reserves in the banking system, pre-determined interest on interbank deposits, as well as interest on repo transactions in amounts close to those determined by the BNB for balances above 105% of the minimum reserve requirements – about minus 0.7%/year.

Interest income for 2021 amounts to BGN 75,330 thousand (for 2020: BGN 78,417 thousand) or a decrease of 3.9% compared to the previous reporting year. The decrease is a result of the decreased volume of receivables under National Program for Energy Efficiency, as well as the less reported income from loans to banks and the portfolio of securities. At the end of 2021, interest expense decreased by 5.8%, amounting to BGN 18,652 thousand (for 2021) compared to BGN 19,807 thousand for 2020. The Bank effectively manages free cash, reducing the effect of negative interest rates on central bank accounts. As a result of the realized interest income and expenses in 2021, net interest income for the financial year 2021 was reported by 3.3% lower compared to 2020, amounting to BGN 56,678 thousand (for 2020: BGN 58,610 thousand).

The net result of accrued fees and commissions for 2021 is negative and amounts to BGN -328 thousand compared to a reported net income of BGN 1,117 thousand for 2020, due to the costs charged during the reporting period for agency commissions for co-management to commercial banks in connection with the issued portfolio guarantees under the guarantee program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic. Fee and commission income for 2021 increased by 35.1% or nominally by BGN 955 thousand compared to 2020.

For the financial year 2021, net profit on financial assets at fair value through other comprehensive income of BGN 1,101 thousand was realised. For the previous year, there was a loss on sale of financial instruments at fair value through other comprehensive income at the amount of BGN 2,432 thousand.

In 2021, general and administrative expenses, depreciation and amortization expenses and personnel expenses, amounted to BGN 28,567 thousand and they are by 14.5% lower than the expenses in 2020 (2020: BGN 33,396 thousand). As of the end of 2021, general and administrative expenses are by 17% below the planned ones in budget 2021, with the cost-to-operating income ratio before impairment at the end of 2021 close to the level for the banking system for the same period.

In 2021, the financial result of the Bulgarian Development Bank EAD after taxes is a loss of BGN 155,851 thousand (also loss for the previous reporting year at the amount of BGN 230,855 thousand). The negative financial result of the Bank in 2021 is due mainly to accrued expenses for impairments on credit exposures in the amount of BGN 127,774 thousand for 2021 and provisions on portfolio guarantees issued by BDB to commercial banks under the two anti-crisis programs assigned to the Bank by Decisions of the Council of Ministers in support of individuals and companies affected by the consequences of COVID-19, amounting to BGN 56,307 thousand at the end of 2021.

*Financial position as at 31.12.2021 and 31.12.2020:*

	As of 31.12.2021	As of 31.12.2020	YoY change
<b>Assets</b>			
Cash in hand and balances in current account with the Central Bank	243,625	496,268	(50.9%)
Receivables from banks	385,347	478,181	(19.4%)
Financial assets at amortized cost	1,748,573	1,904,990	(8.2%)
Financial assets at fair value through other comprehensive income	656,612	635,770	3.3%
Investments in subsidiaries	173,512	167,705	3.5%
Fixed assets	60,797	62,636	(2.9%)
Other assets	60,357	71,819	(16.0%)
<b>Total assets</b>	<b>3,328,823</b>	<b>3,817,369</b>	<b>(12.8%)</b>
<b>Liabilities</b>			
Borrowings from international institutions	1,110,740	1,238,904	10.3%
Deposits from customers other than credit institutions	881,673	1,127,315	21.8%
Deposits from credit institutions	1,719	8,155	78.9%
Other borrowings	16,746	16,932	1.1%
Other liabilities	182,398	127,832	(42.7%)
<b>Total liabilities</b>	<b>2,193,276</b>	<b>2,519,138</b>	<b>12.9%</b>
<b>Equity</b>			
Share capital	1,441,774	1,441,774	-
Accumulated loss	(386,706)	(230,855)	(67.5%)
Revaluation reserve on financial assets at fair value through other comprehensive income	(74,608)	(67,764)	(10.1%)
Reserves	155,087	155,076	-
<b>Total equity</b>	<b>1,135,547</b>	<b>1,298,231</b>	<b>(12.5%)</b>
<b>Total liabilities and equity</b>	<b>3,328,823</b>	<b>3,817,369</b>	<b>(12.8%)</b>

As of 31 December 2021, the Bank's assets amount to BGN 3,328,823 thousand (as at 31.12.2020: BGN 3,817,369 thousand), representing a decrease of 12.8% compared to the previous year.

## 5.2 CREDIT ACTIVITY

In 2021, the Bank continued to actively develop its activity, supporting Bulgarian business, continuing to maintain a diversification of the industry structure of its loan portfolio. Higher dynamics is observed in the relative shares in the credit portfolio of the following sectors and subsectors: "Trade" (increase by 41.7%); "Industry – production of plant and equipment" (increase by 16.8%); "Industry – production of tobacco" (decrease by 100%)<sup>7</sup>, Transport (decrease by 19.1%) and "Construction" (decrease by 8.7%).

The credit activity of BDB consists of both direct lending and indirect financing through programmes (products) for funding commercial banks, which use the received funds to provide loans to SMEs and agricultural producers, i.e., the so called on-lending.

As at the end of 2021, the financial assets measured at amortised cost amount to BGN 1,748,573 thousand representing a decrease of 8.2% (as of 31 December 2020: BGN 1,904,99 thousand). The reduction is due to:

- The decrease of loans and advances to customers (BGN (117,400) thousand), of which decrease of the gross loans of BGN 33,000 thousand and increase of impairments of BGN 84,400 thousand.
- The decrease of receivables from the State Budget (BGN (39,007) thousand), mainly a result of repayment of the payables on behalf of the Ministry of Regional Development and Public Works under the National Program for Energy Efficiency of Multi-Family Residential Buildings.

## 5.3 NATIONAL PROGRAM FOR ENERGY EFFICIENCY OF MULTI-FAMILY RESIDENTIAL BUILDINGS (NPEEMFRB)

The financing of the Program is carried out through the Bulgarian Development Bank. For this purpose, the Bank concludes trilateral contracts with the regional governors (representatives of the state) and the municipal mayors (proxies of the owners' associations). The total agreed funding under the signed contracts is BGN 1,973,964 thousand at the end of December 2021 (compared to the end of 2020 – BGN 1,961,588 thousand). The sites for which special purpose financing contracts have been concluded with the Bank are a total of 2,022 (of which 1,885 buildings under NPEEMFRB and 137 buildings transferred from Energy Renovation of Bulgarian Homes (ERBH) Programme). Under the National Program for Energy Efficiency of Multi-Family Residential Buildings by the end of 2021 the completed loans under which the Ministry of Regional development and Public Works has forwarded amounts to BDB AD are for 1,931 buildings. The utilized amount is BGN 1,940,603 thousand and gross receivables on loans under NPEEMFRB amount to BGN 18,866 thousand (as at 31.12.2020: BGN 57,975 thousand).

---

<sup>7</sup> Due to the stepping into debt of borrower from tobacco industry on behalf of a company from the "Trade" sector.

From the beginning of the Program by the end of 2021, a total of BGN 1,946,164 thousand were repaid with funds from the state budget, which amount includes a principal repayment of BGN 1,922,174 thousand and interest paid on completed contracts at the amount of BGN 23,990 thousand.

The Bank considers that these receivables bear minimal credit risk as far as the source of the repayment is the budget of the Republic of Bulgaria. The special purpose funding from international partners, for partial financing of the program, uses a state guarantee.

#### **5.4 ANTI-COVID-19 GUARANTEE PROGRAMMES**

In 2020, the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic.

The total amount that the BDB can guarantee is BGN 700 million, and they were fully secured by increasing the capital of the Bank in 2020 by the same amount.

As of the end of December 2021, under the Programme "Programme for individuals and households" the guarantee agreements concluded with the commercial banks agreed a total limit for guarantee of interest-free loans at the amount of BGN 290,543 thousand. At the end of 2021, 52,925 loans at the total confirmed amount of BGN 236,109 thousand were provided under the Programme for individuals and households (as aggregated data).

As of the end of December 2021, under the Programme for companies "Recovery" the portfolio guarantees to commercial banks under the Programme for Assistance of Legal Entities in the fight against the consequences of Covid-19 amounted to BGN 397,500 thousand, at a maximum agreed limit with commercial banks of BGN 795,000 thousand. The result of the Program as at 31.12.2021 amounts to: 2,290 loans guaranteed by BDB with a total confirmed amount of BGN 413,555 thousand.

As of the end of 2021 BDB issued guarantees for the total amount of BGN 680,938 thousand<sup>8</sup>, guaranteeing exposures under both programmes at the total amount of BGN 649,663 thousand (as of 31 December 2020: BGN 479,462 thousand).

For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related inflow and cash outflow commitments. The methodology is described in detail in the Bank's annual financial statements for 2020 and 2021.

---

<sup>8</sup> For the program for individuals, 100% of the principal exposure of the partner bank to the client is guaranteed. For the program for micro, small and medium-sized enterprises, the BDB guarantees 80% of the principal on loans, at a 50% limit on guarantee payments on a portfolio basis.

At the end of 2021 the expected credit losses provisions on anti-COVID programmes amount to BGN 176,370 thousand (31 December 2020: BGN 120,308 thousand) which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

## **5.5 FUNDING**

Funds attracted from international institutions at the end of 2021 comprise 50.6% in the liability structure and amount to BGN 1,110,740 thousand compared to BGN 1,238,904 thousand at the end of 2020. The difference of BGN 128 million for 2021 compared to 2020 is result of agreed repayments on signed financial agreements.

## **5.6 CAPITAL INCREASE**

There is no increase of BDB's capital in 2021.

## **6 DEVELOPMENT STRATEGY OF THE BANK**

BDB Group comprises BDB and its subsidiaries. In preparing strategy the management of the Bank and the subsidiaries set common goals and each company contributes to its realization according to its specialization. The strategy is prepared on Group basis and approved by the Council of Ministers.

BDB, together with Group companies, is a key instrument and a channel for conducting government economic policies, including in specific areas, regions, industries and social groups. The Bank and the companies actively collaborate with all government state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. The focus of the activity is pre-export, export and bridge financing.

The activity of the BDB Group aims to create a sustainable and complete market for financial products and services for SMEs. The main instruments of the Group are investment loans for projects, company loans, micro loans, financing of working capital and credit lines, provision of guarantees on a direct portfolio – on the asset of the BDB, and guarantees on portfolios of commercial banks from loans to SMEs, operating leases, equity, etc.

BDB and its subsidiaries operate in full transparency and apply the best banking and management practices. A core objective of the Bank is to reach the sectors of the economy and borrowers experiencing difficulties in accessing and obtaining financing, by providing financial solutions and products to overcome market imperfections.

In pursuing its mission, BDB, together with the Group companies, supports government efforts for acceleration of economic growth in the country by means of providing expertise and performing activities in all areas of economic policies, facilitating the utilization of the EU structural funds for Bulgaria, enhancing the export potential,

financing public and public-private project or partnerships of strategic national or regional importance, incl. infrastructural projects, etc.

The main principle underlying the BDB Group's activity is not to allow distortion of competition and displacement of the traditional commercial banks from the market. By compensating any existing market shortages in financing certain segments and clients, BDB and its subsidiaries contribute to adjusting their risk profile and further facilitate the increase of bank mediation and growth in credit volumes in the economy.

The strategic goals of BDB Group are:

- To improve, stimulate and develop the overall economic, export and technological potential of SMEs by providing financial programmes and instruments that the market does not fully offer and in sufficient volume;
- To create an environment of support, engagement and inspiration for SMEs to meet economic challenges by advising and training them for a successful business;
- To assist SMEs in the transition to a carbon-neutral and sustainable business by developing the debt and equity market for green investments and mobilising private capital for insufficient financing;
- To implement programs and instruments for co-financing public investments and projects that are a priority for the country's economy;
- To attract funds and manage programs from international financial institutions, banks and capital markets;
- To ensure access to sufficient and diverse funding for SMEs;
- To facilitate access to financing company innovation, technological renewal and digitalization of SMEs.

With regard to direct lending, the BDB Group will further develop focused product lines related to the support of SMEs. To meet the objectives, the priorities will be pre-export, export and bridge financing. Traditionally, the Group will continue to provide financing for small and medium-sized businesses with a longer lending period and relieved legal requirements for loan collateral.

BDB, together with the Group's companies, will interact with the operational programme management bodies in Bulgaria, identifying existing problems in the financing of specific measures and offering solutions for their removal, including specific forms for their financing. At an accelerated pace, consultations will be carried out in order to adequately include the BDB Group in the overall model of public resource management, in support of the development of the country's economy. The Bank considers its participation in it as an essential step in increasing the effectiveness of measures to support the Bulgarian economy.

The objectives of the BDB Group have been expanded with new updated Strategy 2022-2023. The updated Strategy 2022-2023 is in process of agreement and adoption by the Ministry of innovations and growth and the Council of Ministers.



**The strategy and activity of BDB Group for the next two years adheres to the established long-term objectives, but also strictly follows the national priorities, building on three main pillars:**

- Sustainable economic development with a reduction in the carbon footprint and negative effects on the environment, and an increase in the degree of circularity and efficiency in the use of resources;
- Digital transformation and technological equipment of the Bulgarian business to increase productivity, efficiency and competitiveness, and to promote the transition to Industry 4.0;
- Expanding export potential through accelerated and sustainable integration into Europe's value and supply chains – supporting connectivity and catalysing investment in modern and smart business infrastructure.

**The Group's updated strategic priorities for 2022-2023 have been refocused and aimed at faster recovery of SMEs, accelerating economic growth and employment since the COVID-19 crisis. These include:**

- More loans to a wider range of micro and SMEs;
- Supporting vital, innovative, competitive SMEs with the potential for integration into European and global networks;
- Financing of green transition business models, social and sustainable initiatives and services (towards and in line with selected sustainable global development goals).

**In order to realize the priorities, BDB sets the following objectives:**

- To ensure access to sufficient and diversified funding for SMEs in partnership and supplement, rather than in competition with commercial banks;
- To finance the export and internationalization of Bulgarian SMEs;
- To finance the transition of SMEs to a green, circular and sustainable economy, including through projects for social infrastructure and preservation of cultural and historical heritage;
- To facilitate access to finance for technological renewal, digitization and company innovation of SMEs, including access to products and services online.

For the period, the activities of the BDB Group will take into account the dynamics of the phase for the recovery of business and the economy from the pandemic crisis, as well as to deal with the consequences of peace shocks in Europe. The Group will seek to best meet the demand and need of SMEs for financing, to address negative economic effects and to create new sustainable business models.

For the effective implementation of the above objectives and goals, the Parent company in the BDB Group relies on its status as a development bank and the opportunities to attract long-term cheaper resources from European multi-lateral banks, international financial institutions, and international commercial banks.

Another source of external financing is capital international markets. During the period, BDB plans to use the possibilities of the instruments offered by the institutions of the European Union for direct lending and issuance of guarantees to other intermediary banks and/or final borrowers.

In the future, BDB Group will continue to offer working capital financing, capital investment and export financing for small and medium-sized businesses. The Group offers flexible and market-friendly financial solutions that meet the specifics of the borrower and the funded project.

## **7 INTERNAL CONTROL**

The internal control processes within the Bank are described in detail in sections 8 and 9 as well as in Corporate Governance Declaration, Appendix 1 to this report and include the following components:

- a) control environment analysis - a description of the control environment can be found in items Risk Management, Control Environment, and in the Corporate Governance Declaration, Control Environment section;
- б) risk assessment process - a description of the assessment of the risks of the Bank may be found in Corporate Governance Declaration, Risk Management section;
- в) information system, including the related business processes relevant to the financial reporting, and communication - description of the information system of the Bank may be found in the Risk Management and Control Environment sections;
- г) control activities - a description of the control activities of the Bank may be found in the Risk Management section, part of Corporate Governance Declaration, Structures for Risk Management and Committees to the Management Board sections;
- д) ongoing monitoring of controls - a description of the ongoing monitoring and control of the Bank may be found in Corporate Governance Declaration, Structure for Risk Management and Committees to the Management Board sections.

## **8 RISK MANAGEMENT**

In managing its risk, BDB applies policies and procedures based on best practices and appropriate to the nature and complexity of its activity. In the course of the ordinary activity, BDB is exposed to various financial risks, the occurrence of which may lead to losses and to deterioration of the financial stability of the Bank. These risks are identified, measured and limited to acceptable levels by means of limits and restrictions that reflect the BDB's willingness to take specific risks in order to achieve its strategic objectives.

The risk management process is important for the Bank's profitability and existence. The most significant risks, to which the Bank is exposed, are credit, market, liquidity and operational risks.

## **8.1 CREDIT RISK**

The credit risk is the key risk to which Bulgarian Development Bank EAD is exposed, and therefore, its management is a key priority of the Bank's activity. The credit risk management is carried out in compliance with the BDB Act, and the effective statutory laws and regulations of the Republic of Bulgaria, regulating the credit activity, the established international norms and best banking practices. BDB uses internal rating for the evaluation and management of the credit risk (incl. from counterparties) under the exposures. Bodies for monitoring, control, and assessment of the quality of the credit portfolio have been created and are functioning at Bulgarian Development Bank. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio, requiring periodic, and if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons. When new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor. When managing the credit risk, BDB follows a system of internal Bank limits by economic sectors, by instruments, as well as other credit limitations and thresholds for concentration, and the results from the monitoring of their compliance are reported to the competent bodies. The system of limits is reviewed and updated periodically.

## **8.2 MARKET RISK**

In managing the currency risk, BDB follows the principle of maintaining minimum open FX positions through the observing of established limits. The positions of the Bank in various currencies, as well as the general FX position are monitored on a daily basis. The FX positions are not formed for speculative purposes, but are the consequence of the currency transactions, occurring in the course of the ordinary bank activity. These foreign exchange operations relate to the current financing needs of the position. In managing its assets and liabilities, due to the specifics of its financing, BDB seeks to maintain these assets and liabilities in EUR or BGN. The Bank's open FX position takes into account the terms and possibilities for netting the EUR and BGN positions in accordance with the applicable regulatory framework.

In managing interest rate risk, the Bank follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the frequency of change in interest on assets and liabilities, as well as a correlation between the applicable reference interest rates on assets and on the liabilities of the BDB.

A system of limits for the maximum acceptable (quantitative) impact of various shock scenarios on the change in market interest rates on net interest income and the economic value of the Bank's capital has been introduced. The internal limit framework mitigates the potential risk on expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement of the economic value of capital, analysis of discrepancies, interest rate stress scenarios.

The assumption of risks when transacting on the money and capital markets is managed by a system of limits reflecting the risk profile of the investments. These limits are determined according to parameters of the portfolio, like counterparty, financial instrument, maturity, etc. The system of limits is periodically reviewed, while the compliance with the limits is subject to daily monitoring. The securities portfolio, created by BDB in order to invest the available funds, is characterized by a relatively low interest rate risk and comprises government securities and securities issued by reliable institutions with high liquidity and credit quality. In 2021 BDB did not maintain trade portfolio and was not subject to capital requirements for market risk from trading activities, in accordance with regulatory provisions.

### **8.3 LIQUIDITY RISK**

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between cash inflows and outflows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. The liquidity of BDB is managed by strictly monitoring the ratios, indicating the liquidity position by periods. The liquidity risk is measured by applying additional scenarios for the cash flows from operations. In addition, the liquid buffers of the Bank are measured and monitored, as well as the additional sources of financing upon market and idiosyncratic shocks. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and restrictions set according to the risk tolerance of the BDB.

### **8.4 OPERATIONAL RISK**

For operational risk management BDB applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. The operational risk is managed by strictly monitoring and registering all operational events occurring in the activity of the various units as a result of the processes within the Bank identifying and managing the full range of operational risks.

Operational events, which are more frequent, and the ones having great potential or real impact on the BDB's financial result, are subject to strict investigation and monitoring. They serve as the basis for the analysis of the operational risk in various scenarios, including operational risk stress tests. The operational risk is measurable and controllable, while a registry of the operational events is maintained and used as basis for analysis and improvement of the Bank's working processes and for minimizing the conditions, which could potentially lead to operational events and loss for the Bank. The necessary capital for operational risk is calculated by using the basis indicator approach pursuant to the applicable regulatory framework.

#### **8.5 RECOVERY PLAN (DIRECTIVE 59/15.05.2014/EU)**

BDB has developed a Recovery Plan of the BDB Group which is provided to BNB. At the end of the reporting year 2021 and as of the date of approval of this report there is a valid update of the document approved by decision of the MB №91/23.11.2021 and decision of SB №45/24.11.2021. The Recovery Plan complies with the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, Law on Credit Institutions, Directive 2013/36/EU, Directive 2014/59/EU, Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU and applicable guidelines of EBA. The Plan contains actions and measures that BDB may take to restore its financial position in the event of significant financial difficulties.

The Recovery Plan addresses the systemically important/critical functions of the BDB Group and sets out the recovery indicators - a system of indicators the Bank observes with the aim of early identification of potential situations which could jeopardize the financial performance of the institution. The prerequisites for the implementation of the recovery measures set out in the Recovery Plan are described. Scenarios and recovery options are considered which, in the event of activation of the Recovery Plan, can be taken, as well as the internal communication and decision-making process. A communication action plan has been elaborated in case of activation of the Recovery Plan.

In addition, on the recommendation of the BNB since 2020 and 2021, a new section was added to the Plan, which analysed the realized and expected effects on the Bank and the Group following the COVID-19 crisis and the need to trigger recovery measures. New indicators have been added: in terms of combined buffer requirement (MREL) as well as new profitability indicators and the reference range of certain indicators have been revised, in accordance with the Regulator's requirements and market realities.

The Recovery plan is updated once a year and proposed for validation by the MB and SB of BDB. Furthermore, the Recovery Plan is updated in the event of a material change in the legal or organisational structure, activity, or financial position of the Bank, or in the financial system in Bulgaria, which may have a significant impact on its effectiveness.

## 9 CONTROL ENVIRONMENT

Internal control in the Bank is a continuous process carried out by the management bodies and by persons engaged in internal control functions. Elements of internal control are systems for:

1. management control;
2. risk control;
3. reporting and information; and
4. internal audit.

The first three elements of the internal control system are within the competence and powers of the relevant authorities. The fourth element of internal control is a responsibility of the Group's internal audit.

The internal control of the Bank is organised as an independent assessment of the legality of the banking transactions and is carried out by monitoring and verifying the financial, accounting and other operations, as well as how the powers of officials in decision-making are exercised. The internal control system of the Bank is subject to the requirement of economy, efficiency and reasonable sufficiency.

Internal control is carried out simultaneously as preventive, ongoing and subsequent control over the Bank's positions and its separate processes, activities and transactions. The general internal control over the activities of the Bank is performed by the Supervisory Board.

The organizational model of the risk management and control functions is developed in accordance with a model with three lines of protection. The main roles of the three lines of defense include:

The first line of defense covers risk management by business units and risk-taking units – divisions Corporate Banking, Investment Banking and Project Finance, External Programs, Non-performing Loans, Treasury, Financial Instruments. Their activity is supported by Legal Division, Credit Administration Division, Security division, Finance Division, Classified Information Division, Operations & Customer Service Division and MFI and Euro funds, who assess and analyse the implementation of internal and regulatory constraints and support decision-making activities in taking and managing risks. At this level, risk management is carried out by setting appropriate controls and procedures.

The second line of defense provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk, Compliance and Classified Information.

Risk Division performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting their implementation in accordance with the approved escalation procedures. Classified Information Division exercises control over the prevention of money laundering and terrorist financing. Compliance Division is responsible for the observance of the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB Group to the occurred and / or forthcoming changes. The second line of defense is organizationally independent of the first and carries out preventive and ongoing control.

The third line of defense is performed by the Internal Audit of the Group (IAG). It independently reviews all activities in the BDB Group, subject to independent evaluation, compared to the established system of internal rules and their adequacy, compared to the external regulatory environment, internal control mechanisms and risk management systems covering the activities of the Group. The weaknesses and deficiencies identified by it supports the functions of other levels of protection in the process of developing of internal rules and procedures in order to improve the effectiveness of risk management. IAG provides assurance to senior management on the effectiveness of risk management, internal control and governance, and the way in which the first and second lines achieve the objectives of risk management and control. The Internal Audit of the Group Division provides overall confidence from the position of the highest level of independence in the organization, through direct subordination of the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB.

The Bank has developed an internal set of documents, which includes policy and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

BDB has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The Bank's Audit Committee monitors the financial reporting processes, the effectiveness of the internal control systems and the effectiveness of the risk management systems; informs the management bodies of the Bank about the results of the statutory financial audit; controls the development and the change of accounting policies by the Bank and the subsidiaries of the Group; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the statutory audit of the annual financial statements (separate and consolidated); gets acquainted with the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the IFAA; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee.

## **10 BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN LEGISLATION**

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2021, BDB has complied with all regulatory requirements of the BNB and the Bulgarian legislation.

Effective 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by the BNB in close cooperation with the ECB. The ECB's monitoring includes control on the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM). The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision. In 2020, the Bulgarian lev joined the Exchange Rate Mechanism II (ERM II) and together with the established close cooperation are a condition for Bulgaria's future membership of the Eurozone.

As of 1 October 2020, Bulgaria has joined the Single Resolution Mechanism, together with the accession to the Single Supervisory Mechanism and the beginning of close cooperation between the Bulgarian National Bank and the European Central Bank. In this regard, the Single Resolution Board has taken over the monitoring of the resolution planning process with regard to the Bank. European banking supervision, together with the Single Resolution Mechanism, are the two pillars of the EU Banking Union.

As part of BASEL III regulatory framework, as of 28 June 2021 "the net stable funding ratio" (NSFR) is applied with minimum regulatory requirement of 100%.



Information on it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) on a quarterly basis, on an individual and consolidated basis. As of 31 December 2021, the aggregated for the banking system level of NSFR is 166%, and for BDB it is 131.2%.

The capital adequacy ratio on an individual basis as of 31 December 2021 was 35.82% (31 December 2020: 34.23%). The coverage of assets with capital buffers exceeds by many times the statutory requirements. Respectively, the aggregated data for the banking system for capital adequacy are: 22.62% (as of 31 December 2021) and 22.74% (as of 31 December 2020). BDB continues to maintain a good liquidity level. The liquidity coverage ratio (according to the definition of Regulation 575 /2013/EU, LCR) of the Bank is 376.61% as of 31 December 2021 (compared to 496.07% at the end of 2020). For the banking system the liquidity coverage aggregated ratio is 274.1% (as of 31 December 2021) and 279% (as of 31 December 2020).

## 11 INTERNATIONAL COOPERATION

BDB continues to develop successful partnerships with leading European and international financial institutions, including through participating in renowned associations. This cooperation enables the Bank to take advantage of the best banking practices, know-how, information on financial products, and also to participate in their development and implementation. BDB has direct access to general and specific information about the latest changes in the legislative framework at European level and its implementation in the area of the development banks and has the opportunity to participate in the process of negotiating these amendments. The membership in international specialized associations allows BDB to take part in seminars and meetings with the European Commission and its Directorates.

- BDB is a shareholder of the European Investment Fund (EIF) since 2003. At the end of 2020 EIF officially announced to its shareholders proposal for capital increase in order to ensure its programs and activities during the new programming period - 2021-2027 (including the implementation of the InvestEU program, further expanding the role of the EIF in the management of national and regional programs and undertaking risk-sharing adequate to the new economic conditions). The proposal was approved by EIF shareholders' decision in February 2021. **In august BDB bought two new shares in the EIF capital increase.**
- Since 2005 BDB is an active member of the European Association of Public Banks (EAPB).
- Since 2007, BDB is a full member of the Network of European Financial Institutions (NEFI), including representatives from 19 institutions from various European countries.

- In 2021, BDB continued its participation in the activity of the European Association of Long-term Investors (ELTI). BDB is a co-founder of this organization.
- In 2020 BDB has joined the International Network for Small and Medium-sized Enterprises (INSME). THE INSME is under the auspices of the Organisation for Economic Cooperation and Development (OECD). The association includes 61 institutions and organizations from 30 countries. The Bulgarian Development Bank and the Bulgarian Small and Medium Enterprises Promotion Agency **hosted the 17th Annual Meeting of the International Network for Small and Medium-sized Enterprises (INSME) under the title of Small and Medium-sized Enterprises: Drivers of Sustainable Recovery.**
- In 2021, BDB continued its membership in the French-Bulgarian Chamber of Commerce and Industry (CCIFB).
- In 2021, BDB continued its participation in the Interbank Association of China and the countries of Central and Eastern Europe.
- In 2021, BDB continued its participation as a member in the Central and Eastern European Chamber of Commerce (Singapore)

## 12 BANK GOVERNANCE

There were no charges in the main BDB corporate governance principles in 2021.

**Bulgarian Development Bank EAD** has a two-tier corporate governance structure, which consists of Supervisory Board (SB) and Management Board (MB).

### Changes in the Supervisory Board in 2021:

By decision of the sole owner of the capital of BDB under the Protocol of 25 June 2021 Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov were elected as members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as chairman of the Supervisory Board of the Bank.

As of 31 December 2021, entry in the Commercial Register has also been requested for the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

On 13 January 2021, the decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank was entered in the Commercial Register.

### Changes in the Management Board in 2021:

By decision of the Supervisory Board under Protocol No 18 of 30 June 2021, Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev were elected as new members of the BDB Management Board. This circumstance was entered into the Commercial Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021, Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev were empowered to represent and manage the Bank as executive directors. This circumstance was entered into the Commercial Register on 7 July 2021. Mr. Krum Georgiev was elected as chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov and Panayot Ivov Filipov were deregistered in the Commercial Register as members of the Management Board.

### Changes in the Statute of BDB in 2021:

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company). The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European investment activity, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases under para. 7 (when BDB implements specifically government-mandated programmes). A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1,000,000 to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5 million. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute, and the applicable legislation.

These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.

**As of 31 December 2021, the BDB's management and supervisory boards have the following composition:**

**12.1 SUPERVISORY BOARD OF BDB AS OF 31 DECEMBER 2021 AND AT THE DATE OF APPROVAL OF THIS REPORT:**

**Valentin Lyubomirov Mihov - Chairman of the SB since 7 July 2021**

Valentin Mihov holds master's degrees in international Economic Relations from the MGIMO University and Business Administration from INSEAD. He has considerable experience in bank management. From 1999 to 2008 he was a consultant and junior partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany, and Russia. Between 2008 and 2017 he held senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as at the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. From 2018, he advised banks and companies as a consultant or independent member of the Board of Directors.

**Vassil Atanasov Shtonov – Deputy Chairman of the SB since 7 July 2021**

Vassil Shtonov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications, and energy. He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

**Stamen Stamenov Yanev – Deputy Chairman of the SB since 26 August 2020**

Stamen Yanev holds a master's degree in Law from Sofia University "St. Kliment Ohridski". He specialized in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Yanev is a lawyer specialized in the field of mergers and acquisitions, as well as in the field of investments. His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit firms in the world. Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

**Mitko Emilov Simeonov - Deputy Chairman of the SB from 27 November 2017 to 13 January 2022\***

Mitko Simeonov holds a master's degree in law from the New Bulgarian University and a master's degree in international Economic Relations from the University of National and World Economy. He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

### **Velina Ilieva Burska – Member of the SB from 27 November 2017 to 13 January 2022\***

Velina Burska holds a master's degree in economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was the director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

\* As of 31 December 2021, entry in the Commercial Register has also been requested for the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank. On 13 January 2021, the decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank was entered in the Commercial Register.

#### **12.2 BDB MANAGEMENT BOARD OF BDB AS OF 31.12.2021 AND AT THE DATE OF APPROVAL OF THIS REPORT:**

##### **Krum Georgiev – Chairman of the MB since 7 July 2021**

Krum Georgiev has a bachelor's degree in business management and a master's degree in Finance from the University of National and World Economy. His professional career includes 11 years of experience in banking and accumulated solid knowledge in the field of financial analysis and corporate governance. He was head of Project Finance Department at UBB, responsible for increasing the credit portfolio, monitoring the quality of the loan portfolio, and structuring new transactions. He has also successfully developed as an asset manager in the RES sector.

##### **Vladimir Rashkov Gueorguiev – Member of the MB and Executive Director since 7 July 2021**

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of non-performing loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

***Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director since 7 July 2021***

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management. His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

***Jivko Ivanov Todorov – Member of the Management Board and Executive Director since 14 April 2020***

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer, and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch. From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented.

In 2021, the following members also participated in the composition of the Management Board:

***Nikolay Dimitrov Dimitrov - Member of the Management Board and Executive Director from 06 October 2017 to 14 July 2021.***

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank.

He joined the Bulgarian Development Bank in July 2011, in January 2012 become Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010-2017.

**Panayot Ivov Filipov – Member of the Management Board and Executive Director from 30 April 2020 to 14 July 2021.**

Panayot Filipov graduated from the University of National and World Economy with a master's degree in economics and has a specialization in stock markets at the University of Delaware in Bulgaria. In 1998 he was announced for Broker No 1 on the Bulgarian Stock Exchange with the highest number of trades of the year. He entered the banking sphere in 2001, and until 2008 he held positions in Economic and Investment Bank, DZI Bank, where he was also a member of the Management Board, as well as in Piraeus Bank Bulgaria. In 2012 he took over management functions at Municipal Bank. In 2014, Mr. Panayot Filipov was appointed a member of the Board of Directors of OZK Insurance, and in 2017 he became Executive Director and Member of the Management Board of the Bulgarian Export Insurance Agency (BAEZ). In April 2020, Mr. Filipov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank EAD.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and procurator.

As of 31 December 2021, and at the date of approval of this report the Bank does not have a procurator.

**Contracts signed with related parties involved in the management and participation of the Bank's MB and SB members in other companies**

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which deviate significantly from the market conditions.

There are no material contracts of the Bank, which lead to action, are amended, or terminated, due to change in the control of the Bank, when performing a compulsory public procurement procedure. As far as there is a legal restriction regarding the acceptable range of shareholders of BDB, pursuant to the BDBA, no such contracts are expected to be concluded.

BDB does not have practice and has not concluded agreements between the BDB and the management bodies or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

A participation, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2021):

**I. With respect to members of the Supervisory Board (SB) of the Bank (as at the end of 2021 and at the date of approval of this report):**

**Valentin Lyubomirov Mihov** - Chairman of the SB since 7 July 2021

Participation in the management of commercial companies:

- First Ukrainian International Bank – Member of SB.

Participation in the share capital of commercial entities:

- „Valor Advisors“ EOOD, UIC: 204708828 – ownership of more than 25% of share capital).
- **Vassil Atanasov Shtonov** – Deputy Chairman of the Supervisory Board of BDB since 7 July 2021

Participation in the management of trade companies:

- AMC Directors EOOD, UIC: 205674040 – Managing Director;
- Re-life Clothing, UIC: 206181417 – Managing Director;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Stamen Stamenov Yanev** – Deputy Chairman of the SB since 26 August 2020.

- Participation in the management of trade companies:
- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board;
- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors until 5 August May 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Mitko Emilov Simeonov** – member of SB of BDB from 21 November 2017 to 13 January 2022 ;

He has no participations in the capital and management of other companies.

**Velina Ilieva Burska** – member of SB of BDB from 21 November 2017 to 13 January 2022

She has no participations in the capital and management of other companies.

**II. With respect to members of the MB of the Bank (composition as of 31 December 2021 and the date of approval of this report):**

**Tsanko Rumenov Arabadzhiev** – Executive Director and Member of the MB of Bulgarian Development Bank since 7 July 2021

Participation in the management of commercial companies:

- Capital Investments Fund AD, UIC: 205322014, as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082, as Member of the Board of Directors.



On 22 September Tsanko Arabadzhiev was elected for member of SB of Investment Fund "Tri Moreta".

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Krum Georgiev** – Chairman of the Management Board of BDB since 7 July 2021

Participation in the management of commercial companies:

- BDB Leasing AD, UIC: 205565411 – as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082, as Member of the Board of Directors;
  - Participation in the capital of trade companies or cooperatives – none.

**Vladimir Rashkov Gueorguiev** – Executive Director and Member of the MB of BDB since 7 July 2021

Participation in the management of commercial other companies:

- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors – as of 23 August 2021.

Participation in the capital of trade companies or cooperatives:

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Rosa Organika OOD, UIC: 131389390 – partner;

**Jivko Ivanov Todorov** – Executive Director and Member of the MB of Bulgarian Development Bank EAD since 14 April 2020

Participation in the management of commercial companies:

- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;
- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;

Participation in the share capital of commercial entities - none.

**Nikolay Dimitrov Dimitrov** - Executive Director and Member of the MB of BDB from 16 October 2017 until 14 July 2021

Participation in the management of trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Deputy Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank, Member of the Board of Directors until 20 August 2021.
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Member of the Board of Directors until 3 June 2020;

- Participation in the capital of trade companies or cooperatives, including as general partner – none.
- **Panayot Ivov Filipov** – Executive Director and Member of the MB of BDB from 30 April 2020 until 14 July 2021  
Participation in the management of trade companies:
  - BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 30 August 2021;
  - BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 16 September 2021
  - Participation in the capital of trade companies or cooperatives, including as general partner – none.

### 13 TRANSACTIONS WITH COMPANIES UNDER JOINT CONTROL OF THE STATE

The owner of BDB is the Bulgarian state. Transactions with related parties and companies under the common control with the state are disclosed in Note 39 to the separate financial statements of BDB for 2021.

### 14 EVENTS AFTER THE REPORTING PERIOD FOR THE YEAR ENDING ON 31 DECEMBER 2021

No adjusting events or significant non-adjusting events occurred between the date of the separate financial statements and the date of their approval for issue, other than the following non-adjusting events:

#### **The war in Ukraine**

In the early hours of 24 February 2022, a full-scale military invasion of Russia began in its southwestern neighbor Ukraine. The attack on Ukraine has been described as the most serious military conflict in Europe since the end of World War II. Russia has been subject to large-scale economic sanctions from the European Union, the United States, Britain, Canada and other countries, including traditionally neutral ones such as Switzerland, some of which extend to Belarus.

The economic situation caused by the conflict and the sanctions imposed is expected to affect a number of sectors of the economy, including disrupting the normal economic activity of economic operators. Due to the unpredictable dynamics of the conflict and its medium- and long-term economic consequences, the scope and impact on the Bank's business are difficult to assess. Depending on the duration and scale of the conflict, and the political and economic measures taken by Russia and the United States and the EU, the Bank may reconsider its assumptions and judgments, which in turn will lead to significant adjustments in the carrying amount of assets and liabilities for the next financial year.

### **Potential immediate effects on the Bank**

As of 31 December 2021 and the date of issuance of the separate financial statements, the Bank has the following deposits in/receivables from institutions, whose main shareholder is Russia:

	<b>Amount as of 31.12.2021</b>	<b>Rating as of 31.12.2021</b>	<b>Amount as of the date of issue the financial statements</b>	<b>Rating as of the date of issuance the financial statements</b>
International Bank for Economic Cooperation (IBEC)	10,029	Baa3 (Moody's)/ BBB (Fitch)	-	WDR/WDR WDR
International Investment Bank (IIB)	74,308	A3 (Moody's)/ A-(Fitch)	15,647	(Moody's)/ BB-(Fitch)

Due to sanctions imposed or the deteriorating solvency of their customers, which leads to deterioration of their financial position, it is likely that Russian-controlled banks will not be able to make payments on maturity deposits or within the grace period. As of the date of issue of the separate financial statements, the banks have no overdue payments to the Bank and there are no indications that they could not meet their obligations.

### **Potential effects on the Bank's customers**

The business of some important customers of the Bank is also expected to be affected by disrupted supply chains, travel restrictions, increased prices and more. As of the date of issue of the separate financial statements, customers still do not have a detailed quantitative assessment of the potential effects of the war, however:

- Customers operating in the **tourism and hospitality sector** expect a decrease in visits from Russia and Ukraine, and are not confident that they will be able to fully compensate for these visits with tourists from other markets
- Customers operating in the **transport sector** expect a significant increase in energy costs as a result of the war in Ukraine. These customers are also unsure of the extent to which they will be able to pass on additional costs to their own customers without causing an outflow of consumption, with a corresponding negative effect on operating results and financial position.
- Customers in the **construction and real estate sector** expect high prices of materials to remain in the medium term, as main suppliers of these raw materials – iron, cement and others – are Russia and Ukraine. Customers are not sure how much they will be able to pass on additional costs to their own customers

- Customers in the **trade and services sector** expect increase in costs due to rising energy prices, as well as general inflation pressure as a result of the war, but do not expect a significant effect on their operating results and financial position: these customers expect that to a high degree, will be able to offset the effect of the increases.
- Customers in **the industry sector** are directly affected by increased energy and material prices, as well as disrupted supply chains.
- The Bank's customers in the sector "**Production, transmission, distribution and delivery of natural gas and heat**" are directly affected by increased energy prices, expecting regulatory compensational measures, given their special status of natural monopolies in respective markets. In addition, the disruption of natural gas supplies from Russia effective as of 27 April 2022 could not be compensated fully in the short term, and will possibly lead to:
  - o Decrease of income from transmission of natural gas for the period, in which normal deliveries are offset by other sources;
  - o Increase in the short-term of costs of delivery of natural gas for heat production;

Negative effects are likely both on the operational results and financial condition of these customers for 2022, and on the economy as a whole. At the same time, it is unlikely that as a result of these developments, customers will be permanently unable to repay their obligations to the Bank.

As of 30 April 2022, date of preparation of the last portfolio, the Bank has the following significant exposures<sup>9</sup> to potentially affected sectors:

	<b>As of 30.04.2022</b>
Construction and real states	503,959
Industry	468,676
Trade and services	333,226
Transport	193,634
Transmission and distribution of natural gas and heat	140,020
Tourism and hoteliers	124,045
	<b>1,763,560</b>

The Bank carefully monitors the development with its customers and is ready to take appropriate measures to protect its interests, and those of its customers.

<sup>9</sup> Top 25 clients, including balance sheet debt, off-balance sheet exposures and undrawn lines.

The effect of the overall economic consequences may lead to the need to revise certain assumptions and accounting estimates, which may lead to changes in the carrying amount of the exposures described above within the following financial year. At this stage, the Bank's management is unable to reliably assess these effects as events unfold on a daily basis.

Longer-term effects may affect the Bank's financial position, performance and cash flows. However, at the date of issue of these separate financial statements, the Bank continues to meet its obligations on time and for these reasons continues to apply the going concern principle.

**SINCE THE BEGINNING OF 2020, THE BANK DEVELOPED THE FOLLOWING PRODUCTS TO SUPPORT THE SMALL AND MEDIUM-SIZED ENTERPRISES:**

**Support for tourism Program**

In January 2022, the Bulgarian Development Bank started a new product, aimed at one of the most affected by the COVID pandemic sector - the hotel and restaurant business. Micro, small and medium-sized companies in these sectors can benefit from preferential financing, even if they have overdue debts of up to 90 days. The **volume of the program is BGN 60 million**. The program parameters are as follows:

- Direct loans for SMEs financing in the form of working capital financing
- Amount of up to BGN 500 thousand for companies with up to 49 employees and up to BGN 750 thousand for companies with employees up to 249 persons
- Estimated interest rate - 2.82%

Support for tourism Program offers the following two products:

*Product No1 "Liquidity assistance for restaurateurs"* - financing for restaurateurs, including Start-up. Working capital shall be provided for funds necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs; to refinance existing obligations to the state and to suppliers; to refinance existing liabilities to financial institutions (including with arrears of up to 90 days); for refreshment and renewal.

*The product parameters are as follows:*

- Type of financing: working capital financing
- Borrowers: restaurateurs, including start-ups
- Specific characteristics:
  - Possibility to finance companies with arrears up to 90 days;
  - To operate at an accounting profit in 2018 and 2019 if it is not a start-up business in this period;
  - Possibility to finance enterprises that are at an operating loss for two years in the period 2018 - 2021 (based on preliminary reports for 2021).

- Type of loans:
  - Revolving credit line;
  - Credit overdraft;
  - Loan with repayments (for working purposes).
- Purpose of the loan:
  - Working capital for funds necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs;
  - To refinance existing obligations to the country and to suppliers;
  - To refinance existing liabilities to financial institutions (including with arrears of up to 90 days);
  - For refreshment and renewal.
- Maximum size:
  - Credit line and standard working capital credit:
    - ✓ for companies with staff of up to 49 people – up to BGN 500 thousand
    - ✓ for companies with staff from 50 to 249 people – up to BGN 750 thousand
  - Overdraft credit: up to BGN 250 thousand
- Term:
  - Up to 60 months – for credit line and overdraft credit
  - Up to 48 months – for standard working capital loan
- Grace period: 12 months
- Collateral: all eligible collateral (real estate, plant and equipment, inventories, etc.) and with the possibility of a 70% guarantee from the Pan-European Guarantee Fund
- Estimated interest rate: from 2.82%, according to the borrower's profile

Product No2 "Liquidity assistance for hoteliers"- financing of hoteliers who have not ceased operations in 2020 and 2021. With the possibility of financing companies with arrears up to 90 days and enterprises operating at an operating loss for two years between 2018 and 2021 (based on preliminary reports for 2021). A requirement for borrowers is to operate at operating profit in 2018 and 2019.

The product parameters are as follows:

- **Type of funding:** working capital financing
- **Borrowers:** hoteliers who have not ceased operations in 2020 and 2021.
- **Specific characteristics:**
  - Possibility to finance companies **with arrears up to 90 days;**
  - To operate at operating profit in 2018 and 2019 (i.e., it is permissible to operate at an accounting loss);
  - Possibility to finance enterprises operating at an operating loss for two of the years between 2018 and 2021 (based on preliminary reports for 2021).

- **Type of loans:**
  - Revolving credit line
  - Credit overdraft
  - Loan with repayments (for working purposes)
- **Purpose of the loan:**
  - Working capital for funds necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs;
  - To refinance existing obligations to the country and to suppliers;
  - To refinance existing liabilities to financial institutions (including with arrears of up to 90 days);
  - For refreshment and renewal.
- **Maximum size:**
  - Credit line and standard working capital credit:
    - ✓ for companies with staff up to 49 people – up to BGN 500 thousand
    - ✓ for companies with staff from 50 to 249 people – up to BGN 750 thousand
  - Overdraft credit: up to BGN **250 thousand**
- **Term:**
  - **Up to 60 months** – for credit line and overdraft credit
  - **Up to 48 months** – for standard working capital credit
- **Grace period: 18 months**
- **Collateral:** all eligible collateral (real estate, plant and equipment, inventories, etc.) and with the possibility of 70% warranty from the Pan-European Guarantee Fund
- **Estimated interest rate:** from **2.82%**, according to the borrower's profile

### **Rose Processing Support Programme**

In January 2022, the Bulgarian Development Bank EAD created a special product with preferential conditions for Bulgarian rose processors with the name "Support for rose processing". The aim of the funding is to support the sector, overcome the negative effects of the Covid-19 pandemic and alleviate pro-inflation pressures. Bulgarian rose oil is known as one of the most sought after and expensive on the international market, but in recent years the industry has faced problems that lead to the accumulation of large stocks of the valuable product. **The volume of the programme is BGN 20 million.**

The Rose Processing Support programme will provide working capital funding to micro, small and medium-sized companies in the rose processing sector, facing serious difficulties and reduce liquidity. The volume of the programme is BGN 20 million. Direct loans will be granted in the form of a revolving working capital credit line of up to BGN 1 million with a period of up to 3 years, with a simplified funding scheme and minimum collateral requirements, including pledge of rose oil in the National Research and Certification Institute under the Special Pledges Act.

Eligible for the programme are candidates who meet both the following three criteria:

- 1) they are traders registered in the Republic of Bulgaria under the Commerce Act or are registered as agricultural producers.
- 2) they are micro, small or medium enterprises within the meaning of Art. 3 and Art. 4 of the Small and Medium Enterprises Act.
- 3) they are registered in the National Electronic Register of Rose Producers, Rose Processors, Sites for Production of Oil-bearing Rose Products and Oil-bearing Rose Plantations.

### **Energy Support Programme**

In February, the BDB launched the Energy Support Programme, which aims to overcome the negatives of rising electricity prices. **The volume of the program is BGN 10 million.**

This product aims to assist companies in the unexpected increase in electricity prices. The Bank allows them to de-schedule their electricity costs for four consecutive months of choice within 2022. Companies can apply for funding for future payments and unpaid invoices. The amount of funding will be determined on the basis of the net value (after deduction of state compensation) of invoices for the electricity consumed by the companies for the period January - December 2022, and the Bank can cover up to 75% of the value of the respective invoice. The minimum amount of the targeted loan is BGN 20 thousand and the maximum amount is BGN 200 thousand.

#### The product parameters are as follows:

- Size: From BGN 20 thousand up to BGN 200 thousand
- Up to 4 unpaid electricity invoices and up to 75% of the net invoice value are financed
- No collateral requirement

#### Criteria for granting a loan

- Companies from all sectors of the economy are eligible.
- Without Requirement about Collateral about Borrowers with good credit rating. Jointly co-indebtedness on owners about borrowers with a-Risk profile.
- Companies with electricity costs of at least 5% of operating costs and up to 20% of revenue are financed.
- Provides financing to companies with a financial and business history of less than two years.
- Companies with unpaid taxes and compulsory social security contributions, as well as companies in insolvency, cannot benefit from the financing.



### **Working capital credit for raw materials**

The program was announced in early April.

The Bulgarian Development Bank offers small and medium-sized enterprises a new product to overcome the negative effects of the prolonged increase in inflation and rising prices of basic goods and services.

The programme provides working capital loans of up to **BGN 200 thousand** for companies – SMEs operating in all sectors, which want to purchase raw materials at current prices and thus prevent higher costs in the future. This will help them to hold down the price of the final product they produce without anticipating a recent increase. The BDB's programme is open to companies from all sectors. The condition is that they must be viable enterprises, and companies with lower credit ratings are also eligible.

***The volume of the program is BGN 10 million***, and the loans to be granted under it – credit lines and overdrafts will be without collateral. The Bank will guarantee its receivables through co-debtor from the owners or another company.

*The product parameters are as follows:*

- Credit facility or overdraft from BGN 50 thousand to BGN 200 thousand, the amount is determined as follows:
  - For a credit facility - up to 40% of the net sales revenue for the previous year.
  - For an overdraft facility - up to 20% of credit turnover through current accounts for the last 12 months.
- Repayment period – up to 3 years.

## **15 MANAGEMENT STATEMENT**

The management of BDB declares that the attached individual annual financial statement accurately reflects the property and financial position of the Bank at the end of 2021, as well as the determination of the financial result for the year, in accordance with the legislation in force. An appropriate accounting policy has been used, which has been applied consistently. When preparing the annual financial statements, the necessary estimates have been made, in accordance with the prudence concept. Management consistently uses the applicable accounting standards, and the annual financial statements are drawn up on a going concern basis.

The management of the Bank shall endeavor to maintain an appropriate accounting system that meets the accounting standards in force. The annual individual financial report discloses the condition of the Bank with a reasonable degree of accuracy.

All measures have been taken to protect the assets of the Bank, prevent fraud and prevent violation of the laws in the country and the regulations of the BNB for regulating banking activity.

This activity report was adopted by the Management Board of Bulgarian Development Bank EAD with Protocol №45 on 17 May 2022 and by the Supervisory Board of Bulgarian Development Bank EAD with Protocol №25 on 20 May 2022, signed by:



**VLADIMIR GUEORGUIEV**

MEMBER OF THE BOARD  
AND EXECUTIVE  
DIRECTOR



**JIVKO TODOROV**

MEMBER OF THE BOARD  
AND EXECUTIVE  
DIRECTOR



**TSANKO ARABADZHIIEV**

MEMBER OF THE BOARD  
AND EXECUTIVE  
DIRECTOR



## APPENDIX 1: BDB GROUP CORPORATE GOVERNANCE DECLARATION

### 1 PRINCIPLES OF CORPORATE GOVERNANCE

This corporate governance declaration has been prepared on the basis of Art. 40, para. 1 of the Accountancy Act. The information provided takes into account the fact that Bulgarian Development Bank EAD has not issued securities admitted to trading on a regulated market or shares that are traded on a multilateral trading system.

### 2 THE BDB GROUP

As of the end of 2021, the financial group of the Bulgarian Development Bank<sup>10</sup> (the "Group", the "BDB Group" or the "Financial Group") includes Bulgarian Development Bank EAD<sup>11</sup> ("BDB", the "Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), BDB Microfinancing EAD, formerly Microfinancing Institution JOB<sup>12</sup> ("BDB Microfinancing"), Capital Investments Fund AD ("CIF"), BDB Leasing EAD ("BDB Leasing") and BDB Factoring EAD ("BDB Factoring").

As a credit institution established pursuant to a special act - the BDB Act („BDBA”) - and at the same time, applying all regulatory requirements of Bulgarian National Bank ("BNB") and the European legislation, and in performing its mission of being a sustainable instrument of the government policy for promoting the development of the small and medium-sized businesses in Bulgaria, Bulgarian Development Bank EAD has set as its goal to be a benchmark for good corporate governance and corporate responsibility, while consistently and strictly observing the National Corporate Governance Code, The Code of Professional Conduct adopted by the Bank, the Code of Ethics of the Internal Audit of the BDB Group, as well as good corporate and banking practices.

Bulgarian Development Bank EAD holds a license for an investment intermediary according to which it may provide investment services and perform investment activities under Article 6, paragraph 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, paragraph 3 of the MFIsA according to a granted license from BNB.

---

<sup>10</sup>As of 31 December 2021, the Bank is the sole owner of TC Maritza EOOD. The company is not part of the strategic business model of the Financial Group of BDB.

<sup>11</sup> On 04.06.2021 Bulgarian Development Bank is registered in the Trade Register and Register of Non-Profit Entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

<sup>12</sup> The company name Microfinancing Institution JOBS EAD was changed to BDB Microfinancing EAD as of 12 April 2021.

Investment services are provided and investment activities are performed in accordance with the requirements of MFIsA, Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Directive 2014/65/EU or MIFID II), Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (Regulation (EU) 600/2014), Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation (EU) 2017/565) and the acts on their implementation, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC of the Commission and others, as well as the applicable laws and regulations of the Republic of Bulgaria.

The Bank does not provide investment services or perform investment activities under Article 6, paragraph 2, items 8 and 9 of the MFIsA - organisation of a multilateral trading facility and an organised trading facility.

Bulgarian Development Bank EAD applies and maintains systems and procedures that guarantee the security, completeness and confidentiality of its operations as an investment intermediary.

In view of the above, the Bank has adopted and updated its internal regulations in accordance with the applicable legislation.

## **2.1 BULGARIAN DEVELOPMENT BANK EAD (BDB, THE BANK)**

Bulgarian Development Bank EAD (BDB, the Bank) was incorporated on 11 March 1999 as a joint stock company under the name of Encouragement Bank AD.

On 23 April 2008, the Bulgarian Development Bank Act (BDBA) was adopted. It arranges the scope of activity of the Bank and its subsidiaries that may be established.

Head office and registered address of Bulgarian Development Bank EAD is Sofia 1000, Sredets area, 1, Dyakon Ignatij Street.

As of 31 December 2021, Bulgarian Development Bank EAD has no branches.

As of 31 December 2021, the FTE of Bulgarian Development Bank EAD is 231 employees.

The Bank complies with the requirements of the BNB for minimum required share capital for the exercise of banking activity, as well as the capital requirements of BDBA. From its founding until August 2017, the state participation in the BDB is under the control of the Minister of Finance. With an amendment to BDBA in 2017, the management of state participation passes under the control of the Minister of Economy.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank and on 4 June 2021 Bulgarian Development Bank was entered in the Commercial Register and Register of Non-profit Legal Entities as a sole commercial company.

As of 31 December 2021, ownership of the capital is distributed as follows: 100% are owned by the Republic of Bulgaria, and the rights of the state as sole owner of the capital are exercised by the Minister of Economy.

With an amendment to the Bulgarian Development Bank Act, in force since 18 March 2022, the rights of the state as sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

As of 31 December 2021, the capital of the Bank amounts to BGN 1,441,773,500. composed of 14,417,735 ordinary registered, dematerialized shares with voting rights, each with a nominal value of BGN 100. BDB shares are not traded on a regulated market.

The Bulgarian Development Bank Act sets forth that a package of at least 51% of the shares of the capital of the Bank shall be state owned, which are non-transferable. The rights on the shares cannot be subject to transfer agreements.

Pursuant to Art. 6 Par. 4 of the BDB Act the shares in the capital of the Bank, besides the Bulgarian state, may be acquired and owned by the Council of Europe Development Bank, the European Investment Bank and the European Investment Fund, by development banks of Member States of European Union. In these cases, art. 31 of the Credit Institutions Act does not apply.

The management of the BDB shall be carried out in accordance with Art. 5 of the BDB Act, according to which the Bank has a two-tier system of governance, and the rights of the state as sole shareholder are exercised by the Minister of Innovations and Growth – as of the date hereof.

At the end of 2021, the BDB has no obligations under existing or new securities issues.

As of 31 December 2021 there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group of 10% or more of equity.

Pursuant to the Statute of BDB, the lending activity of the Bank is focused on:

- Pre-export and export financing of small and medium-sized enterprises (SMEs),
- Financing other operations of SMEs, either through intermediary banks or directly,
- Refinancing of banks granting loans to SMEs,
- Financing of investments by SMEs abroad,
- Participation in public and public-private projects or partnerships of strategic, national or regional importance.

Priority in the Bank's lending activity is lending to small and medium enterprises with high added value.

The Bank also provides other types of loans, whereas the amount of the exposure to one client or a group of related clients, different from credit institutions, central governments and central banks, in line with the requirements and restrictions of Regulation 575/2012/EU, the acts on their implementation and the Statute of the Bank, after taking into account the effect of reducing credit risk in accordance with the procedure established by the Management Board of the Bank. The Bank shall not form exposures on an individual and consolidated basis to one client or group of related clients, the total amount of which exceeds the amount of BGN 5 million. The restriction under the previous sentence shall not apply to exposures to subsidiaries of the Bank, other credit institutions, the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, development banks from Member States of the European Union and the cases in which the Bank carries out financial transactions, within its scope of activity, under programs specifically assigned by the Government of the Republic of Bulgaria.

The Bank shall not lend funds to:

- Activities not compliant with the National law, including for environment protection;
- Business companies with unknown ultimate controlling owner;
- Political parties and persons related to them. Persons related to political parties may be: youth, women's and other organizations, which the parties may establish according to the law, as well as entities, established by the political parties for performing the only business activities, which they are legally allowed to do;
- publishing activity, copyrights and using intellectual property, as well as the sale and distribution of printed, audio and audio-visual materials with party campaigning content;
- Non-profit enterprises and organizations;
- Media;
- Activities related to sport and sports initiatives;
- Activities prohibited by law.

The Bank provides loans directly or through commercial banks - intermediaries. The terms and conditions for providing loans are determined by the Management Board.

In 2021 amendments to the Statute of the Bank were adopted, under which the Management Board passed unanimous decision to form exposures to one client or a group of related clients, if it exceeds BGN 1,000,000 or only after prior authorisation of the Supervisory Board, in compliance with requirements of the Law on Credit Institutions and the internal rules of the Bank. Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5 million.

As of 31 December 2021, and 31 December 2020, there is no exposure of a client or group of connected clients that is greater than 25% of the Bank's regulatory equity.

In view of its specific function of conducting a state promotion policy, the BDB prioritizes in its activities programs and products for the promotion of SMEs, on-landing programs, export financing and funding under assigned mandates. The largest credit exposure of the Bank provided to a group of related parties (outside banking institutions) as at 31 December 2021 amounts to BGN 182,419 thousand (including BGN 147,727 thousand in gross carrying amount, BGN 31,635 thousand for utilization and BGN 3,057 thousand in guarantees) (for 2020: BGN 198,839 thousand) at amortised cost, representing 17.05% (2020: 19.14%) of the Bank's equity / the Bank's eligible capital, calculated in accordance with Regulation 575/2013/EU, at the amount of BGN 1,070,167 thousand). (2020: BGN 1,038,884 thousand). An analysis of the structure of the loan portfolio by segment is provided in the consolidated and separate financial statements of the Bank.

Bearing in mind the specific activity of the Bank, as of 31 December 2021, the funds attracted from 20 largest non-bank depositors represent 85.52% of the total amount of liabilities to other clients (31 December 2020: 85.10%). The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 14.62% (as at 31 December 2020: 15.83%).

In 2021, the Council of Ministers commissioned the Bulgarian Development Bank implementation of two programmes aimed at reducing the economic consequences of COVID-19 spread:

- The program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic (amount: BGN 200 million from the capital of the Bank); By Decision of the Council of Ministers <https://bbr.bg/media/uploads/2021/07/16/16-.doc> 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31 August 2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier". At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio under this program has expired.
- Recovery Program - The program for portfolio guarantees to support the liquidity of enterprises affected by the state of emergency and the COVID-19 pandemic, approved by Decision No 310 of the Council of Ministers of 2020. More information on the implementation of the programs is published on the Bank's website (amount: BGN 500 million from the capital of the Bank). At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio is until 30 June 2022.

In view of its specific activity, the BDB Group utilizes significant external funding from international financial institutions. Detailed information on the received external credit lines is disclosed in a note to the financial statements.

## **2.2 NATIONAL GUARANTEE FUND (NGF)**

National Guarantee Fund EAD is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act, the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art.3, Par.2 of CIA. In compliance with the Statute of the company the principal activities include:

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;
- The guarantees issued by NGF at its own risk may cover not more than 50 percent of the liability. By an amendment to the BDB Act, promulgated in the State Gazette, issue 102 of 21 December 2012, the guarantees issued by NGF in connection with guarantee schemes under the Rural Development Programme for 2007 - 2013 and Development of the Fisheries Sector Operational Programme for 2007- 2013 may cover up to 80 percent of the liability;
- Other activities, not particularly prohibited by law.

The scope of activities of NGF EAD is stipulated in Chapter X of the BDB Act (SG 43/29.04.2008).

The registered capital of the company as of 31 December 2021 amounted to BGN 80,000,000 split into 800,000 shares with nominal amount of BGN 100 each, the shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The company's capital is fully paid in.

The seat and management address of the National Guarantee Fund EAD is Sofia, 1, Dyakon Ignatij Str.

As of 31 December 2021, the FTE of NGF is 11 employees.

As of 31 December 2021, NGF has no branches.

## **2.3 BDB MICROFINANCING EAD (“BDB MICROFINANCING EAD”)**

BDB MICROFINANCING EAD was registered at the Commercial Register on 14 January 2011. The principal activities include Microfinancing, including providing micro-loans, acquiring from third parties and leasing industrial equipment, automobiles and other vehicles, as well as other items (finance lease), purchase and sale, and import of such items, consulting services, trade representation and mediation for local and foreign individuals and legal entities operating on the territory of the country, as well as any other activity not prohibited by law.



By Decision dated 23 March 2021 of the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, the company name was changed from BDB Microfinancing Institution JOBS EAD to BDB Microfinancing EAD, simultaneously changing the Statute of the company. Since 12 April 2021 Microfinancing Institution JOBS EAD has been renamed to BDB Microfinancing EAD.

By Decision dated 23 March 2021 of the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, the company's capital was increased through a monetary contribution of BGN 7 million by issuing 70,000 new ordinary registered shares with a par value of BGN 100 each. The new shares were subscribed by BDB, and the capital increase was entered in the Commercial Register on 13 October 2021. The Statute of BDB Microfinancing EAD was changed likewise.

As of 31 December 2021, the registered capital of BDB Microfinancing is BGN 14,643,000 and is distributed to 76,430 shares with a nominal value of BGN 146 each. The shares are ordinary, available, registered, and undividable, each share giving the right to one vote. The capital of the company has been fully paid up.

Head office and registered address of BDB Microfinancing is Sofia, 1, Dyakon Ignatij Str.

As of 31 December 2021, the FTE of BDB Microfinancing EAD is 15 employees.

As of 31 December 2021, BDB Microfinancing has no registered branches.

## **2.4 CAPITAL INVESTMENTS FUND AD (CIF)**

Capital Investments Fund EAD (CIF) was incorporated on 24 August 2018 and registered on 04 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% of direct participation of BDB, or 550,000 shares, and indirect participation through NGF - 15.38%, the owner of the remaining 100,000 shares). The registered capital as of 31 December 2021 consisted of 650,000 registered shares with par value of BGN 100 each, totaling BGN 65,000,000 and fully paid-in.

The scope of activities of CIF includes:

- Participation in the capital of small and medium-sized enterprises;
- Provision of advisory services on the capital structure of small and medium-sized enterprises, consultations and services relating to the transformation of enterprises under Art. 261 of the Commercial Act;
- Investment advisory services;
- Advisory services for the management of pools of securities of small and medium-sized enterprises;
- Other activities that are not expressly prohibited by law.

A key priority is to obtain capital for the growth of small and medium-sized enterprises with an established business model and opportunities for accelerated expansion in domestic and international markets.

The seat and registered address of CIF is at 1, Dyakon Ignatij Str., 1000 Sofia.

As of 31 December 2021, the FTE of CIF is 5 employees.

As of 31 December 2021, CIF had no registered branches.

## **2.5 BDB LEASING EAD (BDB LEASING)**

BDB Leasing EAD, UIC 205565411 was established at constituent assembly on 6 March 2019 and entered in the Commercial Register and Register of Non-profit Organizations on 12 March 2019. Bulgarian Development Bank EAD has 100% direct shareholding in the capital of the company.

The scope of activity includes: financial leasing, lending with funds that are not raised through public attraction of deposits or other repayable funds and all additional and servicing leasing and lending activities.

The sole owner of the capital of BDB Leasing is Bulgarian Development Bank EAD. The capital of the company, paid-in at the time of the establishment amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each. With Protocol No. 83/14.09.2020 the Management Board of BDB, acting as sole owner decided to increase the capital of BDB Leasing from BGN 2,000,000 to BGN 20,000,000 by issuing 180,000 new shares with par value of BGN 100. The capital was fully paid-in on 15 September 2020 and the increase was entered in the Commercial Register on 24 September 2020.

As of 31 December 2021, the registered capital of BDB Leasing is BGN 20,000,000 distributed to 200,000 shares with a nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, one vote per share.

The seat and registered address of BDB Leasing is 1, Dyakon Ignatij Str., 1000 Sofia.

As of 31 December 2021, the FTE of BDB Leasing is 12 employees.

As of 31 December 2021, BDB Leasing had no registered branches.

## **2.6 BDB FACTORING EAD (BDB FACTORING)**

BDB Factoring is a company incorporated on 6 March 2019 and registered on 31 March 2019 as a joint-stock company, with a 100% direct participation of BDB AD. It was established on the basis of Art. 4, para. 7 of the Bulgarian Development Bank Act as a subsidiary of the Bank.

The object of "BDB Factoring" EAD is to carry out transactions for the transfer of one-time or periodic cash receivables arising from the supply of goods or the provision of services (factoring), lending with funds not raised by public attraction of deposits or other repayable funds and any additional and servicing factoring and lending activities.

The capital of the company was paid up in full at the time of establishment and amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a nominal value of BGN 100.

The seat and registered address of BDB Factoring is 1, Dyakon Ignatij Str., 1000 Sofia.

As of 31 December 2021, the FTE of BDB Leasing is 10 employees.

As of 31 December 2021, BDB Leasing had no registered branches.

By Protocol No 21/23.03.2021, the Management Board of BDB, as sole owner of the capital of BDB Factoring EAD, took a decision for merger of BDB Factoring into BDB, whereas BDB fully assumes the activities of BDB Factoring, as well as its assets and liabilities. The Bulgarian National Bank and the Commission for Protection of Competition have adopted decisions in connection with the transformation and the transformation procedure is to be finalised.

### **3 BDB GROUP RISK MANAGEMENT**

In the ordinary course of business, the companies of BDB Group are exposed to various risks, the occurrence of which may lead to loss formation and a deterioration in the financial stability of the Group. These risks shall be identified, measured, assessed and controlled using controls in order to be managed and to avoid the concentration of unjustified risk. The risk management process is essential for the group's profitability. The main risks to which the Group is exposed are credit, market, liquidity and operational.

In managing the different types of risk arising from the activity, the Group is guided by the principles of conservatism, objectivity, and full compliance with the national and European regulations in force. In support of this policy, the Group maintains significantly higher levels of liquidity buffers and capital adequacy than those regulatorily determined.

The adopted internal normative document "Risk Management and Control Policy of BDB EAD" sets out the objectives and principles for managing the main risks identified in the activities of "Bulgarian Development Bank" EAD, including risk appetite, strategies, risk framework, management organization, as well as responsibilities for their measurement, control, management and reporting.

The policy is applicable to "Bulgarian Development Bank" EAD and its subsidiaries "National Guarantee Fund" EAD, "BDB Microfinancing" EAD, "Capital Investments Fund" AD, "BDB Leasing" EAD and "BDB Factoring" EAD.

## 3.1 MAIN RISKS

### 3.1.1 Credit risk of BDB Group

The credit risk is the main risk, to which BDB and the Group companies are exposed, therefore its management is crucial for its activity. The credit risk management takes place in compliance with the BDB Act and the effective laws and regulations of the Republic of Bulgaria that regulate the credit activity and the approved international standards and established best banking practices.

BDB has established and operates bodies for monitoring, controlling and assessing the quality of the loan portfolio. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio requiring periodic and, if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons. If new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor.

The management of BDB's credit risk is based on the following basic principles:

- comprehensive and in-depth credit risk assessment at the credit proposal examination stage;
- use of credit risk mitigation tools;
- ongoing and systematic monitoring of the level of credit risk on an individual and portfolio basis;
- the existence and implementation of clearly defined credit risk management procedures and processes and immediate commitment in the credit risk management process by the Management Board and the Risk Management Committee.

All credit risk management processes and procedures are clearly defined, with clearly established procedures in place for approving new loans, modifying, or revolving existing ones and duly defined processes and responsibilities of the units involved in the ongoing credit risk monitoring and control processes. The Group's internal policies and rules regulate the most important risk mitigation tools and actions and determine BDB's tolerance/predisposition to take credit risks.

Loan approval is carried out on the basis of clear and well-defined criteria taking into account the specifics of the respective customer, market, purpose and structure of the loan and the source of its service. Internal methodologies for credit risk analysis and assessment are based on a set of quantitative and qualitative indicators taking into account the characteristics of the debtor and the transaction. The analysis of the creditworthiness of the Bank's counterparties focuses on identifying the key financial and business risks inherent in the client.

As a result of all this complex assessment, a credit rating shall be issued to each counterparty reflecting its individual probability of default. The process of awarding an internal credit rating is based on a rating model developed by the Bank, regulated in the internal banking regulations. The rating of a company is based on a cumulative assessment of the quantitative and qualitative indicators of the client. Credit rating is an essential element of the credit process and is at the heart of the credit decision-making assessment and the process of estimating expected credit losses on financial assets.

An essential element in credit risk management is the application of credit risk mitigation instruments. The Bank's strategy requires adequate collateral to be provided for the provision of loans. The percentage and composition of the collateral provided shall be subject to the comprehensive credit risk assessment of each individual counterparty and project and shall be approved by the competent authority of the Bank. In carrying out its activities in 2021, the Bank has not formed unsecured corporate credit exposures. The types of collateral and guarantees acceptable to the bank are regulated in the internal banking regulations.

Ongoing credit risk monitoring is another key element of the credit risk management process. The controls are carried out at the level of the individual counterparty and at the portfolio level. All credit exposures are subject to regular monitoring (credit review), its frequency of preparation being determined by the counterparty's internal credit rating, but not less than once a year. Notwithstanding regular credit reviews of counterparties, an early warning system based on a set of warning signals for counterparties indicating a potential increase in credit risk is used.

In the management of credit risk, BDB complies internal rules set by the Bank, with a system of limits set by internal regulations of the Bank by economic sectors, by instruments, as well as other credit and concentration limits, and the results of the monitoring of their compliance are reported to the competent authorities. The system of limits is reviewed and updated periodically.

The assessment of credit risks is accompanied by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of the BDB Group. The management of the credit risk under the off-balance-sheet (guarantee) commitments made by the NGF is on two levels – at the level of individual transaction (guarantee) and at portfolio level. Credit risk at individual level is managed in accordance with the internal rules and procedures for the guarantee activity for issuing a guarantee. At portfolio level, credit risk is managed through payment limits (caps) limiting the NGF's commitment to pay up to a certain share of the amount of the guarantee portfolio issued under a programme to a bank. The subsequent management of the credit risk undertaken by the NGF shall be carried out through monitoring procedures within which the Fund may exclude from the guaranteed portfolio certain loans which do not meet specific requirements of the signed guarantee agreements.

In order to minimize credit risk, BDB Microfinancing shall pre-assess the creditworthiness of customers, as well as implement appropriate rules, procedures and controls for ongoing monitoring of each financing transaction. The risk exposure of the credit and leasing portfolio shall be managed by analysing the ability of counterparties to comply with their payment obligations and by placing appropriate credit limits. Credit risk is also partially reduced by accepting different types of collateral.

Credit risk at BDB Leasing is managed independently for each project, by analysing the ability of customers to service their obligations on interest and principal payments and by constant monitoring of the net realisable value of the leasing property (collateral). An individual assessment of the creditworthiness and level of acceptable risk shall be made in respect of each client. Internal rules on the approval of lease exposures shall apply. Lease contracts are entered in the Central Register of Special Pledges and the property is insured for the benefit of the Lessor. At the discretion of the competent decision-making authority, additional collateral may also be required, e.g., joint liability, promissory notes, pledge of receivables under contracts, pledge of a commercial enterprise, pledge of movable property, etc.

The main credit risk marker of each lessee is the internal (credit) rating. As such, it is a key element of the leasing process and is at the heart of the assessment for the decision to grant a lease or not, as well as the process of valuation expected credit losses in the event of impairment of assets.

The assignment of internal rating is based on the Methodology for Credit Risk Analysis and Assessment at Bulgarian Development Bank EAD, which includes cumulative assessment of financial indicators, business environment and quality indicators of the lessee and the co-debtor.

In the process of credit risk management and for the purpose of mitigating the concentration risks, BDB Leasing EAD monitors certain limits on the leasing portfolio:

- Concentration limits by economic sectors according to the source of funds for debt repayment;
- Limits for concentration by insurance companies of a portfolio of insured leasing assets of the Lessor and those accepted as collateral under lease agreements;
- Limit for total exposure to high-risk clients, according to internal rules of the BDB Group.

Following the example of the other companies in the BDB Group, BDB Factoring implements a policy for managing and reducing credit risk by analysing and assessing the creditworthiness of both suppliers and payers in factoring transactions, which is coordinated with the units in the bank. The company's activity is focused on creating a well-diversified portfolio of clients with a good and low risk profile, with the initial focus being supporting existing clients for the Bank Group, as well as creating new stable customer relationships and attracting companies operating in the factoring market.

It always strives to have credit/commercial risk insurance of trade receivables to its advantage and thus to transfer the risk of non-payment to an acceptable insurer with a limit approved by a competent authority in the Group of the Bank.

Due to the specifics of the activity of Capital Investments Fund AD, there is no credit risk for the company.

### **3.1.2 Market risks of the BDB Group**

In managing foreign exchange risk, the BDB Group implements a strategy for maintaining minimum open currency positions, subject to established limits. Positions in different currencies as well as the common currency position are monitored on a daily basis.

Foreign exchange positions are not formed for speculative purposes but are the result of foreign exchange operations arising in the ordinary course of business of the Group. In the management of assets and liabilities, due to its specific financing, the BDB Group strives that these assets and liabilities are denominated in EUR or BGN. The management and control of foreign exchange risk shall be carried out by means of limits for maximum net open position by currency type and for a common net foreign exchange position. The main elements in the process of managing foreign exchange risk include the day-to-day management and control of net open positions by currencies and generally within the established limits. The open currency position complies with the conditions and possibilities for netting positions in EURO and BGN, as provided by the applicable regulatory framework.

In managing interest rate risk, the BDB Group shall follow the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the periodicity of change in interest on assets and liabilities, as well as a correlation between the applicable reference rates on the assets and liabilities of the Group. Management and control of interest rate risk shall be carried out through a system of limits on the maximum acceptable (quantitative) impact of various shock scenarios concerning the change in market interest rates on net interest income on a one-year horizon and the economic value of the Group's capital. The internal limit framework limits the potential risk to expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement based on the economic value of capital, analysis of discrepancies, interest rate stress scenarios. Regular reports and analyses are prepared for the financial assets and liabilities of the BDB and the companies of the Group, distributed at time intervals, according to their sensitivity to changes in interest rates.

Risk-taking, when carrying out money and capital market operations, is managed through a system of limits reflecting the risk profile of investments. The limits are determined by portfolio parameters such as counterparty, financial instrument, maturity, etc. The system of limits is reviewed periodically, and the implementation of the limits is subject to daily monitoring.

The portfolio of securities formed by the BDB Group for the purpose of investing free funds is characterised by relatively low interest rate risk and relatively liquid GS and securities issued by reliable institutions. In 2021, the BDB Group did not maintain a trading book and was not subject to capital requirements for market risk from commercial activities, according to regulatory regulations.

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between incoming and outgoing cash flows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. For liquidity risk management and control purposes, the Group applies internal rules and procedures through which a system of liquidity indicators including limits and early warning indicators is established. The liquidity of the Bank is managed by closely monitoring ratios indicating the liquidity position by period. Liquidity risk is measured by applying additional cash flow scenarios. The Group's liquidity buffers and additional sources of funding for market and idiosyncratic shocks are measured and monitored. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and limits set according to the risk tolerance of BDB Group. Compliance with liquidity ratio limits is monitored and reported regularly to the competent authorities.

The assessment of market risks is complemented by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of BDB Group.

### **3.1.3 Operational risk of the BDB Group**

For the management of operational risk, the BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. In the management of operational risk, all operational events arising in the activities of the different structural units as a result of processes in the activities of the BDB Group are recorded, identifying and managing the full range of operational risks. Operating events characterised by a higher frequency, as well as those with a large potential or real effect on the financial performance of the BDB or the Companies of the Group, are subject to close investigation and monitoring. They serve as the basis for operational risk analyses in various scenarios, including when performing an operational risk stress test. Operational risk is measurable and manageable by maintaining an operating event log that serves as a basis for analysing and improving work processes and minimizing conditions that would potentially lead to operational events and losses for the Group.



Limits are applied to key operational risk indicators that perform the function of early warning signals for potential operational risk increase in order to ensure that critical issues are addressed, and a timely management response is triggered where necessary. Under the applicable regulatory framework, the capital required for operational risk is calculated using a base indicator approach.

### 3.2 STRUCTURE OF RISK MANAGEMENT

The main units directly responsible for risk management, are the following:

#### **For the Parent Company (the Bank):**

- **Supervisory Board** - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is assisted by specialized committees as follows:
  - **Risk Management Committee (RMC)** - advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's propensity to take risks and supports the control of its implementation by senior management staff. The RMC regularly reviews information on the analysis, management, and control of risks, informing it of the overall risk profile, implementation of the risk restrictions, as well as the capital and liquidity position of BDB.
  - **Audit Committee (AC)** – the responsibilities of the AC with regard to risk include monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring the independent financial audit, making recommendations for the selection of a registered auditor and reporting to the Supervisory Board on all matters within its competence.
  - **Recruitment Committee** – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity, and suitability assessment in “Bulgarian Development Bank” EAD and makes recommendations for a change in it.
  - **Recruitment Committee** – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity, and suitability assessment in "Bulgarian Development Bank" EAD and makes recommendations for a change in it.
- **Internal audit** – provides assurance to the senior management of the Bank about the effectiveness of risk management, internal control and management

- **Management Board (MB)** – is responsible for the general approach to risk management and approves strategies, principles and specific methods, techniques and procedures for risk management. The Management Board has the following ancillary bodies, which function as specialised committees;
  - **Assets and Liabilities Management Committee (ALCO)** - it is responsible for the strategic management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations;
  - **The Committee on Impairments and Provisions (CIP)** controls the process of monitoring, evaluating, and classifying financial instruments, establishing expected credit losses and forming impairment
  - **Complaints and Signals Commission** – a body for dealing with complaints and signals submitted by employees of the Group:
- **Executive Directors and Members of the MB** - exercise current operating control on maintaining and observing the specified limits for the particular types of risk and the application of the established procedures
- **Risk Management Division** - provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks. The Division carries out activities related to identification, management, measurement, risk control and reporting, stress tests, monitoring limits and reporting their implementation in accordance with established escalation procedures, as well as providing opinions on risk management proposals and solutions for their compatibility with the Bank's risk tolerance;
- **Compliance Division** - is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in BDB to the changes that have occurred and/or are imminent. In accordance with the Rules and Procedures for Compliance Regulation at Bulgarian Development Bank the Compliance Division provides information to the Management of BDB through regular compliance reports to the Management Board/Supervisory Board. If deficiencies are identified, it proposes remedy measures and drafts progress reports on their implementation. The internal normative documents at Group level are prepared / agreed by the Compliance Division, thus limiting the possibility of potential conflict with the applicable regulatory framework.
- **Finances Division** – performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, including risks at operational, business, reporting and strategic level;

- Business units that take a risk apply the established rules and procedures for the management of risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation, and informed decision-making. Their activities are supported by the divisions Legal, Credit Administration, Security, Planning, Analysis and Regulations, Classified Information, Operations and Customer Service and Microfinancing and European Funds.

#### **For the subsidiary National Guarantee Fund EAD:**

The main units directly responsible for risk management are the following:

- Management Board of BDB EAD (the parent company) - performs overall supervision on risk management;
- Board of Directors - carries out overall risk management supervision; being responsible for overall risk management approach and for approval of risk management strategies, principles and the specific methods, techniques and procedures;
- Committee on Provisions - analyses the guaranteed portfolios in terms of overall credit risk management for the total guaranteed portfolio, as well as of each guarantee deal and beneficiary of the guarantee itself;
- Risk and Monitoring Division - performs general monitoring with respect to the guaranteed portfolios by carrying out inspections (current and after a claim for payment has been filed) of the commercial banks regarding the fulfilment of the terms and conditions of their guarantee agreements at the level of both the separate client and individual portfolio. The Division also identifies, assesses, monitors and applies measures for limiting the impact of the major risks.

#### **For the subsidiary BDB Leasing EAD:**

Leading unit in terms of risk management at BDB Leasing EAD is the Risk Division of BDB Leasing EAD. The Risk Division provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks.

The unit performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting on their implementation, as well as preparation of independent opinions on leasing proposals. It carries out an initial and ongoing analysis of lessees' rating, as well as initial and ongoing analysis of risk assessment methods.

A key role in risk management is also played by the Board of Directors of BDB Leasing EAD, which adopts rules and procedures for risk management and controls risk factors.

The decision-making competencies regarding granting a lease and change in the terms of concluded lease agreements are as follows:

- Procurator and BD member jointly or two BD members jointly - for a total exposure of an individual party or a group of parties related to BDB Leasing EAD up to BGN 200,000 (in the absence of another exposure to BDB group)
- Board of Directors of BDB Leasing EAD – for a total exposure of an individual party or a group of parties related to BDB Leasing up to BGN 1 million (in the absence of another exposure to BDB group);
- Management Board of BDB EAD - all exposures amounting to BGN 1 million per of an individual party or a group of parties related to BDB Group, in the presence of another exposure to the BDB Group);
- Supervisory Board of BDB EAD - all exposures amounting to over BGN 1 million of an individual party or group of parties related to BDB Group.

In accordance with the Statute of BDB EAD, the maximum admissible exposure to an individual party or a group of related parties to the BDB group may not exceed BGN 5 million.

**For the subsidiary BDB Factoring EAD:**

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers;
- Operational management (Executive Director) – organizes the activities for implementation of the policies, rules and procedures adopted by the Board of Directors. Creates a work organization that ensures compliance with good practices and principles for risk management and reduction, the four-eye principle in each company's activity and monitoring and compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for analysis, measurement and risk assessment with the internal normative documents adopted by the Board of Directors. Coordinates the activity and transactions in the company with the relevant units in BDB;
- Risk Division – performs preliminary and subsequent analysis of the counterparties to factoring transactions. Controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency. Monitors and controls compliance with commitments and agreed terms, limits and deadlines. Carries out an initial and ongoing verification of risk assessment methods. If necessary, sends reminders. Periodically prepares reports and reports on the state of factoring transactions and the presence of early warning signals of potential difficulties on the same. Prepares and submits to the Board of Directors and report ongoing reports to the operational

management in order to assess the risks in the company's activities, including compliance with limits;

- Operations Division – monitors and controls compliance with commitments and agreed terms, limits, and deadlines. Performs initial and ongoing verification and control of the submitted transaction documents. Monitors and controls the state of factoring transactions and the presence of early warning signals of potential difficulties on the same. Prepare and submit to the Board of Directors and report periodic reports on an ongoing basis to the operational management.

#### **For the subsidiary BDB Microfinancing EAD:**

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers. Also, analyses credit transactions worth more than BGN 100,000 in terms of credit risk management in their resolution;
- Credit Committee – currently monitors and analyses the Loan and Leasing Portfolio of the Company in terms of credit risk, including individual transactions;
- Credit Council – analyses credit and leasing transactions in terms of credit risk management in their resolution and/or renegotiation;
- Operational management (Executive Director and Procurator) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for risk analysis, measurement and assessment with the internal normative documents adopted by the Board of Directors;
- Risk Management Division - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

#### **For the subsidiary Capital Investments Fund AD:**

Due to the specifics of the activity of Capital Investments Fund AD, there is no credit risk for the company. Due to the specifics of the activity of "Capital Investments Fund" AD, there is no credit risk for the company. According to the investment policy of the CIF, Chief Risk Expert gives an opinion in which he presents his suggestions for minimizing risk and optimizing the parameters of transactions.

Also, monitoring is carried out on a daily basis in view of the requirements of the specific investment. Formal reporting to the Board of Directors takes place at a monthly meeting of the CIF, where ongoing cases on portfolio management and a review of financial models are discussed.

The main units directly responsible for risk management are:

Board of Directors:

- Adopts and amends investment policy;
- Controls the implementation of the investment policy;
- Adopts decisions on investment transactions.
  
- Business Division – Director /Investment partners, is responsible for:
  - Identification and attraction of new partners for CIF;
  - Participation in the decision-making process for selection and management of an investment;
  - Participation in the management bodies of the company - if necessary, a decision of CIF;
  - Ongoing monitoring of portfolio investments - quarterly reports to the management of CIF;
  - Building partnerships with industry organizations, representatives of venture capital and banking institutions.

Risk Manager:

- Organizes, controls and participates in the risk management activities and ensures current and subsequent risk control in relation to potential and concluded transactions of CIF
- Analysis and monitoring of the risk profile of CIF's portfolio (concentration by investment amount, industries, etc.), including reviewing and expression of opinion on proposals for sales / rebalancing of the portfolio;
- Prepares opinions and reports on changes in the terms of transactions;
- Prepares individual risk ratings;
- Participates in the preparation and coordination of periodic exposure reviews;
- Participates in the process of deciding on the choice of management of a given investment, as well as in choosing the appropriate option to exit an investment;

Investment Division – Director/analysts:

- Monitors and is responsible for updating the valuations of company shares and financed assets;
- Preparation of assessments and coordination of opinions on the value of company shares;

- Collection, processing and analysis of information related to and aimed at implementing the investment program of the Company;
- Review of assessments prepared by external valuers and opinions to them.

#### 4 BANKING REGULATORS UNDER BULGARIAN AND EUROPEAN LEGISLATION

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As of 31 December 2020, BDB has complied with all regulatory requirements of BNB and the Bulgarian legislation.

Effective from 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by BNB in close cooperation with the ECB. ECB's monitoring includes monitoring the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM). The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision. In 2020, the Bulgarian Lev joined the exchange rate mechanism II (ERM II) and together with the established close cooperation are a precondition for Bulgaria's future membership of the Eurozone.

Effective from 1 October 2020 Bulgaria joined the Single Restructuring Mechanism together with the Single Supervisory Mechanism and gave a start to close cooperation between the Bulgarian National Bank and ECB. Pursuant to those acts, the Single Resolution Board took over the supervision of planning of restructuring process with respect to the Bank. The European bank supervision as well as the Single Restructuring Mechanism are the main pillars of the banking union in the EU.

#### 5 CONTROL ENVIRONMENT

The companies of the BDB Group follow a management philosophy and operational style subordinated to the principles of conservatism in the implementation of the strategic objectives of the Bank under the BDB Act.

The organizational model of the risk management and control functions is built based on the three lines of defense model. The main roles of the three lines of defense include:

The first line of defense covers risk management by business units and risk-taking units - Corporate Banking, Investment Banking and Project Finance, External Programs, Non-performing Loans, Treasury and Financial Instruments. Their activities are supported by the Legal, Credit Administration, Security, Finance, Classified Information, Operations and Customer Service and Microfinancing and European Funds divisions, which evaluate and analyze the compliance with internal and regulatory restrictions and support decision-making activities in risk-taking and management.

At this level, risk management is carried out by setting appropriate controls and procedures.

The second line of defense provides independent assessment, control and management of risk by the units performing control functions, independent of the risk-taking units - the Risk and Compliance and Classified Information divisions. The Risk Division, which performs activities related to the identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting on their implementation in accordance with established escalation procedures. The Classified Information Division oversees the prevention of money laundering and terrorist financing. The Compliance Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the processes organization in BDB Group to any implemented and / or forthcoming changes. The second line of defense is organizationally independent of the first one and carries out preventive and ongoing control.

The third line of defense is the Group's Internal Audit (GIA). It independently reviews all activities in BDB Group, subject to independent evaluation, in relation to the established system of internal rules and their adequacy, in relation to the external regulatory environment, internal control mechanisms and risk management systems covering the activities of the Group. By identifying weaknesses and shortcomings it supports the functions of the other levels of defense in the process of developing internal rules and procedures in order to improve the effectiveness of risk management. GIA provides assurance to senior management on the effectiveness of risk management, internal control and governance, and the way in which the first and second lines achieve the objectives of risk management and control. The Group's Internal Audit Division provides overall confidence from the position of the highest level of independence in the organization, through direct subordination to the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB.

The Bank has developed an internal set of documents, which includes policies and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

The Bank has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.



The Bank's audit committee monitors the financial reporting processes, the effectiveness of internal control systems and the effectiveness of risk management systems; informs the Bank's management bodies about the results of the obligatory financial audit; controls the creation and the change of accounting policies by the Bank and the Group's subsidiaries; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the mandatory audit of the annual financial statements (separate and consolidated); reviews the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act; verifies and monitors the independence of registered auditors; is in charge of the selection procedure for registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee.

## **6 MANAGEMENT OF BULGARIAN DEVELOPMENT BANK EAD**

Bulgarian Development Bank EAD has a two-tier governance structure, which consists of a Supervisory Board and a Management Board.

As of 31 December 2021, the management bodies have the following composition:

### **6.1 SUPERVISORY BOARD OF BDB AS OF 31.12.2021 AND AS OF THE DATE OF THIS DECLARATION:**

**Valentin Lyubomirov Mihov** – Chairman of the Supervisory Board since 7 July 2021

Valentin Mihov holds master's degrees in International Economic Relations from the Moscow State Institute of International Relations and business administration from INSEAD. He has considerable experience in the management of banks. From 1999 to 2008 he was a consultant and junior partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany and Russia. Between 2008 and 2017 he was in senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as on the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. Since 2018, he provides advisory services to banks and companies as a consultant or independent member of the Board of Directors.

**Vasil Atanasov Shtonov** – Deputy Chairman and member of the Supervisory Board since 7 July 2021

Vasil Shtonov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience banking, telecommunications, and energy. He has experience in a U.S. small and medium-sized enterprise risk fund in Los Angeles, at the McKinsey consulting firm as a junior partner, where he was team leader for engagements for analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was chief strategy and marketing officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

**Stamen Stamenov Yanev** – Deputy Chairman and member of the Supervisory Board since 26 August 2020

Stamen Yanev holds a master’s degree in Law from University “St. Kliment Ohridski”. He specializes in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Yanev is a lawyer specializing in the field of mergers and acquisitions, as well as in the field of investments.

His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit companies in the world. Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

**Mitko Emilov Simeonov** – Member of the Supervisory Board from 27 November 2017 to 13 January 2022\*

Mitko Simeonov holds a master’s degree in Law from the New Bulgarian University and a Master of International Economic Relations from the University of National and World Economy. He also has a postgraduate qualification in financial management from the University of National and World Economy. He was deputy executive and executive director at the Agency for Privatization and Post-Privatization Control.

**Velina Ilieva Burska** – Member of the Supervisory Board from 27 November 2017 to 13 January 2022\*

Velina Burska holds a master’s degree in Economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was Director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

\* As of 31 December 2021, entry in the Commercial Register is forthcoming of the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is about to be registered in the Commercial Register. On 13 January 2022 in the Commercial Register was entered the decision of the sole owner of BDB’s capital, through which the membership of Velina Ilieva Burska and Mitko Emilov Simeonov in the Supervisory Board of the Bank is discontinued.

In the exercise of its powers, the Supervisory Board is assisted by specialised committees as follows:

- Risk Management Committee, comprising the three members of the Supervisory Board of BDB. The RMC advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's risk appetite and assists its senior management in monitoring its implementation. It examines, independently of the Remuneration Committee, whether the incentives set by the remuneration system take into account risks, capital, liquidity, as well as the probability of realising planned revenues and their distribution over time. It submits to the Supervisory Board and / or the Management Board proposals for adjusting the pricing of the Bank's products when the price is not an adequate reflection of the business model and the risk strategy. Periodically reviews risk management policies and makes

recommendations to the Board of Directors if necessary. Approves proposals approved by the Management Board for limits / restrictions and policies for risk management inherent in the Bank's activities. Regularly reviews information related to risk analysis, management, and control, thus getting acquainted with the overall risk profile, the implementation of risk limits, as well as the capital and liquidity position of BDB. Supervises the implementation of capital and liquidity management strategies, as well as all other relevant risks of the Bank, such as market, credit, operational risks (including legal and IT) and reputational risks, in order to assess their adequacy to the approved risk appetite and strategy. Determines the nature, volume, form and frequency of the information about the Bank's risk profile, which should be provided to the RMC. Provides advice on the appointment of external consultants that the Supervisory Board may decide to engage for advice or support. It reviews a number of possible scenarios, including adverse scenarios, to assess how the Bank's risk profile would react to external and internal events. Monitors consistency between all significant financial products and services offered to customers and the business model and risk strategy of the Bank. Assess the recommendations of internal or external auditors and follow up on the appropriate implementation of the measures taken. Provides recommendations to the Supervisory Board on the necessary adjustments to the risk strategy arising from changes in the Bank's business model, market developments or recommendations made by risk management.

- Audit Committee - composed of three members. The Audit Committee oversees the establishment and change of accounting policies by the Bank and the Group's subsidiaries; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the internal audit' annual report on the activity; monitors the mandatory audit of the annual financial statements (separate and consolidated); gets acquainted with the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee.
- Remuneration Committee – comprising the three members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. The Remuneration Committee prepares and proposes remuneration solutions, taking into account the impact on risk and its management in the BDB Group, the long-term interests of shareholders, investors and other stakeholders; provides advice to the Supervisory Board on the structure of remuneration policy, which also includes advice on gender neutrality and equal treatment of employees of different sexes; assists the Supervisory Board in monitoring compliance with remuneration policies, practices and processes related to remuneration; verifies

the relevance of the existing remuneration policy and, if necessary, makes proposals for changes; review the appointment and remuneration of external consultants that the Supervisory Board may decide to engage for advice or assistance; ensure the adequacy of the information provided to the sole owner of BDB's capital, respectively to the sole owner of the capital / general meeting of shareholders of the subsidiaries on remuneration policies and practices, in particular on the proposed higher level of the fixed versus variable remuneration ratio; evaluates the mechanisms and systems adopted to ensure that the remuneration system takes proper account of all types of risks, liquidity and capital levels and that the general remuneration policy is consistent and promotes sound and effective risk management and is in line with the business strategy, objectives, the corporate culture and values, as well as the long-term interests of the BDB Group; assesses whether the objectives of BDB Group's activities have been achieved, as well as the need for subsequent risk adjustment, including the application of deduction clauses and clauses for reimbursement of the amount of variable remuneration; reviews possible scenarios to verify how remuneration policies and practices respond to external and internal events, as well as the back-testing of the criteria used to determine remuneration and ex-ante risk-based adjustments based on actual risk outcomes; directly controls the remuneration of the heads of the Group's Internal Audit Division, the Risk Division and the Compliance Division; makes recommendations to the Supervisory Board regarding the structure of the remuneration conditions and the amount of remuneration to be paid to the heads of the Group's Internal Audit Division, the Risk Division and the Compliance Division.

- Selection Committee – comprising the three members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. In 2021, 8 meetings of the Committee were held. The Selection Committee identifies and recommends for election by the Supervisory Board candidates for members of the Management Board, respectively by the sole owner of the capital - candidates for members of the Supervisory Board; prepares a description of the functions and requirements for the candidates and determines the time that the elected members are expected to devote to work for the Management Board and the Supervisory Board; sets a target level in connection with the participation of the underrepresented gender in the composition of the Management Board and the Supervisory Board of BDB, respectively in the composition of the Board of Directors in the subsidiaries, and updates the policy to increase the number of underrepresented gender in the composition of the councils to achieve this level; analyze periodically, but not less than once a year, the structure, composition, number of members and the results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes; analyzes periodically, but not less than once a year, the knowledge, skills and experience of the Management Board and the Supervisory Board as a whole and their members individually and reports to each of them; periodically reviews the Policy for selection, continuity and assessment of suitability in the Bulgarian Development Bank EAD Group and makes recommendations for changes.

The composition of the committees of the Supervisory Board as of 31 December 2021 and as of the date of approval of this declaration is as follows:

<b>Member</b>	<b>Risk Management Committee</b>	<b>Selection Committee</b>	<b>Remuneration Committee</b>
Valentin Lyubomirov Mihov	Member	Chairperson	Member
Vasil Atanasov Shtonov	Member	Member	Chairperson
Stamen Stamenov Yanev	Chairperson	Member	Member

## 6.2 AUDIT COMMITTEE IN 2021, AS OF 31.12.2021 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

As of the date of approval of this declaration the Audit Committee consists of:

**Dragomir Ivanov Vuchev** – Chairman of the Audit Committee since 25 May 2021

**Vasil Atanosov Shtonov** – Member of the Audit Committee since 25 May 2021

Vassil Shtonov holds a master’s degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications, and energy. He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

**Gergana Stoyanova Moskova** – Member of the Audit Committee since 7 July 2021.

By decision of the Minister of Economy under a Protocol dated 25 May 2021, exercising the rights of the sole owner of the capital of BDB, Krasimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova were dismissed from the Audit Committee. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov. By a decision of the Minister of Economy under a Protocol dated 22 June 2021, exercising the rights of the sole owner of the capital of BDB, Mr. Valentin Lyubomirov Mihov was dismissed from the Audit Committee and by a decision of 7 July 2021 Mrs. Gergana Stoyanova Moskova was appointed a member of the Audit Committee.

On 16 September 2021 the Minister of Economy approved the new Statute of the Audit Committee.

In addition, in 2021 the following members have participated in the Audit Committee:

**Krasimir Vasilev Yordanov** – Chairman of the Audit Committee until 25 May 2021;

Krasimir Yordanov has a master's degree in accounting and financial control from the SA "D. A. Tsenov – Svishtov" and a master's degree in Law from the University "St. St. Cyril and Methodius". Mr. Yordanov also has a master's degree in speech and acting in public communications from NATFIZ "Kr. Sarafov", Sofia. Krasimir Vasilev Yordanov holds a PhD in economics, was an associate professor at New Bulgarian University between 2001 and 2015 and held the position of Chief Auditor at the Court of Auditors from 2001 to 2018. At present he is a professor at the International Business School – Blagoevgrad and associate professor at department Financial Control at the University of National and World Economy.

**Rositsa Nikolova Grigorova** – Member of the Audit Committee until 25 May 2021;

Rositsa Grigorova holds a master's degree in Economics and Finance from the University of National and World Economy and a master's degree in Automation Engineering from the Higher Chemical Technology Institute, Sofia. In her professional experience extending over 25 years, Mrs. Grigorova has held the following positions: lab technician at the Higher Chemical Technology Institute, economist in the Financial and Accounting Department of the Ministry of Defense, expert "Material and Technical Provision" at Military Construction Engineering EOOD, Head of Youth Programs and Projects Sector in the Directorate "Financial and Economic Activities Property Management" at the State Agency for Youth and Sports and State Expert, Junior Rank II in the Budget Department at the Ministry of Agriculture and Food. Rositsa Nikolova Grigorova has held senior positions as Head of budget department at the Ministry of Labour and Social Policy, Head of Accounting Department at the Finance and Property Management Directorate at the Ministry of Regional Development and Public Works, as well as deputy financial director of BNT. She is currently Finance Director and Director of the Administration Directorate at the Bulgarian National Television.

**Kalina Ivanova Mavrova** – Member of the Audit Committee until 25 May 2021;

Kalina Mavrova holds a master's degree in European Business and Finance from Nottingham Trent University, United Kingdom and has a bachelor's degree in International Economic Relations from the University of National and World Economy. Ms. Mavrova's professional experience began at the Bulgarian National Bank, where she was an intern and held the positions of expert in international communications and expert in public relations. Kalina Ivanova Mavrova continues her professional career at UniCredit Bulbank - Sofia, where she works as a product development expert and expert in marketing development. Mrs. Mavrova participated mainly in the project "Creation of an internal online portal for financial and economic analysis" during her internship at UniCredit S.P.A. – Bologna, Italy.

Management Board of BDB in 2021, as of 31 December 2021 and as of the date of this declaration:

As of the date of approval of this declaration and as of 31 December 2021 the Management Board consists of:

**Krum Georgiev Georgiev** – Chairman of the MB since 7 July 2021

Krum Georgiev has a bachelor's degree in business management and a master's degree in Finance from the University of National and World Economy. His professional career includes 11 years of experience in banking and accumulated solid knowledge in the field of financial analysis and corporate governance. He was head of Project Finance Department at UBB, responsible for increasing the credit portfolio, monitoring the quality of the loan portfolio and structuring new transactions. He has also successfully developed as an asset manager in the RES sector.

**Vladimir Rashkov Gueorguiev** – Member of the MB and Executive Director since 7 July 2021

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of non-performing loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

**Tsanko Rumenov Arabadzhiev** – Member of the MB and Executive Director since 7 July 2021

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance, and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management.

His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated from the University of International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

**Jivko Ivanov Todorov** – Member of the Management Board and Executive Director since 14 April 2020

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch. From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented. In April 2020, Mr. Todorov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank.

In 2021, the following members have participated in the Management Board:

**Nikolay Dimitrov** – Member of the Management Board and Executive Director from 6 October 2017 until 14 July 2021.

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank. He joined the Bulgarian Development Bank in July 2011, in January 2012 become Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010 – 2017.

**Panayot Ivov Filipov** – Member of the Management Board and Executive Director from 30 April 2020 until 14 July 2021.



Panayot Filipov graduated from the University of National and World Economy with a master's degree in economics and has a specialization in stock markets at the University of Delaware in Bulgaria. In 1998 he was announced for Broker No 1 on the Bulgarian Stock Exchange with the highest number of trades of the year. He entered the banking sphere in 2001, and until 2008 he held positions in Economic and Investment Bank, DZI Bank, where he was also a member of the Management Board, as well as in Piraeus Bank Bulgaria. In 2012 he took over management functions at Municipal Bank. In 2014, Mr. Panayot Filipov was appointed a member of the Board of Directors of OZK Insurance, and in 2017 he became Executive Director and Member of the Management Board of the Bulgarian Export Insurance Agency (BAEZ). In April 2020, Mr. Filipov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank EAD.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and a procurator. As of the date of approval of this report, the Bank does not have an authorized procurator.

In 2021, there were no changes in the basic principles of governance in BDB Group.

### **6.3 COMMITTEES OF THE MANAGEMENT BOARD**

The specialized committees functioning as supporting bodies of the Management Board are as follows:

- Committee on Assets and Liabilities Management (ALCO) – its main functions include strategic management of assets, liabilities and liquidity, as well as the management of market risks (within its competencies) defined in separate internal regulations;
- Committee on Impairments and Provisions (CIP) – controls the process of monitoring, assessment and classification of financial instruments, determination of expected credit losses and formation of impairments in accordance with the applicable financial reporting standards and internal regulations.
- Commission on Complaints and Signals (CCS) – processes complaints and signals filed by employees of the Group.

As of 31 December 2021 and the date of preparation of the declaration, the MB Committees consist of the following members:

<b>Committees of the MB</b>	<b>Asset and Liability Management Committee</b>	<b>Commission on Complaints and Signals</b>	<b>Committee on Impairments and Provisions</b>
Jivko Todorov	Member		
Krum Georgiev	Member		Chairman
Tsanko Arabadzhiev	Chairman		
Vladimir Gueorguiev	Member		
Head of Risk Department	Member	Member	Member
Deputy Head of Risk Department Marketing and Operational Risk	Member		
Chief economist	Member		
Head of Security Department		Member	
Head of Financing Department	Member	Member	Member
Head of Group Internal Audit Department		Member	
Head of Treasury Department	Member		
Deputy head of Treasury Department	Member		
Head of Compliance Department		Chairman	
Head of the International Financial institutions and EU Funds Department	Member		
Head of Corporate Banking Department			Member
Head of Legal Department		Member	
Head of Financial Instruments Department	Member		

\* Chairmen are elected by the members for a one-year term.

#### **6.4 CONTRACTS WITH RELATED PARTIES INVOLVED IN THE MANAGEMENT AND PARTICIPATION OF MEMBERS OF THE MB AND SB OF THE BANK IN OTHER COMPANIES**

There are no signed contracts pursuant to Art. 240b of the Companies Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which significantly deviate from the market conditions.

In 2021, there were no concluded deals between BDB and its related parties, or offers for signing such deals, which fall outside the scope of the ordinary activity, or which significantly deviate from the market conditions, to which BDB or its subsidiary is a party.

There are no material contracts concluded, which lead to action, are amended, or terminated, due to change in the control of or over the Bank, or as a result of a compulsory public procurement procedure. As far as there is a legal restriction regarding the shareholding structure of BDB, no such contracts are expected to be concluded.

There is no practice of concluding agreements among the BDB Group companies and their management bodies and/or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

Participation within the meaning of Art. 247, para. 2, item 4 of the Commerce Act to members of the Supervisory Board and the Management Board in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other companies or cooperatives such as procurators, managers or members of councils is as follows (as of 31 December 2021):

Members of the Supervisory and Management Boards

**I. With respect to members of the SB of the Bank who have participated in 2021:**

**Valentin Lyubomirov Mihov**, Chairman of the SB of the Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of other trade companies:

- First Ukrainian International Bank – Member of the Supervisory Board;

Participation in the capital of trade companies:

- Valor Advisors EOOD, UIC: 204708828 – owner of more than 25 % the capital;

**Vassil Atanasov Shtonov** – Member of the Supervisory Board of Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of other trade companies:

- AMC Directors EOOD, UIC: 205674040 – Managing Director;
- Re-life Clothing, UIC: 206181417 – Managing Director;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Stamen Stamenov Yanev** – Vice Chairman of the SB of Bulgarian Development Bank EAD since 26 August 2020.

Participation in the management of trade other companies:

- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board until 25 February 2022;
- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors until 5 August 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Mitko Emilov Simeonov** – member of SB of BDB from 21 November 2017 to 13 January 2022

He has no participation in the capital or management of trade companies.

**Velina Ilieva Burska** – member of SB of BDB from 21 November 2017 to 13 January 2022

She has no participation in the capital or management of trade companies.

## **II. With respect to the members of the MB of the Bank who have participated in 2021:**

**Krum Georgiev Georgiev** – Chairman of the Management Board of Bulgarian Development Bank EAD since 7 July 2021.

Participation in the management of other trade companies:

- BDB Leasing EAD, UIC: 205565411 – Member of the Board of Directors
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Vladimir Rashkov Gueorguiev** – Executive Director and Member of the MB of Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of trade companies:

- BDB Microfinancing EAD, UIC: 201390740, member of the Board of Directors since 23 August 2021

Participation in the capital of trade companies or cooperatives.

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Roza Organica OOD, UIC: 131389390 – partner

**Tsanko Rumenov Arabadzhiev** – Executive Director and Member of the MB of Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of trade companies:

- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors

Since 22 September 2021 Tsanko Rumenov Arabadzhiev has been elected as member of the Supervisory Board of Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Jivko Ivanov Todorov** – Executive Director and Member of the MB of BDB since 14 April 2020.

Participation in the management of other trade companies:

- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 23 August 2021;
- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Nikolay Dimitrov Dimitrov** - Executive Director and Member of the MB of BDB from 6 October 2017 until 14 July 2021.

Participation in the management of other trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank, Member of the Board of Directors until 20 August 2021.
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Member of the Board of Directors until 3 June 2020;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Panayot Ivov Filipov** – Executive Director and Member of the MB of BDB from 30 April 2020 until 14 July 2021

Participation in the management of other trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 30 August 2021
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 16 September 2021;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Information about the full amount of the compensations, rewards and/or benefits for the members of the Management and control bodies of the Bank for the fiscal accounting year, paid by the issuer and its subsidiaries is disclosed in the notes to the financial statements.

## 7 MANAGEMENT OF SUBSIDIARY COMPANIES

As of 31 December 2021, BDB is the equity owner of the following subsidiaries:

Sole owner of:

- National Guarantee Fund EAD, UIC: 200321435;
- BDB Microfinancing EAD, UIC: 201390740;
- BDB Leasing EAD, UIC: 205565411;
- BDB Factoring EAD, UIC: 205566082;
- Trade Center Maritsa EOOD, UIC: 115619162.

Participates jointly with NGF AD in the capital of:

- Capital Investments Fund AD, UIC: 205322014, as the registered capital is allocated as follows (BDB holds 84.62% of the company's capital and NGF holds 15.38%).

As of 31 December 2021, BDB exercises control over Kohoferm OOD<sup>13</sup>, UIC 201807408, by virtue of exercised rights under the pledge of a commercial enterprise.

### 7.1 NATIONAL GUARANTEE FUND EAD

NGF EAD has a one-tier management system - Board of Directors, consisting of three members. As at the 31 December 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

**Board of Directors as of the date of approval of this declaration:**

**Jivko Ivanov Todorov** – Chairman of the Board of Directors since 20 May 2020;

**Todor Lyudmilov Todorov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

**Zaharina Damianova Todorova** – Member of the Board of Directors since 20 May 2020;

**Deyan Petrov Kalupchiev** – Member of the Board of Directors since 27 September 2021.

The company is represented by either two of the members of the Board of Directors, jointly.

The members of the BD of NGF EAD do not hold any shares of the Fund, nor do they have any special rights on the acquisition of such shares.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD of NGF or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

---

<sup>13</sup> Kohoferm OOD is also not part of the strategic business model BDB Finance Group.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of NGF in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2021):

**Todor Lyudmilov Todorov** – Executive Director and Vice chairman of the BD of NGF since 20 May 2020.

Participation in the management of other trade companies:

- Glenridge Capital EOOD, UIC: 205578775, Managing Director.

Participation in the capital of trade companies:

- Glenridge Capital EOOD, UIC: 205578775, sole owner of the capital;
- Hobo Bulgaria OOD, UIC: 205420451, partner - 15%.

**Jivko Ivanov Todorov** – Chairman of the Board of Directors of NGF since 20 May 2020

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, Executive Director and Member of the Management Board since 14 April 2020.

Participation in the capital of trade companies or cooperatives, including as general partner: none.

**Zaharina Damianova Todorova** – Member of the Board of Directors of NGF since 20 May 2020

Participation in the management of trade companies: none.

Participation in the capital of trade companies: none.

**Deyan Petrov Kalupchiev** - Member of the Board of Directors of NGF since 27 September 2021

Participation in the management of other trade companies:

- G&L Properties OOD, UIC: 175172659, Managing Director;
- Capital alliance EOOD, UIC: 175172627, Managing Director.

Participation in the capital of trade companies:

- Capital alliance EOOD, UIC: 175172627, sole owner of the capital;
- G&L Properties OOD, UIC: 175172659, partner holding a 50% share of the capital.

## 7.2 BDB MICROFINANCING EAD

BDB Microfinancing EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the 31 December 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

**Board of Directors:**

**Vladimir Rashkov Gueorgiev** – Chairman of the Board of Directors since 23 August 2021;

**Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020;

**Boyan Stefanov Bianov** – Member of the Board of Directors since 30 August 2021;

**Ivana Borisova Tsaneva** – Executive Director and Vice chairman of the Board of Directors since 20 May 2020.

**In 2021 the following members have participated in the Board of Directors:**

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 until 30 August 2021;

**Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 until 30 August 2021.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of the respective company.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para. 2, item 4 of the Commerce Act, of members of the BD of BDB Microfinancing EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Vladimir Rashkov Gueorgiev** – Chairman of the Board of Directors since 23 August 2021;

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board since 7 July 2021.

Participation in the capital of trade companies or cooperatives:

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Roza Organica OOD, UIC: 131389390 – partner.

**Boyan Stefanov Bianov** – Member of the Board of Directors since 30 August 2021.

Participation in the management of other trade companies: none

Participation in the capital of trade companies or cooperatives - none.



**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board from 30 April 2020 until 14 July 2021;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 16 September 2021.

Participation in the capital of trade companies – none.

**Ivana Borisova Tsaneva** – Executive Director and Vice chairman of the Board of Directors since 20 May 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

**Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 to 30 August 2021

Participation in the management of other trade companies:

- AFE EOOD, UIC: 204261633, Managing Director.

Participation in the capital of trade companies:

- CODE Broadcasting Group (TRANSTROY AMB) EOOD, UIC: 205276652, sole owner of the capital until 16 April 2021.

**Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- SENMON EOOD, UIC: 202994314, Managing Director.

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

### 7.3 CAPITAL INVESTMENTS FUND AD

Bulgarian Development Bank EAD holds 84.62% of the capital of Capital Investments Fund AD, UIC: 205322014, and 15.38% of the Company's capital is owned by the National Guarantee Fund AD.

CIF has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members.

#### **Board of Directors:**

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 5 August 2021;

**Stefan Stefanov Tamnev** – Executive Director and Vice chairman of the Board of Directors since 5 August 2021;

**Krasimir Tenev Atanasov** – Member of the Board of Directors since 5 August 2021.

In 2021 the following members have participated in the Board of Directors:

**Tsvetomir Georgiev Tsanov** – Member of the Board of Directors from 20 May 2020 until 26 November 2021;

**Nikolay Dimitrov Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 until 20 August 2021;

**Tihomir Gochev Chemshirov** – Vice chairman of the Board of Directors from 20 May 2020 until 14 September 2021.

From 21 August 2020 until 6 December 2021 the company has an authorized procurator – Angel Penev Hadzhiev.

**Board of Directors as of the date of approval of this declaration:**

The Company is represented by either two of the members of the Board of Directors and the procurator. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of the CIF.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para. 2, item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 5 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – member of the Management Board and Executive Director;
- BDB Factoring EAD, UIC 205566082, subsidiary of the Bank – member of the Board of Directors.

Since 22 September 2021 Tsanko Arabadzhiev has been elected as member of the Supervisory Board of Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Stefan Stefanov Tamnev** – Executive Director and Vice Chairman of the Board of Directors since 5 August 2021.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies:

- RM FRUIT OOD, UIC 206485936, partner.

**Krasimir Tanev Atanasov** – member of the Board of Directors since 5 August 2021.

Participation in the management of other trade companies:

- Primus EOOD, UIC: 175080997 – Managing Director;
- Omega Trading Partners OOD, UIC: 175048191 – Managing Director.

Participation in the capital of trade companies:

- Primus EOOD, UIC: 175080997 – sole owner of capital;
- Omega Trading Partners OOD, UIC: 175048191, partner.

**Nikolay Dimitrov Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the MB of the Bank until 14 July 2021;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies - none.

**Tihomir Gochev Chemshirov** – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

**Tsvetomir Georgiev Tsanov** – Member of the company's Board of Directors until 26 November 2021

Participation in the management of other trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 - Managing Director
- M2 PROM AD, UIC: 206194254, Member of the Board of Directors until 4 January 2022.

Participation in the capital of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 – sole owner of the capital.

#### **7.4 BDB LEASING EAD**

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

##### **Board of Directors:**

**Krum Georgiev Georgiev** since 23 August 2021 – Chairman of the Board of Directors;

**Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

**Antonia Hristoforova Dobрева** – Member of the Board of Directors since 20 May 2020.

The company has an authorized procurator – Ivaylo Kirilov Popov since 1 June 2020.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of BDB Leasing.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of BDB Leasing EAD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers, or members of boards, is as follows:

In 2021 the following members have participated in the Board of Directors:

**Krum Georgiev Georgiev** – Chairman of the Board of Directors since 23 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Chairman of the Management Board;
- BDB Factoring EAD, UIC 205566082, subsidiary of the Bank –member of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Jivko Ivanov Todorov** – Chairman of the Board of Directors from 20 May 2020 until 23 August 2021.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059, Executive Director and member of the MB since 14 April 2020;
- National Guarantee Fund EAD, UIC 200321435, Chairman of the Board of Directors – since 20 May 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none

**Emil Valkanov Valkanov** – Executive Director and Vice chairman of the Board of Directors since 20 May 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

**Antonia Hristoforova Dobрева** – Member of the Board of Directors since 20 May 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

**Ivaylo Kirilov Popov** – procurator since 1 June 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies:

- Vzeh EOOD, UIC: 203745229, partner – until 2 June 2020.

## **7.5 BDB FACTORING EAD**

BDB Factoring EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

### **Board of Directors:**

**Tsanko Rumenov Arabadzhiev** - Chairman of the Board of Directors since 16 September 2021.

**Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021.

**Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

The Company is represented by either two of the members of the Board of Directors, jointly.

In 2021 the following persons participated in the BD:

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 until 16 September 2021.

**Todor Hristov Gunchev** – Member of the Board of Directors from 03 June 2020 until 16 September 2021.

No contracts have been concluded within the meaning of Art. 240b of the between the members of the Board of Directors and / or persons related to them, on the one hand, and the Company - on the other, who go beyond its usual activity or significantly deviate from market conditions.

The participation, in the sense of Art. 247, Para. 2, Item 4 of the Commerce Act, to members of the Board of Directors of BDB Factoring AD in commercial companies as general partners, holding more than 25% of the capital of another company, as well as their participation in the management of other companies or cooperatives such as procurators, managers or board members is as follows:

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 16 September 2021.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board and Executive Director;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank – Chairman of the Board of Directors.

Since 22 September 2021, Tsanko Rumenov Arabadzhiev has been elected as member of the Supervisory Board of the Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Chairman of the Management Board;
- BDB Leasing AD, UIC 205565411, subsidiary of the Bank – Chairman of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059, Executive Director and member of the MB from 30 April 2020 until 14 July 2021;

- BDB Microfinancing EAD, UIC 201390740, subsidiary of the Bank, Chairman of the Board of Directors – from 20 May 2020 until 30 August 2021.

Participation in the capital of trade companies - none.

**Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

**Todor Hristov Gunchev** – member of the Board of Directors from 3 June 2020 until 16 September 2021.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

In 2021, there were no material contracts concluded by the BDB Group, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

## **8 TRANSACTIONS WITH COMPANIES UNDER THE JOINT CONTROL OF THE STATE**

Owner of BDB is the Bulgarian state. The consolidated and separate financial statements of the Bank present detailed information regarding the deals of the BDB Group and of BDB with companies under the joint control of the state.

## **9 STRATEGY FOR DEVELOPMENT AND BUSINESS GOALS**

**The long-term goals of the Bank are closely linked to its promotional activities and should not be limited to a medium-term framework. The goals include:**

- Improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to funding by providing financial schemes and instruments for financing for which the market does not provide adequate solutions;
- To create an environment of support, commitment and inspiration for SMEs to meet economic challenges by consulting and training them for successful business
- To support SMEs in the transition to carbon neutral and sustainable business by developing the debt and equity market for green investment and mobilizing private capital for the lack of funding;
- To implement programs and instruments for co-financing public investments and projects that are a priority for the country's economy;
- Raise funds and manage programs from international financial institutions, banks and capital markets;
- To ensure access to sufficient and diverse funding for SMEs;

- To facilitate access to financing company innovation, technological renewal and digitisation of SMEs.

**The strategy and activity of the BDB Group in the next two years will adhere to the established long-term goals, but strictly following the national priorities, based on three main pillars:**

- Sustainable economic development by reducing the carbon footprint and negative effects on the environment, and increasing the degree of circularity and resource efficiency;
- Digital transformation and technological equipment of the Bulgarian business to increase productivity, efficiency and competitiveness, and to promote the transition to Industry 4.0;
- Expanding export potential through accelerated and sustainable integration into European value and supply chains - supporting connectivity and catalysing investment in modern and smart business infrastructure.

**The Group's updated strategic goals for 2022 - 2023 are refocused and aim at faster recovery of SMEs, acceleration of economic growth and creation of jobs after the Covid-19 crisis. The goals include:**

- More loans for a wider range of micro and SMEs;
- Supporting vibrant, innovative, competitive SMEs, with the potential for integration into European and global networks;
- Financing of business models of the green transition, of social and sustainable initiatives and services (in the direction and in accordance with selected goals for sustainable global development).

**To implement its priorities BDB has set the following strategic goals:**

- Ensure access to sufficient and diverse financing for SMEs in partnership and complementarity, not in competition with commercial banks;
- To finance the export and internationalization of Bulgarian SMEs;
- To finance the transition of SMEs to a green, circular and sustainable economy, incl. and through projects for social infrastructure and protection of cultural and historical heritage;
- To facilitate access to finance for technological renewal, digitalization and corporate innovation of SMEs, incl. and through online access to products and services.

In carrying out its activities, the BDB Group is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice. The main task of the Group during the period is to meet the needs of recovery and growth of the Bulgarian economy after the crisis and to add value to borrowers.



Through its financial and credit activities, BDB addresses the challenges of the crisis and takes measures to facilitate access to finance and the adequacy of financial resources. Through the instruments, BDB will seek to share risk with the private sector, seek easing of financial credit conditions and thus create strong incentives for other banks to lend to small and emerging companies.

The updated strategy 2022-2023 for the activities of the BDB Group is in line with the objectives of the SME promotion policy. The BDB Group will continue to support financially viable and economically sustainable projects in the new strategic period. During the period, the activities of the BDB Group will be in line with the dynamics of the phase of recovery of business and economy from the pandemic crisis, as well as to deal with the consequences of peace turmoil in Europe. The Group will strive to meet the demand and the need of SMEs for financing, to deal with the negative economic effects and to create new sustainable business models.

For the effective implementation of the above goals and objectives, Bulgarian Development Bank within the BDB Group relies on its status as a development bank and the ability to attract long-term cheaper resources from European multilateral banks, international financial institutions, and international commercial banks. Another source of external financing is the international capital markets. During the period BDB plans to use the opportunities offered by the institutions of the European Union for direct lending and issuing guarantees to other intermediary banks and / or ultimate borrowers.

In the future, the BDB Group will continue to offer financing for working capital, capital investments and export financing for micro, small and medium-sized businesses. The Group offers flexible and in line with market demand financial solutions that meet the specifics of the borrower and the funded project.

## 10 SOCIAL RESPONSIBILITY AND DIVERSITY POLICY

The Bulgarian Development Bank traditionally dedicates its mission for corporate social responsibility to topics important for the public life, such as education, culture, art and history, entrepreneurship. With the support of BDB, the most innermost dreams and wishes of disadvantaged people in Bulgaria come true, as the charitable causes happen with the understanding and personal participation of many employees of the BDB Group.

### 10.1 CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

With the support of BDB in 2021 a **new film festival** was born. The debut edition of the **International Rhodope Film Fest** focused on the creative partnership between Bulgaria, Greece, Turkey and Germany, and the forum is emerging as a modern and innovative cultural event of national, regional and international importance, which creates conditions for support and development of the modern film industry in Bulgaria.

In order for the Bulgarian spirit to survive, BDB responded to the call of the Probuda-1903 community center in the Rhodopean village of Stoykite to help create an **interactive collection "The Bagpipe - Ancient and Eternal"**. The village is the center of the Rhodope bagpipe tradition, where the folklorist Apostol Kisiov, creator of "One hundred kaba bagpipes", comes from. With the support of the Bank, equipment was purchased to create the public collection and all guests of the mountain and the nearby resort of Pamporovo can view the project, designed as a combination of museum, art ethnic gallery and sound production.

In 2021, the Bank supported **Bulgarian artists** by organizing **temporary exhibitions** and purchasing their works for its collection for charity. This is part of its policy to preserve and promote Bulgarian traditions, history and culture.

## 10.2 EDUCATION AND ENTREPRENEURSHIP

2021 was one of the most difficult for Bulgarian polar explorers due to lockdowns and quarantines on the trip to Antarctica. BDB supported the Bulgarian Antarctic Institute for upgrading the IT infrastructure for the Bulgarian polar base "St. Kliment Ohridski" on the island of Livingston. It conducts key research in the fields of geology, biology, glaciology, meteorology, medicine, topography and geography with multinational participation.

The Bank responded with a clear awareness of the need for activities to modernize the information security of Bulgarian researchers.

The second strategic meeting of the **beamUp lab** program of the Bulgarian Stock Exchange was held with the financial support and active participation of BDB. This is a program to stimulate and encourage the growth of Bulgarian startups, small and medium companies. Its aim is to distinguish promising and innovative Bulgarian companies with sustainable business models, to give them visibility to potential investors, as well as to increase their knowledge about financing opportunities.

The Gravity MeetUp forum was attended by 22 startups and SMEs, mainly from the technology sector with main activities in software development, fintech, agritech, data analysis, media monitoring, e-commerce and more.

**"Let's look boldly at the stars"** is an initiative in support of the star teams of the Bulgarian Olympic teams in natural sciences, which each year participate in about 15 world Olympiads and competitions. The Bulgarian Development Bank supported the young mathematicians, computer scientists, astronomers, engineers, biologists and chemists, financially supporting their preparation for these participations. Despite the obstacles, our Olympians stand next to those of the United States, China, Russia and in 2021 brought **79 medals** to Bulgaria.

**The innovative and digital development of SMEs** in the context of the COVID-19 pandemic is an extremely important topic in today's reality. BDB supported the Bulgarian host of the **International Network for Small and Medium Enterprises (INSME)**. The discussions of the two-day forum with the participation of eminent speakers provided valuable information to entrepreneurs at an unprecedented moment about the prospects for digitalization and support for innovation.

BDB's strategy provides support for start-up innovative business projects. The Bank was the main sponsor of **Startup World Cup Bulgaria 2021**. Bulgaria broadcast its best startup project at a special event organized by the Digital 4 Foundation, in the presence of **250 representatives of financial and technology companies**. This is a round of the **World Startup Cup**, which is held annually in San Francisco and welcomes participants from 50 countries. Among the companies that took part in the competition, there were some at the conceptual stage, as well as working businesses with interesting products and innovative solutions. BDB also assists in holding **Digital4 Plovdiv 2021** - the annual conference for online marketing and trade.

Investors and financial institutions in the field of start-ups have joined the **acceleration program of Innovation Capital**, supported by the Capital Investment Fund of the BDB Group. Seven companies won the trust of investors in the final and received investments worth EUR 280,000. The program focused on ideas for e-commerce, education, healthcare and the entertainment industry.

The BDB team continues to actively participate in public discussions on the dynamics and post-pandemic development of the economy, as well as the challenges facing small and medium-sized enterprises in the transition to a **climate-neutral economy**. An active partnership with Alma Mater has strengthened BDB's social commitment. In 2021, the bank, together with the Faculty of Economics at Sofia University, organized a **competition "Young Financier" for an essay on "Do we need green finance."** Later, the **Academy for Sustainable Investment and Finance** was launched. The participants in the training received up-to-date knowledge of green standards and relevant financial practices, as well as models for sustainable and green business.

BDB supported the study of the **global entrepreneurial network Endeavor**. It showed that the technology sector is the most progressive in Bulgaria and has grown threefold in recent years. The first study of its kind **Endeavor Insight Report** showed the main challenges and opportunities for the development of the technology sector in Sofia.

**The Future of Money 2021** Banking and Finance Forum, organized by the Manager magazine, was held at the International Business School. The event, setting the current trends in the financial world and the prospects for small and medium-sized businesses, was held with the support of BDB.

### 10.3 VULNERABLE SOCIAL GROUPS

The corporate social responsibility policy of BDB has always focused on supporting vulnerable social groups such as children deprived of parental care and disadvantaged people. Over the years, the bank has joined forces in this direction with a number of charities such as SOS Children's Villages, UNICEF, NF "St. Nicholas" and others.

In 2021 BDB provided to the **SOS Children's Villages Bulgaria** Association funds for **annual financial support of three young people**. This is done under the program **"Starting an independent life"**, aimed at a social group at risk, which often remains out of focus - adult children without parental care. The cause aims to encourage and support morally and financially the start of SOS young people in their independent life after leaving the youth homes or foster families for the period until the completion of their higher education.

BDB supported the year-round mentoring program **"Hidden Talents of Bulgaria"**. This is an educational project that gives a chance to talented children deprived of parental care and young people at risk to enter university and realize themselves professionally. The program provides access to private lessons, seminars, workshops, camps and competitions, work with an individual mentor, scholarships, textbooks, machinery and equipment, psychological support, applying to university, finding an internship or job and everything needed. The Bank also donated to **Operation Teddy Bear**, which develops the skills of talented young people at a disadvantage and gives Christmas presents to orphans across the country.

The support of the **Give a Book** Foundation is aimed at children from 18 social institutions in the country. The association serves as a mediator between children placed in institutions and over 500 active volunteers who become their mentors, help them with lessons, motivate them and give them the opportunity for new and exciting experiences outside the home. BDB also financially supported the **Scholarship program** created due to the emergency situation. Through it, each of the children in need will have the opportunity to set a goal according to their abilities: for example, to learn the multiplication table or to reach a level in English. And then work online to achieve the goal with the mentor. Each child who completes the goal on time receives a scholarship.

#### 10.4 HEALTHCARE

BDB traditionally participates in the charity cause **"Bulgarian Christmas"**, which is carried out under the patronage of the President of the Republic of Bulgaria. In 2021, the campaign supported **emergency pediatrics** and **intensive care for children in critical health**, supporting comprehensive care for children with serious illnesses and disabilities, as well as follow-up care that lasts for years and requires constant treatment and medical supervision. BDB also supported the Christmas charity concert of the initiative.

The **Svetulka campaign** of the **Za Dobroto** Foundation, which the BDB supported, is aimed at changing the environment in children's wards. The idea is to turn the frightening hospital environment into a cheerful space that will make children forget that they are in a medical institution. The initiative is building separate spaces in hospitals where young patients can have fun, read, draw and watch "home cinema". The campaign, supported by the bank, teaches medical staff good practices in hospital care for children.



---

**VLADIMIR GUEORGUIEV**

Member of the MB  
Executive Director



---

**JIVKO TODOROV**

Member of the MB  
Executive Director



---

**TSANKO ARABADZHIEV**

Member of the MB  
Executive Director





**BULGARIAN DEVELOPMENT BANK EAD**

**INDEPENDENT AUDITORS' REPORT AND  
ANNUAL SEPARATE FINANCIAL STATEMENTS**

**31 December 2021**

*Unofficial translation from Bulgarian*

*This document is a translation of the original Bulgarian text,  
in case of divergence the Bulgarian text shall prevail.*

## **INDEPENDENT AUDITORS' REPORT**

To the sole owner of Bulgarian Development Bank EAD

### **REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS**

#### **Opinion**

We have audited the accompanying separate financial statements of Bulgarian Development Bank EAD (the "Bank"), which comprise the separate statement of financial position as at December 31, 2021, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2021, and its separate financial performance and its separate 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 separate financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

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

**Key audit matter****How our audit addressed the key audit matter****Impairment of loans and advances to customers**

The assessment of the expected credit losses from impairment of loans and advances to customers requires Bank management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Bank applies statistical models and separate analyses with input parameters obtained from internal and external sources.

As disclosed in note 19 to the separate financial statements, the Bank has recorded as at December 31, 2021 loans and advances to customers at the gross amount of BGN 2,068,281 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 340,445 thousand.

Key assumptions, estimates and parameters in determining the expected credit losses on collective basis are related to development of quantitative and qualitative indicators for following up a significant increase in credit risk for allocation of the separate customers' credit exposures to phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with significant increase in credit risk, but without objective evidence for impairment and Phase 3: Exposures with existing objective evidence for impairment); for determining "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD), as well as for inclusion of information about future development of macro-economic factors in the context of various scenarios in determination of the estimates for expected credit losses.

A high degree of uncertainty is inherent in the assessment of expected credit losses for loans and advances to customers assessed on collective basis and depends on whether the Bank has sufficient historical information to test the assumptions used and calibrate the accuracy of the parameters PD and LGD in the impairment model.

During our audit, we obtained understanding of the processes for calculation of expected credit losses for loans and advances, applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area.

We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances on individual and portfolio basis.

We tested the design, implementation and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes.

The testing focused on controls related to:

- timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages,
- regular client creditworthiness review processes,
- creation and regular review of watch-lists,
- approval of experts' collateral valuation,
- management review and approval of the impairment assessment results.

We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment based on the risk parameters resulted from the models.

We evaluated appropriateness of impairment methodologies and their application.

We performed detailed substantive procedures on a risk-based sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates



The determination of expected credit losses for loans and advances assessed on individual basis is also related to the application of significant estimates and assumptions by management, in particular on the timing and value of expected future cash flows under the exposure, including those from realisation of collateral.

The current economic and geopolitical environment has increased the uncertainty regarding the economic outlook and has increased the complexity of assessing and monitoring customers' financial position, which requires an increased level of judgement when calculating the impairment of loans and advances.

Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.

applied by the Bank. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans.

We assessed the adequacy of the Bank's assumptions and estimates related to the impact of the current economic and geopolitical environment on the assessment of expected credit losses and all aspects of the process of their determination.

We involved auditors' experts in the areas which required specific expertise.

We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers.

#### **Impairment of financial guarantee contracts related to COVID-19 pandemic response programmes**

The Bank is an issuer of financial guarantee contracts which require the Bank to make certain payments in order to reimburse the holder of the guarantee for the loss he has suffered in the event that a debtor has not made a payment when it was due, in accordance with the initial or modified terms of a debt instrument.

As of December 31, 2021 the Bank measures financial guarantee contracts at the value of the loss allowance as determined in accordance with IFRS 9.

The financial guarantee contracts issued by the Bulgarian Development Bank EAD under the COVID-19 pandemic response programmes are credit risk guarantees that are analysed and impaired according to an impairment model developed by the Bank, based on the present value of the expected

During our audit, we obtained understanding of the processes for determining the expected credit losses from financial guarantee contracts applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process in order to design our further audit procedures in such way as to be able to address the identified risks of material misstatement related to the recognized expected credit losses from financial guarantee contracts.

We assessed the adequacy of the methodology used by the Bank to identify impairment losses and calculate expected credit losses from financial guarantee contracts.

We tested the design and implementation of key controls management of the Bank has established over the impairment assessment processes for financial guarantee contracts.

future cash flows under the programs and taking into account their specifics.

As disclosed in note 32 to the separate financial statements, the calculated provisions as of December 31, 2021 amount to BGN 74,332 thousand for guarantees on loans to companies and BGN 102,038 thousand for guarantees on loans to individuals or a total of BGN 176,370 thousand.

The assessment of losses from financial guarantees requires the Bank's management to apply a significant level of judgement, especially with regard to their quantification.

Because of the significance of the assessment of the losses from the financial guarantees for the separate financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates, we identified expected credit loss from financial guarantees as a key audit matter.

We have also reviewed the quality of the data used in the calculation of the expected credit losses and recomputed the impairment based on the parameters resulted from the models.

We involved auditors' experts in the areas which required specific expertise.

We performed detailed substantive procedures on all financial guarantee contracts in order to verify their proper classification and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the assumptions used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We have considered the impact of the current economic conditions and other factors that may affect the expected credit losses.

We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the expected credit losses from financial guarantee contracts.

### **Information Other than the separate financial statements and Auditors' Report Thereon**

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

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

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

We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the separate financial statements**

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

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

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

## **Auditors' Responsibilities for the Audit of the separate financial statements**

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

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

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

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

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional matters, required to be reported by the Accountancy Act**

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the separate financial statements and Auditors' Report Thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

### **Opinion under Art. 37, paragraph 6 of the Accountancy Act**

Based on the procedures performed, in our opinion:

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

## **Additional reporting related to Ordinance 58/2018 of the Financial Supervisory Commission (FSC)**

*Statement in connection with Art. 11 of Ordinance No 58/2018 of FSC outlining the requirements for protection of the customers' financial instruments and cash, for product management and for providing or receiving considerations, commissions, other cash and non-cash benefits*

Based on the performed audit procedures and the acquired knowledge for and understanding of the activity of the Bank ("Investment intermediary") in the context and the course of our audit of its separate financial statements as a whole, the established and applied organization related to the keeping of clients' assets complies with the requirements of Art. 3-10 of Ordinance 58 of FSC and Art. 92-95 of Markets in Financial Instruments Act regarding the Investment intermediary's activity.

## **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.

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2021 by a decision of the sole shareholder taken on February 10, 2022 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2021 represents third consecutive statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our statutory audit refers, Deloitte Audit OOD (a company part of Deloitte network) has provided to the Bank the following services which have not been disclosed in Bank's annual report on activities or separate financial statements:

- Assurance services other than audit or review of historical financial information in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) related to expressing an opinion on the compliance with the requirements of the EU for the following items: internal control system, accounting system, independent statutory audit, public tenders, financial instruments, exclusion from access to financing, publishing information about the recipients, personal data protection, The period within the scope of the assessment is June 1, 2019 – May 30, 2020.

- For the period to which our statutory audit refers, Grant Thornton OOD has provided to the Bank the following services which have not been disclosed in Bank's annual report on activities or separate financial statements:
  - Review of historical financial information in accordance with International Standard on Review Engagements (ISRE) 2410 as at and for the nine months period ended 30 Sep. 2021;
  - Assurance services other than audit of review of historical financial information related to Comfort Letter on draft Offering Memorandum.

- For the period to which our statutory joint audit refers, Deloitte Audit OOD and Grant Thornton OOD jointly have provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in Bank's annual report on activities or separate financial statements:

- Agreed-upon procedures to the application of BNB Ordinance 10 for the period January 1 – December 31, 2020, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

Deloitte Audit OOD

*Deloitte Audit OOD*

Rositsa Boteva  
Statutory Manager

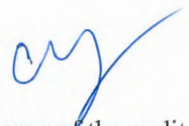


Registered Auditor, in charge of the audit

Grant Thornton OOD

Silvia Dinova

Registered Auditor, in charge of the audit



Mariy Apostolov  
Statutory Manager

103, Al. Stambolijski Blvd.  
1303 Sofia, Bulgaria

26, Cherni Vrah Blvd.  
1421 Sofia, Bulgaria

May 25, 2022



BULGARIAN DEVELOPMENT BANK EAD  
SEPARATE STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2021	As of 31.12.2020
<b>Assets</b>			
Cash in hand and balances in current account with the Central Bank	17	243,625	496,268
Receivables from banks	18	385,347	478,181
Financial assets at amortized cost – Loans and advances to customers	19	1,727,836	1,845,236
Financial assets at amortized cost - Receivables from the State budget	20	18,817	57,824
Financial assets at amortized cost – Securities	21	1,920	1,930
Financial assets at fair value through other comprehensive income – Debt instruments	22	591,943	581,711
Financial assets at fair value through other comprehensive income – Equity instruments	22	64,669	54,059
Investments in subsidiaries	23	173,512	167,705
Property, plant and equipment, intangible assets	24	60,797	62,636
Investment property	25	7,352	7,785
Assets held for sale	26	4,107	608
Assets, acquired from collateral foreclosure	27	34,719	33,938
Other assets	27	4,481	19,756
Current tax receivables	27	-	900
Deferred tax assets	15	9,698	8,832
<b>Total assets</b>		<b>3,328,823</b>	<b>3,817,369</b>
<b>Liabilities</b>			
Borrowings from international institutions	30	1,110,740	1,238,904
Deposits from customers other than credit institutions	29	881,673	1,127,315
Deposits from credit institutions	28	1,719	8,155
Other borrowings	31	16,746	16,932
Provisions	32	177,747	123,133
Lease liabilities	33	492	645
Other liabilities	34	4,159	4,054
<b>Total liabilities</b>		<b>2,193,276</b>	<b>2,519,138</b>
<b>Equity</b>			
Share capital	35	1,441,774	1,441,774
Accumulated loss		(386,706)	(230,855)
Revaluation reserve on financial assets at fair value through other comprehensive income	36	(74,608)	(67,764)
Reserves	36	155,087	155,076
<b>Total equity</b>		<b>1,135,547</b>	<b>1,298,231</b>
<b>Total liabilities and equity</b>		<b>3,328,823</b>	<b>3,817,369</b>

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 17 May 2022.

*Tsanko Arabadzhiev*  
Executive Director

*Vladimir Gueorguiev*  
Executive Director

*Jivko Todorov*  
Executive Director

*Dimitar Mitev*  
Head of Finance

*Ivan Lichev*  
Chief Accountant and Preparer

Auditors' report on the separate financial statements issued on 25 May 2022:

*Deloitte Audit OOD, auditing company*  
**Rositsa Boteva**  
Statutory Manager  
Registered Auditor, in charge of the audit

*Grant Thornton OOD, auditing company*  
**Silvia Dinova**, Registered Auditor, in charge of the audit

**Mariy Apostolov**, Statutory Manager



BULGARIAN DEVELOPMENT BANK EAD  
SEPARATE STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2021	2020
Interest income	6	75,330	78,417
Interest expense	6	(18,652)	(19,807)
<b>Net interest income</b>	6	<b>56,678</b>	<b>58,610</b>
Fee and commission income	7	3,678	2,723
Fee and commission expense	7	(4,006)	(1,606)
<b>Net fee and commission (expense)/income</b>	7	<b>(328)</b>	<b>1,117</b>
Net income on foreign exchange deals	8	427	457
Net gain on financial assets at fair value through other comprehensive income	9	1,101	2,432
Other operating income	10	1,621	1,840
Other operating expenses	11	(1,278)	(608)
<b>Operating result before impairment, personnel expenses, administrative expenses, depreciation, and amortisation</b>		<b>58,221</b>	<b>63,848</b>
Expenses on impairment and provisions of non-financial assets	12B	(1,600)	(4,313)
Expenses on impairment and provisions of financial instruments	12A	(184,010)	(257,346)
<b>Operating loss before personnel expenses, administrative expenses, depreciation, and amortisation</b>		<b>(127,389)</b>	<b>(197,811)</b>
Employee benefits	13	(16,827)	(16,142)
General and administrative expenses	14	(8,784)	(14,738)
Depreciation / amortisation expenses	24	(2,956)	(2,516)
<b>Loss before income tax</b>		<b>(155,956)</b>	<b>(231,207)</b>
Income tax benefit	15	105	352
<b>Net loss for the year</b>		<b>(155,851)</b>	<b>(230,855)</b>
<b>Other comprehensive income</b>			
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains on defined benefit plans, net of taxes	34	11	14
Net change in fair value of equity financial assets at fair value through other comprehensive income	16, 22	(5,005)	(77,858)
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Net change in fair value of debt financial assets at fair value through other comprehensive income	16	(1,839)	(2,089)
<b>Total other comprehensive income for the year, net of tax</b>		<b>(6,833)</b>	<b>(79,933)</b>
<b>Total comprehensive income for the year</b>		<b>(162,684)</b>	<b>(310,788)</b>

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 17 May 2022.

*Tsanko Arabadzhiev*  
Executive Director

*Vladimir Gueorguiev*  
Executive Director

*Jivko Todorov*  
Executive Director

*Dimitar Mitev*  
Head of Finance

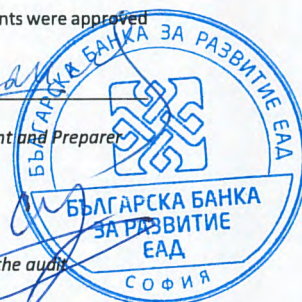
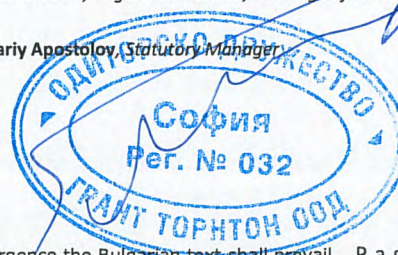
*Ivan Lichev*  
Chief Accountant and Preparer

Auditors' report on the separate financial statements issued on 25 May 2022:

*Deloitte Audit OOD, auditing company*  
Rositsa Boteva  
Statutory Manager  
Registered Auditor, in charge of the audit

*Grant Thornton OOD, auditing company*  
Silvia Dinova, Registered Auditor, in charge of the audit

*Mariy Apostolov, Statutory Manager*





**BULGARIAN DEVELOPMENT BANK EAD  
SEPARATE STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Retained earnings/(Accumulated loss)	Total
<b>As of 1 January 2020</b>	601,774	68,906	75,097	12,183	11,057	769,019
Net loss for the year	-	-	-	-	(230,855)	(230,855)
Other comprehensive income, net of taxes	-	-	14	(79,947)	-	(79,933)
<b>Total comprehensive income for the period</b>	-	-	14	(79,947)	(230,855)	(310,788)
Share capital increase	840,000	-	-	-	-	840,000
Profit distribution	-	6,031	5,026	-	(11,057)	-
<b>Total transactions with owners</b>	840,000	6,031	5,026	-	(11,057)	840,000
<b>As of 31 December 2020</b>	1,441,774	74,939	80,137	(67,764)	(230,855)	1,298,231
Net loss for the year	-	-	-	-	(155,851)	(155,851)
Other comprehensive income, net of taxes	-	-	11	(6,844)	-	(6,833)
<b>Total comprehensive income for the period</b>	-	-	11	(6,844)	(155,851)	(162,684)
<b>As of 31 December 2021</b>	1,441,774	74,939	80,148	(74,508)	(386,706)	1,135,547

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 7 May 2022.

*[Signature]*  
**Tsvetko Arabadzhiev**  
Executive Director

*[Signature]*  
**Vladimir Gueorguiev**  
Executive Director

*[Signature]*  
**Jivko Todorov**  
Executive Director

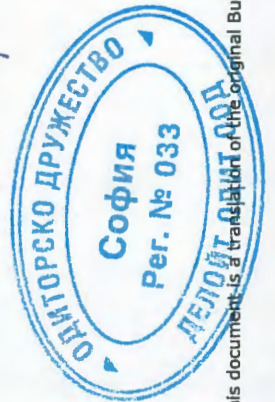
*[Signature]*  
**Dimitar Mitev**  
Head of Finance

*[Signature]*  
**Ivan Lichev**  
Chief Accountant and Preparer



Auditors' report on the separate financial statements issued on 25 May 2022:

*[Signature]*  
**Deloitte Audit OOD, auditing company**  
**Rositsa Boteva**  
Statutory Manager  
Registered Auditor, in charge of the audit



*[Signature]*  
**Grant Thornton OOD, auditing company**  
**Silvia Dinova, Registered Auditor, in charge of the audit**  
**Mariya Apostolov, Statutory Manager**



BULGARIAN DEVELOPMENT BANK EAD  
SEPARATE STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	<i>Note</i>	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>			
Loss for the year before taxes		(155,956)	(231,207)
<b>Adjustments for:</b>			
Dividend income	10	(75)	(25)
Impairment loss on loans	12	127,774	136,975
Expenses for guarantee provisions and unutilised credit commitments	12	54,538	119,829
Impairment loss on investments in subsidiaries	12	1,193	1,032
Impairment losses on financial assets at fair value through other comprehensive income	12	1,687	516
Impairment losses on financial assets at amortized cost	12	10	25
Losses/(gains) on revaluation of investment properties	10, 11	433	(152)
Impairment loss and sale of other assets	12	406	3,281
Net (profit)/loss on revaluation of foreign currency assets and liabilities	8	(7)	11
Depreciation / amortisation expenses	24	2,956	2,516
Carrying amount of written-off assets	24	90	75
		<b>33,049</b>	<b>32,876</b>
<b>Changes in:</b>			
Receivables from banks		54,086	(60,705)
Financial assets at amortized cost – Loans and advances to customers		(14,576)	(329,407)
Financial assets at amortized cost – Receivables from the State budget	20	39,007	108,997
Financial assets at fair value through other comprehensive income		(27,498)	(174,114)
Assets held for sale	26	(3,958)	(608)
Other assets		14,494	(27,349)
Deposits from credit institutions	28	(6,436)	278
Deposits from customers other than credit institutions	29	(245,642)	(6,734)
Provisions		76	365
Other liabilities		57	1,448
<b>Cash flows used in operating activities</b>		<b>(157,341)</b>	<b>(454,953)</b>
Corporate income tax paid		-	(900)
Taxes recovered		900	-
<b>Net cash flows used in operating activities</b>		<b>(156,441)</b>	<b>(455,853)</b>



BULGARIAN DEVELOPMENT BANK EAD  
 SEPARATE STATEMENT OF CASH FLOW (CONTINUED)  
 FOR THE YEAR ENDED 31 DECEMBER 2021  
 All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2021	2020
<b>Cash flows from investing activities</b>			
Cash payments for acquisition of property, plant and equipment, and intangible assets		(1,117)	(27,588)
Cash proceeds from sale of property, plant and equipment, and intangible assets		(90)	-
Cash proceeds from sale and improvements of collateral assets		53	-
Purchase of securities at amortized cost		-	(5)
Acquisition of shares in subsidiaries and associates		(7,000)	(59,241)
<b>Net cash flows used in investing activities</b>		<b>(8,154)</b>	<b>(86,834)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		-	840,000
Cash paid on other borrowings		(298)	(304)
Cash received from other borrowings		112	117
Cash received from borrowings from international institutions		-	146,687
Cash paid on borrowings from international institutions		(128,164)	(119,720)
<b>Net cash flows (used in)/from financing activities</b>		<b>(128,350)</b>	<b>866,780</b>
Net change in cash and cash equivalents for the period		(292,945)	324,093
<b>Cash and cash equivalents at the beginning of year</b>	38	<b>778,826</b>	<b>454,733</b>
<b>Cash and cash equivalents at end of year</b>	38	<b>485,881</b>	<b>778,826</b>

**Operating interest-related cash flows**

Proceeds from interest	63,520	72,588
Interest paid	(17,647)	(17,376)

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 17 May 2022.







**Tsanko Arabadzhiev** Executive Director     
 **Vladimir Gueorguiev** Executive Director     
 **Jivko Todorov** Executive Director     
 **Dimitar Mitev** Head of Finance     
 **Ivan Lichev** Chief Accountant and Preparer

Auditors' report on the separate financial statements issued on 25 May 2022:

Deloitte Audit OOD, auditing company  
**Rositsa Boteva**  
 Statutory Manager  
 Registered Auditor, in charge of the audit



Grant Thornton OOD, auditing company  
**Silvia Dinova**, Registered Auditor, in charge of the audit

**Mariy Apostolov**, Statutory Manager



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **1. ORGANISATION AND OPERATING POLICY**

The separate financial statements of the Bulgarian Development Bank EAD ("BDB", "the Bank") for the year ending 31 December 2021 are approved for issue according to a decision of the Management Board of 17 May 2022.

Bulgarian Development Bank EAD is a sole owned<sup>1</sup> joint-stock company registered with the Trade Register under UIC 121856059, with a seat in the city of Sofia, Sofia City Region, Bulgaria, and management address: 1 Dyakon Ignatij Str. The financial year of the Bank ends on 31 December.

Bulgarian Development Bank was established on 11 March 1999 as a joint-stock company in Bulgaria under the name Encouragement Bank AD.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank's activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuant to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

On 4 June 2021, Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

The Bank holds a general banking license, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009 and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bank's lending activity includes:

- pre-export and export financing of SME;

---

<sup>1</sup> On 4 June 2021 Bulgarian Development Bank is registered in the Trade Register and Register of Non-Profit Entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad.

The main objectives of the Bank are:

- to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance;
- drawing in and management of medium and long-term local and foreign resources needed for the implementation of economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional imbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development.

Bulgarian Development Bank EAD has a two-tier system of governance, which comprises Supervisory Board (SB) and Management Board (MB). The Supervisory Board and the Audit Committee represent those charged with governance.

As of 31 December 2021, the members of the Supervisory Board of BDB (SB) were: Valentin Lyubomirov Mihov – Chairman of SB, Vassil Atanasov Shtonov – Deputy Chairman, Stamen Stamenov Yanev – Deputy Chairman of SB, Velina Ilieva Burska – member of SB.

As of 31 December 2021, the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is declared to be entered in the Commercial Register.

The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is entered in the Commercial Register on 13 January 2022.

As of 31 December 2021, the Management Board of BDB comprises: Krum Georgiev – Chairman of MB; Vladimir Rashkov Gueorguiev – member of MB and Executive Director; Tsanko Rumenov Arabadzhiev - member of MB and Executive Director and Jivko Ivanov Todorov - member of MB and Executive Director.

The Bank is represented jointly by two executive directors or at least one executive director and procurator.

As of 31 December 2021, the Bank does not have a procurator.

As of 31 December 2021, the Bank's employees were 231 (31 December 2020: 235).

As of 31 December 2021, Bulgarian Development Bank EAD has no branches.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

These financial statements are separate financial statements. The Bank also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) in which investments in subsidiaries are recognized and disclosed in accordance with IFRS 10 Consolidated Financial Statements.

### **Credit rating**

On 1 March 2021 the International rating agency Fitch Ratings increased the outlook for the Bulgarian Development Bank EAD from stable to positive and confirmed the long-term credit rating of the Bank to "BBB". The rating agency's assessment is based on the reliable support of the sovereign - the Bulgarian State, the BDB's role in supporting the government's economic policy. The stable outlook shows the existence of a balance in risks associated with credit rating assessment. The long-term investment rating of the Bank is also equal to the rating of the sovereign: the last credit rating of the Republic of Bulgaria awarded by Fitch Ratings - "BBB" with positive outlook - is from 19 February 2021. This assessment was confirmed in the annual review in September 2021, and the rating was maintained.

### **Significant changes in the management bodies and structure of the Bank in 2021**

In 2021 the following changes in the management and structure of the Bank have been made:

#### ***Changes related to the ownership of the capital of the Bulgarian Development Bank EAD***

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank EAD. By this decision the increase in the shareholding of the State in the capital of Bulgarian Development Bank EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of Bulgarian Development Bank EAD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of Bulgarian Development Bank EAD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank AD and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, the Bulgarian Development Bank EAD was registered in the Commercial Register and the register of non-profit legal entities as a sole - owned commercial company.

As of 31 December 2021, ownership of the BDB's capital is distributed as follows: 100% are owned by the Republic of Bulgaria, and the rights of the state as sole owner of the capital are exercised by the Minister of Economy.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Significant changes in the management bodies and structure of the Bank in 2021 (continued)**

With an amendment to the Bulgarian Development Bank Act, in force since 18 March 2022, the rights of the state as sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

#### ***Changes in the Statute of Bulgarian Development Bank EAD***

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company). The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European investment activity, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases when BDB implements specifically government-mandated programmes. A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1,000,000 to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5 million. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute, and the applicable legislation.

These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Significant changes in the management bodies and structure of the Bank in 2021 (continued)**

#### ***Changes in the Bank's Supervisory Board in 2021***

By decision of the sole owner of BDB under Protocol dated 25 June 2021 Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov were elected as members of the Bank's Supervisory Board. This circumstance was recorded in the Trade Register and Register of Non-Profit Entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as Chairman of the Bank's Supervisory Board.

The decision of the sole owner of the capital of BDB as per Protocol dated 27 May 2021 was entered in the Commercial Register on 13 January 2022 by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board.

#### ***Changes in the Bank's Management Board in 2021***

By decision of the Supervisory Board under Protocol No 18 of 30 June 2021 Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of the Management Board. This circumstance was recorded in the Trade Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021 Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev are authorized to represent and manage the Bank as executive directors. This circumstance was recorded in the Commercial Register on 7 July 2021. Mr. Krum Georgiev Georgiev was elected as Chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov Dimitrov and Panayot Ivov Filipov were deregistered in the Commercial Register as members of the Management Board.

#### **Changes in the Bank's Audit Committee in 2021**

By decision under Protocol of 25 May 2021 of the Minister of Economy exercising the rights of the sole owner of BDB the following Audit Committee members were released: Krassimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov. By decision under Protocol of 22 June 2021 of the Minister of Economy exercising the rights of the sole owner of BDB Mr. Valentin Lyubomirov Mihov was released from the Audit Committee and by decision of 7 July 2021 Mrs. Gergana Stoyanova Moskova was elected as a member. In September 2021, the Minister of Economy approved a new Statute of the Audit Committee.

#### ***Changes in the Bank's structure***

After the changes in the membership of MB and SB in 2021 the current organizational structure as of the date of these financial statements is as follows – it is separated in four directions with the following members of MB and executive directors:

#### **Sector № 1, with a structure subordinated to Mr. Krum Georgiev Georgiev, Chairman of MB:**

- Risk Division
- Credit Administration Division
- Non-Performing Loans Division



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Significant changes in the management bodies and structure of the Bank in 2021 (continued)**

#### ***Changes in the Bank's structure (continued)***

- Classified Information Division
- Security Division
- Personal Data Protection Officer

#### **Sector № 2, with a structure subordinated to Mr. Vladimir Rashkov Gueorguiev, Executive Director and member of MB:**

- Corporate Banking Division
- Investment Banking and Project Financing Division
- Legal Division
- Operations and Client Services Division
- Secretariat Department

#### **Sector № 3, with a structure subordinated to Mr. Tsanko Rumenov Arabadzhev, Executive Director and member of MB:**

- Treasury Division
- On-lending Programs Division
- International Financial Institutions and EU Funds Division
- Monitoring and Financial Instruments Division
- Human Resources Division
- Administrative Division

#### **Sector № 4, with a structure subordinated to Mr. Jivko Ivanov Todorov, Executive Director and member of MB:**

- Chief Economist
- Accounting Division
- Finance Division
- Compliance Division
- Strategic and Sustainable Development Division
- Information Technology Division
- Corporate Communications Division
- Project and Process Management Division

Group Internal Audit Division – the function for the Group's internal audit is independent and in direct communication with SB/MB.

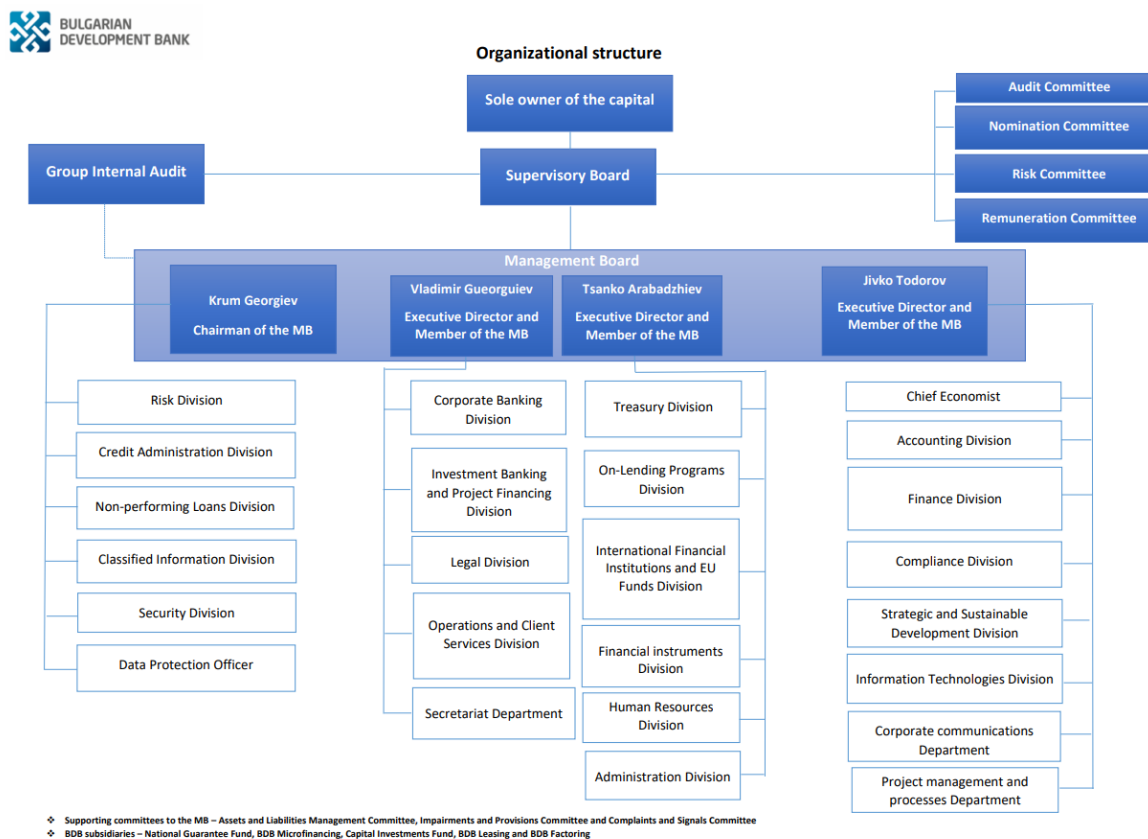
There is a chart of the actual organizational structure of BDB presented on the next page.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

### Significant changes in the management bodies and structure of the Bank in 2021 (continued)

#### Changes in the Bank's structure (continued)



### Subsidiaries

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investment Fund AD and the National Guarantee Fund EAD (Note 23). National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investment Fund AD was established in 2018 with share capital of BGN 65,000 thousand out of which 100% paid in as of 31 December 2021. The share of BDB in Capital Investment Fund AD is 85% and the remaining shares are owned by the National Guarantee Fund EAD.

BDB also owns 100% of the capital of BDB Microfinancing EAD, former Micro Financing Institution JOBS EAD. The name of the company Micro Financing Institution JOBS EAD was changed to BDB Microfinancing EAD effective as of 12 April 2021. The change reflects more fully the focus of the company in support of micro businesses, as well as its affiliation to the financial group of the Bulgarian Development Bank EAD. For 11 years BDB Microfinancing EAD has been creating conditions for successful development of micro and small enterprises, using effective models and practices in the field of lending and leasing.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Subsidiaries (continued)**

In the beginning of September 2021, the Management Board of BDB, in its capacity of sole owner of the capital of BDB Microfinancing EAD, took a decision to increase the capital of BDB Microfinancing EAD with the amount of BGN 7,000,000 by issuing new shares. On 13 October 2021 the decision was entered in the Commercial Register and the register of non-profit legal entities.

In addition, BDB owns 100% of the share capital of the following companies established in 2019: BDB Leasing EAD with a capital of BGN 20 million as of 31 December 2021 and BDB Factoring EAD with a capital of BGN 2 million as of 31 December 2021. By Protocol No 21/23.03.2021 the MB of BDB, as a sole owner of the capital of BDB Factoring EAD, took a decision to merge BDB Factoring EAD in BDB as BDB shall assume the activity of BDB Factoring entirely as well as its assets and liabilities. Bulgarian National Bank and Commission for protection of competition provided the necessary regulating approvals for the transformation. The procedure is to be finalized.

### **Changes in the management bodies of subsidiaries in 2021**

All subsidiaries of BDB are represented jointly of either two members of the Board of Directors. The procurators of the subsidiaries of BDB may represent a company jointly with any member of the Board of Directors of the respective company.

By decision of BDB Management Board the following changes in the management bodies of BDB subsidiaries have been made:

#### ***BDB Leasing EAD***

By Decision under Protocol of 17 August 2021 the Management Board of BDB AD in its capacity of sole owner of BDB Leasing EAD released Jivko Ivanov Todorov as a member of the company's Board of Directors. He was replaced by Krum Georgiev Georgiev. The circumstance is recorded in the Commercial Register and the register of non-profit legal entities on 23 August 2021. Mr. Krum Georgiev was elected as Chairman of the company's Board of Directors.

The Board of Directors members as of 31 December 2021 and as of the date of issue of these financial statements are:

- Krum Georgiev Georgiev as of 23 August 2021 – Chairman of the Board of Directors;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Antoniya Hristoforova Dobрева – Member of the Board of Directors as of 20 May 2020.

The company has an authorized procurator - Ivaylo Kirilov Popov as of 1 June 2020.

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Changes in the management bodies of subsidiaries in 2021 (continued)**

#### ***BDB Factoring EAD***

By Decision under Protocol of 2 September 2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Panayot Ivov Filipov and Todor Hristov Gunchev are released as members of the Board of Directors of the company and Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev are elected as new members. The circumstances are recorded in the Commercial Register and the register of non-profit legal entities on 16 September 2021. Mr. Tsanko Rumenov Arabadzhiev is elected as chairman of the Board of Directors of the company.

The Board of Directors members as of 31 December 2021 and as of the date of issue of these financial statements are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors as of 16 September 2021;
- Georgi Vanyushev Lilyanov – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Krum Georgiev Georgiev – Member of the Board of Directors as of 16 September 2021.

#### ***National Guarantee Fund EAD***

By Decision under Protocol of 16 September 2021 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Deyan Petrov Kalapchiev was elected as member of the Board of Directors of National Guarantee Fund EAD and this circumstance was recorded in the Commercial Register and the register of non-profit legal entities on 27 September 2021.

The Board of Directors members as of 31 December 2021 and as of the date of issue of these financial statements are:

- Jivko Ivanov Todorov – Chairman of the Board of Directors as of 20 May 2020;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors as of 20 May 2020;
- Deyan Petrov Kalapchiev - Member of the Board of Directors.

#### ***BDB Microfinancing EAD***

By Decision under Protocol of 17 August 2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was elected for member of the Board of Directors of BDB Microfinancing EAD and this circumstance was recorded in the Commercial Register and the register of non-profit legal entities on 23 August 2021. Mr. Vladimir Rashkov Gueorguiev was also elected for chairman of the Board of Directors of the company.

By Decision under Protocol of 23 August 2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Panayot Ivov Filipov and Angelina Georgieva Angelova were released as members of the Board of Directors of the company and Boyan Stefanov Byanov was elected as new member.

## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Changes in the management bodies of subsidiaries in 2021 (continued)**

#### ***BDB Microfinancing EAD (continued)***

These circumstances are recorded in the Commercial Register and the register of non-profit legal entities on 30.08.2021.

The Board of Directors members as of 31 December 2021 and as of the date of issue of these financial statements are:

- Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors as of 23 August 2021;
- Ivana Borisova Tzaneva – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Iliya Radkov Komitov - Member of the Board of Directors as of 28 August 2020;
- Boyan Stefanov Byanov – Member of the Board of Directors as of 30 August 2021.

#### ***Capital Investments Fund AD***

By Decisions of the general meeting of the shareholders of the company held on 30 July 2021, 13 August 2021, 7 September 2021 and 22 November 2021 new Board members are elected – Tsanko Rumenov Arabadzhiev, Stefan Stefanov Tamnev and Krasimir Tanev Atanasov. The members of the Board of Directors Nikolay Dimitrov Dimitrov, Tihomir Gochev Chemshirov and Tsvetomir Georgiev Tsanov are released. These circumstances are recorded in the in the Commercial Register and the register of non-profit legal entities on 5 August 2021, 20 August 2021, 14 September 2021 and 26 November 2021, respectively.

Mr. Tsanko Rumenov Arabadzhiev is elected as Chairman of the Board of Directors of the company and Mr. Stefan Stefanov Tamnev – as deputy chairman and Executive Director of the company.

The Board of Directors members as of 31 December 2021 and as of the date of issue of these financial statements are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors as of 5 August 2021;
- Stefan Stefanov Tamnev – Executive Director and Deputy Chairman of the Board of Directors as of 5 August 2021;
- Krasimir Tanev Atanasov – Member of the Board of Directors as of 5 August 2021.

From 21 August 2020 to 6 November 2021 the company also has an authorized procurator Angel Penev Hadjiev.

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS**

### **Applicable standards**

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements have been prepared on a separate basis. The Bank prepares consolidated financial statements in accordance with the Accountancy Act. These separate financial statements shall be read together with the consolidated financial statements.

### **Statement of compliance**

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

These separate financial statements have been prepared on the historical cost basis except for the following items:

- Financial instruments, measured at fair value through profit or loss;
- Financial instruments, measured at fair value through other comprehensive income;
- Financial instruments, measured at amortized cost;
- Investment property, carried at fair value;
- Assets held for sale carried at the lower of their carrying amount and their fair value less costs of sale;
- Assets acquired from collateral foreclosure carried at the lower of their acquisition cost and their net realizable value.

### **Going concern**

The Bank's total equity is lower than the registered capital due to the realized losses in 2020 and 2021. In 2021, the Bulgarian Development Bank EAD submitted a proposal to the Minister of Economy, who then exercised the rights of the state as a sole owner. owner of the BDB's capital, to take a decision to partially cover the loss on the annual financial statements for 2020 with the funds from the Reserve Fund and from the additional reserves of the Bank. Until 18 March 2022, when the Minister of Innovation and Growth was appointed as the Bank's principal, there was no decision by the Minister of Economy on covering the loss for 2020. On 3 May 2022, the Management Board adopted a decision to submit a proposal to the Minister of Innovation and Growth for reduction the capital of the Bank. After approval by the Supervisory Board of BDB it was sent to the Minister of Innovation and Growth. It is proposed the capital of the Bank to be reduced to BGN 1,100,000 thousand, thus the net assets of the Bank will exceed the registered capital after reporting the loss for the reporting year 2020 and 2021.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

### **Going concern (continued)**

As the Bank's equity is higher than the minimum required for banking activities and the capital adequacy is above the regulatory requirements (see Note 4.5), this does not affect the Bank's ability to continue as a going concern. Management does not consider that there is material uncertainty that may cast doubt on the Bank's ability to continue operating as a going concern. In view of the above, these separate financial statements have been prepared on the going concern basis.

In addition, in 2022 the Bank took action to develop its credit activity by creating new business lending programmes (see Note 40). The Bank is also in negotiations with the European Commission to gain the role of Implementing Partner for InvestEU, a programme that provides guarantees from the EU budget for lending to entrepreneurs in many areas related to green transition, digital technologies, and infrastructure. The aim is for the Bank to achieve a gradual replacement of mid-2021 exposures to large enterprises with loans to SMEs. For this reason, the BDB's 2022 plans foresee a small decrease in the volume of the loan portfolio. From the beginning of 2023, it is projected the total amount of the BDB's loan portfolio to increase again and the Bank to achieve a positive financial result of its activities.

In view of the above, these separate financial statements have been prepared on a going concern basis.

### **Order of liquidity and maturity structure**

The Bank presents its separate statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities is presented in Note 4.3.

### **Comparability of data**

The separate financial statements provide comparative information with respect to one previous period.

### **Presentation currency**

The Bulgarian lev is the reporting and functional currency. These separate financial statements are presented in thousand Bulgarian leva (BGN'000).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

### ***Key estimates and assumptions of high uncertainty***

The preparation of the financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. These estimates are made on the basis of information available as of the date of the financial statement and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the financial statements, are disclosed in the notes below.

#### *a) Expected credit losses on assets carried at amortised cost*

Monthly, the Bank reviews its loan portfolio and other assets carried at amortised cost in order to detect the amount of the expected impairment losses. When assessing the amount of the impairment loss in the separate statement of comprehensive income, the Bank's management considers the quantitative effect of the observable indicators and data, which indicate that there is a measurable reduction in the expected cash flows from the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic, or other conditions that are associated with a particular risk for a given group/type of loans.

The main indicators for determining the risk groups are the debtor's financial condition and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the European Investment Fund (EIF), the impairment loss is recognised after deduction of the portion borne by EIF (Note № 4.1).



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

### ***Key estimates and assumptions of high uncertainty (continued)***

#### *a) Expected credit losses on assets carried at amortised cost*

In determining the future cash flows pattern, the Bank's management uses estimates, judgments and assumptions based on its historical loss experience, adjusted with European statistical data for assets with similar credit risk characteristics, as well as objective evidence for impairment or expected impairment of the portfolio from unrealised loss in a particular component thereof. Analogous approach is used also for assessments at individual credit exposure, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes 12 and 19).

#### *b) Measurement of financial instruments at fair value through other comprehensive income*

##### *Equity and debt instruments not quoted on stock markets*

The Bank classifies as Financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 20% of their capital), which have been acquired with the aim to establish and develop business relations of interest to the Bank. Management measures these financial assets at fair value using methods that are allowed under IFRS 13, except in cases where it has judged that the cost of acquisition (cost) better reflects their fair value, namely:

- When there is no sufficient and up-to-date information to enable it to measure the fair value; or
- When there is a large scope of eligible methods and/or resultant valuations of the fair value and the cost approximates most closely the fair value within a range of values calculated (Notes 9 and 22).

##### *Equity and debt instruments quoted on stock markets*

As of 31 December 2021, the Bank conducted a detailed comparative analysis of the movements on the national and foreign stock markets of the stock market prices of public companies' shares and bonds listed for dealing held by it.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

### ***Key estimates and assumptions of high uncertainty (continued)***

#### *b) Measurement of financial instruments at fair value through other comprehensive income (continued)*

##### *Equity and debt instruments quoted on stock markets (continued)*

For investments in securities that are listed for dealing at stock exchange markets, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the separate financial statements. (Notes 9, 16, 22).

The Bank impairs its debt instruments in compliance with its Policy and Methodology for assessment of expected credit losses and calculation procedure.

#### *c) Provisions for bank and loan guarantees issued*

The Bank has formed provisions for a portfolio of contingent liabilities for payment in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank reviews its contingent liabilities the purpose of establishing whether any events have occurred, that would confirm to a large extent the probability that a commitment will be paid to settle an obligation. If such events occur, the Bank provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to the guarantee user or third parties (Notes 12 and 32).

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount recognised initially less, where appropriate, cumulative amortisation of recognised revenue.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

### ***Key estimates and assumptions of high uncertainty (continued)***

#### *d) Actuarial calculations*

In assessing the present value of the long-term liabilities to employees upon retirement, actuarial methods and calculations are used based on assumptions for mortality rate, staff turnover rate, future salary levels and a discount factor considered by management as reasonable and relevant to the Bank (Note 34).

#### *e) Valuation of investment property*

The fair value of investment property, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers. The valuations are conducted by using various valuation techniques, such as the recoverable amount method, the method of income capitalisation, the method of market analogues, where for each method a weight is set for the purposes of achieving the final fair value of investment property at the end of the reporting period (Note 25).

#### *f) Assets acquired from collateral foreclosure*

Assets acquired from collateral foreclosure include assets acquired by the bank as a result of non-performing loans. These assets are measured at the lower of at cost and net realisable value. The net realisable value, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers.

#### *g) Fair value of financial instruments*

Where the fair values of financial assets and liabilities on the separate statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from the Bank's historical observations and observable financial market indicators, where possible. However, where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions include liquidity factors, volatility for longer derivatives and discount rates, early payments and assumptions for non-performance in connection with securities for which assets have been provided as collaterals.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

### **2.1 Changes in accounting policies and disclosures**

#### ***Initial application of new amendments to the existing standards effective for the current reporting period***

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases”** - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on January 13, 2021 (effective for annual periods beginning on or after January 1, 2021);
- **Amendments to IFRS 16 “Leases”** - Covid-19-Related Rent Concessions beyond June 30, 2021 adopted by the EU on August 30, 2021 (effective from April 1, 2021 for financial years starting, at the latest, on or after January 1, 2021);
- **Amendments to IFRS 4 Insurance Contracts “Extension of the Temporary Exemption from Applying IFRS 9”** adopted by the EU on December 16, 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from January 1, 2021 to annual periods beginning on or after January 1, 2023);

The adoption of amendments to the existing standards has not led to any material changes in the Bank’s financial statements.

### **2.2 Standards issued but not yet effective and not early adopted**

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

#### ***Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 Presentation of Financial Statements:** Disclosure of Accounting policies adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023).
- **Amendments to IAS 16 “Property, Plant and Equipment”** - Proceeds before Intended Use adopted by the EU on June 28, 2021 (effective for annual periods beginning on or after January 1, 2022);

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

### 2.2 Standards issued but not yet effective and not early adopted (continued)

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract adopted by the EU on June 28, 2021 (effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after January 1, 2022);
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 adopted by the EU on November 19, 2021 (effective for annual periods beginning on or after January 1, 2023),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on June 28, 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after January 1, 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

#### ***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after January 1, 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IFRS 17 "Insurance contracts"** - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after January 1, 2023).

BDB anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated. According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the reporting date.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 Financial instruments**

##### **Financial instruments: classification and measurement (IFRS 9)**

###### *Recognition of assets*

The Bank recognises a financial asset or financial liability in the statement of financial position, when and only when it is part of an existing contractual relationship regulating the instrument.

The Bank classifies financial assets as subsequently measured at amortised cost, at fair value in other comprehensive income or at fair value through profit or loss, as the case may be, on the grounds of:

1. a business model of the Bank for financial assets management; and
2. the features of the contractual cash flow of the financial asset.

Regardless of its election with regard to the reporting approach, the Bank has the option, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, as per the paragraphs below:

1. If the Bank has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.
2. if the Bank has financial assets, financial liabilities or both that share a risk, and that gives rise to opposite changes in fair value that tend to offset each other.
3. if the Bank has financial assets, financial liabilities or both that share a risk, that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through profit or loss.

A financial asset is measured at amortised cost, if both of the following two criteria are met simultaneously:

1. The financial asset is held within a business model with the objective to collect their contractual cash flows (Hold to Collect business model); and
2. The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates (SPPI).

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial instruments: classification and measurement (IFRS 9) (continued)**

###### *Recognition of assets (continued)*

A financial asset is measured at fair value through other comprehensive income, if both of the following two criteria are met simultaneously:

1. The financial asset is held within a business model with the objective to collect the contractual cash flows and sell the financial asset; and
2. The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value in other comprehensive income in accordance with the above criteria.

Upon initial recognition, the Bank may make an irrevocable choice to include in fair value through other comprehensive income subsequent changes to an investment in an equity instrument that is not held for trading or is not a contingent remuneration recognised by a transferee in a business combination to which IFRS 3 applies.

###### *Reclassification of financial assets*

When and only when the Bank changes its business model for financial asset management, it reclassifies all financial assets affected, in line with the asset classification requirements. If the Bank applies such reclassification to financial assets, it shall apply it in the future, from the first day of the first reporting period following the change in business model that results in reclassifying the financial assets. The Bank does not recalculate previously recognised profits, losses (including gains or impairment losses) or interest.

###### *Assessment and reporting*

Upon initial recognition, in the case of a financial asset or financial liability not stated at fair value through profit or loss, the Bank measures a financial asset or a financial liability at fair value, taking into account as a probable increase and/or decrease the transaction costs which are directly related to the acquisition or origination of the financial asset or financial liability.

###### *Determination of a business model*

The Bank defines the "business model with the objective to collect their contractual cash flows (Hold to Collect business model)" as a business model where the Bank's financial assets are managed with the objective to generate cash flows through collection of contractual cash flows over the instrument's lifetime. The Bank may use this business model in the event of converting the sale of assets with increased credit risk or in order to reduce the concentration risk.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial instruments: classification and measurement (IFRS 9) (continued)**

###### *Determination of a business model (continued)*

These financial assets are carried at amortised cost if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Bank defines the "business model with the objective to collect the contractual cash flows and sell the financial asset" as a business model where the Bank's key management staff have decided that the collection of contractual cash flows and the sale of financial assets are an integral part of the achievement of the business model's objective and includes much more frequent and of higher value sales of financial assets than a business model with the main purpose of holding financial assets to collect contractual cash flows. These assets are reported as financial assets at fair value through other comprehensive income, if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Bank defines "other business models" as a business model that does not include the holding of financial assets for the purpose of collecting contractual cash flows or for the simultaneous collecting of contractual cash flows and selling financial assets. Typically, this process involves actively buying and selling financial assets. These assets are reported as financial assets at fair value through profit or loss.

##### **Financial assets**

The Bank initially recognises loans, receivables and deposits on the date they were incurred. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and renegotiation or modification does not result in the write-off of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and recognises profit or loss from modification in profit or loss. The gross carrying amount of the financial asset shall be restated as the present value of renegotiated or modified contractual cash flows discounted at the initial effective interest rate on the financial asset (or the credit loss-adjusted effective interest rate for purchased or originated credit impaired financial assets) or, where applicable, the revised effective interest rate, calculated in accordance with paragraph 6.5.10 of IFRS 9.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial instruments: classification and measurement (IFRS 9) (continued)**

The carrying amount of the modified financial asset shall be adjusted for any incurred costs and charges that are depreciated for the remaining duration of the modified financial asset.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that qualify for derecognition, which is created or retained by the Bank, is recognised as a separate asset or liability.

In certain circumstances, renegotiating or modifying the contractual cash flows of a financial asset may result in the write-off of the existing financial asset in accordance with the standard. Where the modification of a financial asset results in the write-off of the existing financial asset and subsequent recognition of the modified financial asset, the modified asset shall be considered a "new" financial asset for the purposes of IFRS 9.

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Bank has the following non-derivative financial assets:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- financial assets at amortised cost;

##### Financial assets at amortized cost

Financial assets measured at amortised cost are financial assets which are held within a "held to collect" business model and that are 'solely payments of principal and interest (SPPI)'. The Bank holds such financial assets within a business model with the objective to hold financial assets in order to collect contractual cash flows within the life of the asset. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, these financial assets are measured at their amortised cost using the effective interest rate, less any impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

###### Financial assets at amortized cost (continued)

In calculating the effective interest rate the expected cash flows are estimated taking into account all contractual terms and conditions under the financial instrument (for example early repayment options, extension options, call options and similar), excluding expected credit losses. The calculation includes all fees and other considerations paid or received by the contract counterparties that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

The Bank accrues impairment for expected credit losses for financial assets at amortized cost for each specific asset, except for receivables from employees (Note 3: Impairment of financial assets). After a thorough review of the quality and impairment testing of standard exposures, the Bank established that as of 31 December 2021, and also in 2020, the expected credit loss on receivables from employees was BGN 144 thousand (3.63%) (as of 31 December 2020 r.: BGN 68 thousand (3.00%)), and the expected credit loss on receivables from the State budget under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounted to BGN 49 thousand (as of 31 December 2020: BGN 151 thousand).

Financial assets measured at amortised cost include cash and cash equivalents, receivables from banks, loans and advances to customers, receivables from the State budget, securities and trade and other receivables.

###### Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include equity and debt instruments, and certain cases of loans.

Financial assets measured at fair value through other comprehensive income are assets acquired under a business model with the objective of both holding to collect contractual cash flows and selling the financial assets.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

###### Financial assets at fair value through other comprehensive income (continued)

The debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. When an investment is derecognised, the accumulated gains or losses through other comprehensive income are reclassified to profit or loss.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised through other comprehensive income and accumulated in the revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment. Upon disposal of equity instruments from this category each amount recognized in the revaluation reserve of the instruments is reclassified to retained earnings.

###### Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

###### Financial assets at fair value through profit or loss (continued)

Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

Transaction related costs are recognized in profit or loss upon origination. Financial assets at fair value through profit or loss are measured at fair value and any related changes, including dividend income, are recognised in profit or loss.

Upon initial acquisition, the Bank's management determines whether a financial asset will be held for trading. Usually, management designates derivatives as such instruments.

A derivative is a financial instrument:

- Whose value changes in response to changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices or interest rates, credit ratings or credit indices, or other variables;
- That requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market conditions;
- That is settled at a future date.

When upon entering a specific derivative transaction, the Bank defines a position to be hedged and all the requirements of IFRS 9 have been met, the corresponding derivative is recognised as such hedging, and it shall be specified whether it hedges:

- deviations in the fair value of a specific asset (fair value hedge),
- differences in the estimated future cash flows (cash flow hedge); or
- effect of investments in foreign subsidiaries (net investment hedge).

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial liabilities (continued)**

###### Financial assets at fair value through profit or loss (continued)

Derivatives are measured at fair value through profit and loss.

Initially, derivative financial instruments are measured at fair value (including transaction costs) and subsequently, they are measured at fair value. Derivatives are accounted for as assets when their fair value is positive and as liabilities when it is negative.

As of 31 December 2021, and 31 December 2020, the Bank has no financial assets measured at fair value through profit or loss.

##### **Assets under trust management**

The Bank provides trust management services that includes holding of or investing in assets on behalf of customers. Assets held under trust management, unless certain recognition criteria have been met, are not included in the Bank's financial statements since they are not assets of the Bank.

Bulgarian Development Bank EAD performs services in its capacity as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Bank is obliged to comply with certain requirements in order to protect its customers' interests in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). Moreover, the Bank should also observe the requirements of Directive 2014/65/EC on the Markets in Financial Instruments (MiFID II) and Regulation 600/2014 of the EU on the Markets in Financial Instruments (MiFIR).

The Bank has developed and implements organization relating to the conclusion and performance of contracts with customers, the requirement of information from customers, keeping records and storage of client's assets, in compliance with the provisions of the above-mentioned National and European legal acts. The Bank has implemented a system of in-house internal control rules and procedures aiming at ensuring its full compliance with the bodies of legislation mentioned above.

##### **Financial liabilities**

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Initially, they are stated at fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial liabilities (continued)**

The financial liabilities reported by the Bank as deposits, borrowings and securities issued are stated at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of financial asset or to the amortised cost of financial liability. When calculating the effective interest rate the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

##### **Derecognition of financial instruments**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

1. the contractual rights to receive cash flows from the financial asset have expired;
2. the contractual rights to receive cash flows from the financial assets have been transferred, or contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement, and either:
  - the Bank has transferred substantially all the risks and rewards of the financial asset; or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset but has transferred control of the asset.

When the Bank has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the asset, the transferred financial asset is recognised to the extent of the Bank's continuing involvement in the asset. In this case, the Bank recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations, which the Bank has retained.

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

A financial liability is derecognised from the separate statement of financial position when it is extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expires.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Derecognition of financial instruments (continued)**

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the separate statement of comprehensive income – in profit or loss.

Full or partial write-off of receivables is initiated in the presence of the respective amount set aside for the specific exposure and at the discretion of the Non-performing Loans Division for their uncollectibility, respectively incomplete collection, within the usual period, which assessment is based on some the following circumstances:

1. The court actions taken under the Civil Procedure Code, the PPA and the CA have been exhausted and / or the initiation of court actions (respectively the continuation of such actions already taken) is pointless and this has been confirmed by the Legal Department;
2. All collateral has been realized in the course of the court actions;
3. There are no additional discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors;
4. Additionally discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors are non-seizable, i.e. the Bank cannot undertake executive actions towards them, or they are of insignificant value compared to the residual debt;
5. The Bank is not expected to collect amounts from foreclosures of shares of the main debtor and / or of the guarantors and severally liable debtors (if any) in companies and subsequent liquidation of these companies (in case it makes economic sense to initiate such liquidation);
6. There are no reasonable expectations for receiving cash flow from the initiation / continuation of legal actions in respect of the remaining collateral established in favour of the Bank, as it is determined on the basis of relevant legal opinion as unrealizable or difficult to implement due to insurmountable problems of legal nature, or there are real encumbrances in favour of another creditor in sequence prior to the established collateral in favour of the Bank;
7. The costs for compulsory sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) of the debtor's property and / or of the guarantors and severally liable debtors (if any) would exceed the Bank's expected proceeds from the sale or the reduced value acceptable for the Bank;
8. As a result of an analysis of the security and the possibilities for repayment of the exposure, it has been established that it is not expected to be collected in full;
9. An order has been issued to initiate insolvency proceedings and their suspension, following a court finding that their assets are insufficient to cover the insolvency costs and, at the same time, no severally debtors are available.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Financial instruments (continued)

##### Derecognition of financial instruments (continued)

In accordance with its Receivables Write-Off Procedure, the Bank also writes off receivables on the basis of a final assessment of bad debts, regardless of the delay in the normal period for the procedure undertaken, which assessment is caused by the fulfillment of any of the following circumstances:

1. For borrowers, severally liable debtors and guarantors who are legal entities - when traders are written off.
2. For borrowers, severally liable debtors and guarantors who are natural persons - a deceased person without accepted inheritance, or without heirs.
3. If the following circumstances are present (cumulative):
  - all possible enforcement actions for collection of the receivable have been exhausted, or in case there is property owned by any of the liable persons, the costs for its forced sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) would exceed the expected revenues of the Bank from the sale or the reduced value acceptable for the Bank.
  - no more income is expected for repayment of debts - both from enforcement actions and from voluntary repayments.
  - the costs related to taking action to write off the company from the Commercial Register are an expense that is not expected to be reimbursed.

##### Impairment of financial assets

IFRS 9 requires the recognition of a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of the impairment depends on the probability of default of the debtor over the next 12 months after initial recognition, unless there has been a significant increase in credit risk, which requires the estimation of expected credit losses (ECL) over the lifetime of the financial asset.

The estimate of ECLs is based on all available, reasonable, and justified information at the reporting date for past events, the current situation and the use of relevant macroeconomic indicators and reliable forecasts of future economic conditions. The key macroeconomic indicators, used by the Bank, are gross domestic product, unemployment, inflation, changes in oil prices, and changes in the USD exchange rate and 3M EURIBOR. Historical analysis (10 years) shows that these indicators have statistically significant correlations – positive or negative – with the level of expected credit losses as follows:

Macroeconomic indicator	Correlation with the movement of non-performing loans volume
GDP growth (Bulgaria)	Negative
Unemployment rate (Bulgaria)	Positive
Inflation (Bulgaria)	Positive
Oil price growth (Europe)	Positive
EURIBOR 3M	Negative
USD/BGN <sup>2</sup>	Neutral

<sup>2</sup> The indicator itself is not significant for the level of non-performing loans, but in the context of the significance



### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

The expected credit losses are measured on the basis of three macroeconomic scenarios – realistic, negative and optimistic, which are used in the calculation of the impairment by applying different weights. For exposures that exceed BGN 5,000 thousand at related party group level or exposures classified in Stage 3, the determination of the impairment amount required for expected credit losses is made on an individual basis and, for the others, on a portfolio basis. The results obtained can be further adjusted and expected credit losses increased or reduced to reflect future risks that cannot be modelled (mainly, legislative or regulatory). The existence of such risks is established in the periodic analyses of the exposures carried out by the Bank. The prepared individual impairment tests are reported by the responsible business units and "Risk" division to the competent authorities in the Bank, including to the Impairment and Provisions Committee in order to decide on a change of classification, to establish the existence of a restructuring and/or the amount of the impairment provision required.

The Bank has drawn up a methodology that introduces criteria for classifying financial assets in three categories (the so-called "stages"), transfer criteria between them and setting an impairment amount depending on the stage in which the underlying asset is classified.

The stages and their characteristics are described below:

- Stage 1 – Standard - includes financial assets without a significant increase in credit risk after initial recognition. The impairment of those assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is shorter than one year.
  
- Stage 2 – Watch - includes financial assets with a significant increase in credit risk after initial recognition. Such an increase is presumed if the loan is past due for more than 30 days; the debtor is placed on watch; the debtor's credit rating has deteriorated at the reporting date compared to its rating on the date of recognition of the instrument, or the Bank expects the credit to be restructured. In this case, the expected credit losses are calculated for the entire lifetime of the asset;

---

of the USD for the determination of the prices of main raw materials, products and services it has indirect influence and, in some cases, it predicts the movements in GDP, inflation and petrol prices.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

- Stage 3 – Non-performing - includes assets, for which objective evidence exists that they are impaired, such as non-performing loans. The Bank has set specific criteria that determine when a debtor is in default. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, and this loss event has affected the expected future cash flows of that asset, which can be measured reliably. The expected credit losses for these instruments are also calculated for the entire lifetime of the instrument.

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Bank of the borrower concerned. The Bank has set a credit rating of 7 as a transition limit to move to Stage 2 and credit rating 8 to move to Stage 3. In addition, the Bank monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1.

Objective evidence a financial asset is impaired includes default or delinquency by a borrower, restructuring of a liability to the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of a borrower or issuer, economic conditions that lead to failures or the disappearance of an active market for a security. Any asset with default contractual payments over 90 days is categorized as "non-performing" and is classified in Stage 3.

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime expected credit loss since initial recognition as a loss allowance with any changes recognised in profit or loss. A favorable change in the condition of such assets is stated a revaluation gain.

##### *Financial assets measured at amortised cost*

The Bank considers evidence for impairment of financial assets measured at amortised cost at both individual and collective level. Assets with similar risk characteristics are collectively assessed for impairment.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

###### Financial assets measured at amortised cost (continued)

In assessing collective impairment, the Bank uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred.

Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment, the understanding of the Bank of the impairment on a collective (portfolio) basis is as follows:

*„Article 32. (1) Based on a motivated proposal by Risk Department, the bank may designate sub-portfolios of exposures with similar risk characteristics.*

*(2) The indicators underlying the establishment of a sub-portfolio are controlled and monitored at least once a year in order to identify potential unfavourable dynamics and changes in the risk profile of the portfolio.*

*Article 33. The amount of the collective impairment is determined in accordance with the methodology adopted by the Bank. It is also possible to develop additional methodologies that take into account specific risk factors for particular sub-portfolios.*

*Article 34. For groups of financial instruments, the credit risk of which has increased significantly since initial recognition, a portfolio assessment can be made taking into account the information that shows a significant increase in credit risk at the level of a group or sub-group of financial instruments. Thus, the Bank recognizes expected credit losses over the entire life of financial instruments the credit risk of which has increased significantly, even when there is no such evidence at the level of an individual instrument.*

*Article 35. (1) When the Bank determines whether there has been a significant increase in credit risk and recognizes loss adjustments on a collective basis, financial instruments may be grouped on the basis of common credit risk characteristics with the aim to conduct an analysis to identify a significant increase in credit risk in a timely manner.*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

###### *Financial assets measured at amortised cost (continued)*

*(2) By grouping its financial instruments, the Bank complies with the principle of not impairing the quality of information available by grouping financial instruments with different risk characteristics. Common characteristics of credit risk include, but are not limited to: a type of instrument; credit risk rating; type of collateral; date of initial recognition; residual term to maturity; industry; geographical location of the borrower; and the relative value of the collateral compared to the financial asset if it affects the probability of default (for example, non-recourse loans in some jurisdictions or loan / collateral ratios)."*

Currently, the Bank has designated as a portfolio for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) and all receivables below BGN 5 million which are not subject to individual measurement.

For the Bank, impairment on an individual basis means (again, as defined in the same Policy) an assessment of the expected credit losses based on the exposure's individual parameters.

1. When the exposure is in Stage 3, an individual model is applied to the expected future cash flows from collateral realisation.

2. When the exposure is in Stage 1 or 2,

a) a tool is used to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameters, sector specifics, etc.

or

b) an individual matrix for expected future cash flows from operations under going concern scenarios in several (at least two) scenarios with the respective weights with a total amount equal to the probability that no default will occur, as well as an individual matrix for the expected future cash flows from the disposal of collateral in a "non-going concern" scenario with a weight equal to the probability of default.

###### *Financial assets measured at fair value through other comprehensive income*

For debt instruments measured at FVTOCI no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve.

For equity instruments no loss allowance is recognised and every movement in the fair value is recognised in other comprehensive income.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

###### Financial assets measured at fair value through other comprehensive income (continued)

The absolute threshold for transferring loans between levels is related to the internal credit rating of the securities set by the Bank to the respective borrower. The Bank has set a credit rating of 7 for Stage 2 transition limit and a credit rating of 8 for transition to Stage 3. In addition, the Bank monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1. Loans over BGN 5,000 thousand are reviewed on individual basis and amounts below this threshold, on a portfolio basis.

###### Financial guarantees contracts and credit risk guarantees

Financial guarantee contracts are subject to analysis and impairment according to the expected credit loss analysis model. As far as no payment has occurred under these contracts, a conversion coefficient is applied, which may be between zero and one determined on the basis of historical experience, the Bank's understanding of the specific future financing needs of debtors and other relevant forward-looking information. Financial guarantee contracts under which payment on behalf of the Bank has occurred are impaired as loans to the respective beneficiary.

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programmes are analysed and impaired in accordance with a separate model developed by the Bank, taking into account the specifics of both the programmes (see subsection "Contingent commitments" in section 4.1 Credit risk, as well as notes 32 and 37) and the beneficiaries, as well as historical data on losses of similar credit products on the Bulgarian market. The calculated provision rates as of 31 December 2021 and 31 December 2020 are 18.7% under the loan guarantee program for legal entities and 36% under the loan guarantee program for individuals and freelance. Under these programs, the Bank reports impairment from expected credit losses at the end of 2021 at the amount of BGN 176,370 thousand (as of 31 December 2020: BGN 120,308 thousand) (see Notes 32 and 37).

##### **Fair value of financial assets and liabilities (IFRS 13)**

###### Definitions

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Fair value of financial assets and liabilities (IFRS 13) (continued)**

###### Definitions (continued)

The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value.

The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Bank determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be précised by direct market participants. The Bank has established control environment with respect to the assessment of fair values.

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the Bank.

The fair value of equity assets not traded on the market (shares and interests in companies) is measured using one or more eligible measurement methods under IFRS 13, except where the Bank has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

- The market method - using prices and other relevant information generated by market transactions that relate to similar or identical assets, liabilities or groups of assets and liabilities (businesses)
- The cost method - using the amounts that would currently be needed to replace a specific asset or build a similar capacity and functionality asset (present value of replacement)
- The income method - which converts future amounts (cash flows or income and expenses) into a single current (discounted) amount, reflecting current market expectations for these future amounts.

The choice of method used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction. Upon subsequent measurement, the Bank takes into account the methods used in the initial / previous fair value measurement and analyses the differences in values between the periods. When changing methods and / or weights, the Bank provides justification as to why it is necessary and how the new approach reflects as much as possible the fair value, as well as its change over time.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Fair value of financial assets and liabilities (IFRS 13) (continued)**

###### Definitions (continued)

The Bank measures these financial assets at fair value using eligible measurement methods under IFRS 13, except where it has considered that the cost of acquisition (cost) best reflects fair value.

###### Fair Value Hierarchy

The Bank applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

##### **Hedge accounting (IFRS 9)**

Hedge accounting requires more extensive disclosures regarding the risk management activity. The Bank's business model does not provide taking of significant market or foreign currency positions. Insofar as the Bank is exposed to currency or interest rate risk, it takes appropriate measures to minimize that risk: matching the amount of active and passive exposures in the relevant currency, providing coverage of interest-bearing fixed-rate assets with similar interest-bearing fixed-rate liabilities.

The Bank fully assumes the market risk arising out of its securities regardless of whether they have been held to collect cash flows or to sell.

The Bank has no foreign subsidiaries to be consolidated.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Hedge accounting (IFRS 9) (continued)**

The Bank does not report active financial instruments designated as hedging relationship and therefore, the requirements of IFRS 9, applicable to hedges, have no effect on the Bank's financial statements.

##### **Cash and cash equivalents**

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The parent company (the Bank) maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents. They are presented in the separate statement of financial position at amortised cost.

For the purposes of preparation of the separate cash flow statement, bank overdrafts payable on demand and forming an integral part of the Bank's cash management are included as a component of Cash and cash equivalents.

#### **3.2 Other assets**

##### **Investments in subsidiaries (IAS 27)**

Long-term investments, representing shares in subsidiaries are reported according to IAS 27 as far as IFRS 9 is not applicable. They are presented in the separate financial statements:

- at cost, which is the fair value of the consideration paid, including direct costs of acquisition of the investment; or
- At fair value of the contribution, determined by a valuation by a qualified appraiser, in cases where the fair value is lower than the acquisition cost.

The investments in subsidiaries held by the Bank are subject to impairment testing. If indications of impairment are found, the latter is recognized in the separate statement of comprehensive income.

Purchases and sales of investments are recognised on trade date.

Investments are derecognised when the rights originating from the investments have been transferred to third parties on the occurrence of the legal grounds to do so, and thus, the control on the business rewards of investments has been lost. Income from their sale is presented separately as part of other operating income / (expenses) in the separate statement of comprehensive income (in the profit or loss for the year).



### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Other assets (continued)**

##### **Taxes (IAS 12)**

Current income taxes are determined by the Bank in accordance with the Bulgarian legislation. The income tax due is calculated on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities on the grounds of which taxes are paid (reversed).

The tax effect relating to transactions and other events reported in the separate statement of comprehensive income is recognised also in the separate statement of comprehensive income and the tax effect relating to transactions and other events reported directly in equity is also recognised directly in equity.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (taxable loss).

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred taxes are recognised as income or expense and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in equity. Deferred taxes are charged to or deducted directly from equity, when they relate to items, which have been charged to or deducted from equity in the same or in a different period.

##### **Property, plant and equipment (IAS 16)**

Items of property, plant and equipment are presented on the separate financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses. The Bank recognises a fixed asset when its value is equal to, or exceeds, BGN 700.

##### *Initial recognition*

Upon their initial acquisition, items of property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition. Directly attributable costs include: costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, etc.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Other assets (continued)**

##### **Property, plant and equipment (IAS 16) (continued)**

###### *Subsequent measurement*

The approach chosen by the Bank for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other operating income/expenses in profit or loss.

###### *Depreciation method*

The Bank applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets is as follows:

- buildings – 50 years
- bank equipment and computers – 5 years
- motor vehicles – 5 years
- fixtures and fittings – 6.7 years

The useful life by groups was not changed compared to 2020.

###### *Subsequent costs*

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly.

At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

##### **Intangible assets (IAS 38)**

Intangible assets are presented on the separate financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software products and software licenses.

The Bank applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Other assets (continued)**

##### **Intangible assets (IAS 38) (continued)**

The carrying amount of property, plant and equipment and intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the separate statement of comprehensive income.

Property, plant and equipment and intangible assets are derecognised from the separate financial statements when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the groups of property, plant and equipment and intangible assets (defined as the difference between the net sales proceeds and the carrying amount of the asset at the date of sale) are recognized net in Other operating income / expenses in the statement of comprehensive income.

##### **Investment property (IAS 40)**

The Bank's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value. Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement) when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

##### **Assets held for sale (IFRS 5)**

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Bank's operations or through renting or lease. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement. Usually, these assets have been initially accepted by the Bank as collateral and subsequently acquired as a result of a "debt against property" exchange by borrowers that do not perform their obligations in accordance with the agreed contractual terms.

Assets classified in this group are available for immediate sale in their present condition. Management is usually engaged actively and performs actions to realise a sale transaction within at least one year after the date of classification of the asset in this group.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Other assets (continued)**

##### **Assets held for sale (IFRS 5) (continued)**

Assets classified as held for sale are presented in the separate statement of financial position separately and measured at the lower of their carrying amount and their fair value less the estimated direct costs to sell.

The assets within this classification group are not depreciated.

If these assets are not realised within 12 months, or within 24 months, provided that the requirements of IFRS 5 for extension are met, they are transferred to Assets, acquired from collateral foreclosure.

##### **Assets acquired from collateral foreclosure (IAS 2)**

Assets acquired from collateral foreclosure that are not realized within 12-month period or within 24 months when the requirements of IFRS 5 for an extension are met are transferred to Assets acquired from collateral. They are measured at the lower of cost and net realisable value in compliance with the requirements of IAS 2 Inventories.

Cost of the assets acquired from collateral foreclosure is the sum of all direct costs incurred on the acquisition of the assets and other expenses incurred on bringing them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete the trade cycle and costs to sell.

The impairment of these assets is calculated in accordance with the Bank's accounting policy based on the expected realisation of the assets acquired from collateral foreclosure. The impairment of the assets acquired from collateral foreclosure is recognised in the statement of comprehensive income. The Bank's management is of the opinion that the carrying amount of the assets acquired from collateral foreclosure is the best estimate of their net realisable value at the date of the statement of financial position. Further details are provided in Notes 26-27.

##### **Impairment of non-financial assets (IAS 36)**

The carrying amounts of the Bank's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Other assets (continued)**

##### **Impairment of non-financial assets (IAS 36) (continued)**

If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised with respect to CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

#### **3.3. Liabilities**

##### **Financial liabilities**

The recognition and measurement of financial liabilities is described in section 3.1 – Financial instruments.

##### **Leases (IFRS 16)**

IFRS 16 defines the principles of recognition, measurement, presentation, and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 requires lessees to recognize most leases in the statement of financial position and to apply a single model upon recognition of all leases, with some exceptions. Lessor accounting under IFRS 16 is substantially unchanged. The standard is applied by the Bank using the modified retrospective approach.

For leases previously classified as finance lease the right-of-use assets and lease liability are measured at the same amounts as of the date of initial application as they were recognized according to IAS 17 right before initial application.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.3. Liabilities (continued)**

##### **Leases (IFRS 16) (continued)**

###### *The Bank as a lessee*

BDB EAD assesses whether a contract is or contains a lease, at inception of the contract.

The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank premeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.3. Liabilities (continued)**

##### **Leases (IFRS 16) (continued)**

###### *The Bank as a lessee (continued)*

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is premeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in Property, plant and equipment, intangible assets in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in the statement of comprehensive income.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.3. Liabilities (continued)**

##### **Leases (IFRS 16) (continued)**

###### *The Bank as a lessee (continued)*

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the statement of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

##### **Pension and other payables to personnel under the social security and labour legislation (IAS 19)**

According to the Bulgarian legislation, the Bank is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Bank, in its capacity of an employer, are based on the provisions of the Labour Code.

###### Short-term employee benefits

Short-term employee benefits of the Bank in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the separate statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Bank's obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Bank assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee's remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.



### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.3. Liabilities (continued)**

##### **Pension and other payables to personnel under the social security and labour legislation (IAS 19) (continued)**

###### Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature, these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the separate financial statements, at which they are included in the separate statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

Past service, costs are recognised immediately in the separate statement of comprehensive income in the period in which they were incurred.

At the end of each reporting period, the Bank assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the separate statement of comprehensive income.

###### Termination benefits

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.3. Liabilities (continued)**

##### **Pension and other payables to personnel under the social security and labour legislation (IAS 19) (continued)**

###### *Termination benefits (continued)*

The Bank recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months are discounted to and presented in the separate statement of financial position at present value.

##### **Provisions and contingent liabilities (IAS 37)**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the separate statement of financial position but are subject to special disclosure.

##### **Financial guarantee contracts (IFRS 9)**

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially measured at fair value, whereas it is accepted that the guarantee's fair value on the date of its issuance is the premium received at inception, if any. No receivables for the future premiums are recognized. Commission fee income is deferred on a straight-line basis over the period, to which such fees refer. Subsequently, the Bank's liabilities under financial guarantee contracts are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

The expected credit losses, related to the financial guarantees issued, are recognised in the statement of comprehensive income, under the heading Impairment of financial assets. The likelihood of an obligation for payment by the Bank under such contracts is estimated based on historical experience with similar instruments.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4 Capital**

##### **Share capital**

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

Expenses directly relating to the issuance of new shares are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

##### **Dividends**

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Bank. The corresponding amount is written off directly from equity.

#### **3.5 Income and expenses**

##### **Interest income and expenses (IFRS 9)**

Interest income and interest expenses are recognised in the statement of comprehensive income on an accrual basis for all interest-bearing instruments, except for those at fair value through profit or loss, using the effective interest method based on the actual price of acquisition and the applicable interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on debt instruments measured at fair value through other comprehensive income, interest on deposits with other banks, interest on loans and advances to customers, fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

For exposures classified in Stages 1 and 2, the Bank recognizes interest income based on effective interest rate method accrued on their gross carrying amount. For exposures classified in Stage 3, the Bank recognizes interest income based on effective interest rate method accrued on their amortised cost, less impairment for expected credit losses.

The Bank also holds investments and assets in countries with negative interest rate levels. The Bank discloses the interest paid on such assets as interest expense with additional disclosure in Note 6.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.5 Income and expenses (continued)**

##### **Revenue from contracts with customers (IFRS 15)**

Under IFRS 15 a five-step model is applied to account for revenue arising from contracts with customers, regardless of the type of transaction or industry, requiring the Bank (1) to identify the contracts with customers, (2) to identify the performance obligations in the contracts, (3) to determine the transaction price, (4) to allocate the transaction price to the performance obligations, and (5) to recognise revenue when each performance obligation is satisfied.

The Bank has identified the following performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. Due to the short time period of performance of the service revenue is recognised at the time of its provision. The fees for these services are based on the Bank's tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff. Issuance of guarantees and letters of credit – revenue is recognized over time because the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time and thus, the Bank uses a straight-line method for measuring the progress of the contract, which in turn results in a straight-line amortisation of the fees over the contracted period. The fees for these services are fixed, calculated depending on the amount of the guarantee or the letter of credit.
- Deposit maintenance – revenue is recognised at a point in time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Bank's Tariff and represent a fixed monthly amount corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff.
- Brokerage operations for which the Bank receives agent's commissions - revenue is recognised at a point in time upon the provision of the brokerage service as the Bank operates as a broker. Considering the above circumstances, the Bank recognizes revenue that is equal to the amount of the commission fee for the performance of the brokerage service. The commission fee is the net amount to be withheld by the Bank after paying the portion due to the third party to which / whom the Bank has mediated to perform the services of that third party.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Revenue from contracts with customers (IFRS 15) (continued)**

Servicing of debenture issues fees are fees for the Bank to perform the function of a trustee bank on a bond issue of a public interest entity. The fee is charged and paid periodically, in accordance with a contract.

Income from funds trusted in custody consists of fees for managing funds provided by the Ministry of Finance in relation to a loan from Kreditanstalt für Wiederaufbau extended to the Ministry of Finance. These fees are recognized when due under a contract.

The Bank – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted as of 31 December 2021 is BGN 7,720 thousand. The Bank has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

#### **Foreign currency transactions**

In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the separate financial statements are the following:

<b><u>Foreign currency</u></b>	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
USD	1.72685	1.59386
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0.

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the separate statement of comprehensive income in the period in which they have occurred.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT**

In the ordinary course of business, the Bank is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Bank's financial stability. These risks are identified, measured, and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Bank's profitability and existence.

The risk management within Bulgarian Development Bank EAD is a complex of methods and procedures used by the Bank for identifying, measuring, and monitoring its risk exposures. The Bank manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, Bulgarian Development Bank EAD applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

##### **4.1. Credit risk**

Credit risk is the risk of potential losses due to a failure of the Bank's customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Bank, incl. country (sovereign) risk, contractor's risk and settlement risk, and credit risk of concentration.

Credit risk is the main risk for the Bank and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the law for BDB and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Bank applies internal rating generation models. These internal rating models depend on the specifics of the object being rated. The so-developed rating models for credit risk assessment of corporate clients of the Bank are based on an analysis of historical data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Bank, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within BDB. Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. There is an „Early Warning Procedure for Credit Exposures“ which includes an early warning system of signals and actions.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

In managing its credit risk, the Bank applies an intra-bank system of limits that is subject to periodic review and updating.

There is a specialized unit functioning within the Bank, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by applying the secured credit line technique through accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

The Bank forms impairment on exposures depending on the borrower's and/or group of related clients' risk profile based on conducted individual impairment tests.

The exposures in the Bank's corporate credit portfolio are classified mainly in three categories depending on the existence of indications of impairment – changes in the objective indicators on the basis of which the initial measurement and subsequent monitoring of exposure / customer are carried out, which would result in changes in cash flows from financial assets, including default in payment due by the borrower: Stage 1: „Standard“ (with assigned internal credit ratings from 1 to 6, incl.; Stage 2 “Watch” or “Forborne” (with assigned internal credit ratings of 7) and Stage 3 „Problematic/Non-performing“ (with assigned internal credit ratings of 8, 9 or 10). These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in this Note 4.1. Loans over BGN 5,000 thousand are reviewed for existence of these indicators on individual basis and amounts below this threshold, on a portfolio basis.

In the case of customers, for which there are currently no indications of increased risk, the Bank periodically (at least once a year) reviews the financial and legal status, including the collateral accepted, in order to establish the need for a change in the percentage of impairment for loss risk and/or change in the assessment of the degree of credit risk. Clients with a higher credit risk are subject to a review in every 6 months and those classified as „problematic/non-performing“, in every three months. In follow-up of the recommendations of the Basel Committee and their transposition into regulations within the European Union and in particular, Regulation 575/2013/EU and Directive 2013/36/EU, the commercial banks are required to implement in their internal regulations an in-house rating system that allows them to achieve comparability with the borrowers' official crediting rating assigned by recognized external credit rating institutions, which adopts the scale, used worldwide, of ten credit rating categories, including two categories for non-performing loans. The Bank has developed a detailed internal normative base, comprising Policy and rules for determining the impairment due to uncollectability of risk exposures, Methodology for credit risk analysis and assessment of Bulgarian Development Bank EAD, and Credit activity manual of BDB, ensuring full compliance of the policy and procedures for determining internal credit ratings with the above EU regulations.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Bank and its recoverable amount.

The Bank accrues impairment on a portfolio basis for its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

Aiming at minimizing and reducing the credit risk, the Bank accepts collateral in accordance with its in-house rules. The Bank does not provide unsecured loans. It is a common practice of the Bank to require collateral from the borrowers that is equal to at least 100 per cent of the agreed loan amount, and valuations from accredited independent valuers are required.

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the Bank participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. EIF is committed to provide a direct guarantee covering 50 per cent of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand (BGN 4,929 thousand). The Bank has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans. As of 31 December 2021, the total exposure on EIF-guaranteed loans amounted to BGN 241 thousand (31 December 2020: BGN 735 thousand). This amount includes the utilised but not yet repaid portion of the loans, as well as the Bank's commitments on unutilised loans. The payment engagement of EIF to date amounts to BGN 3,563 thousand (31 December 2020: BGN 3,563 thousand), whereas the losses covered by EIF amount to BGN 364 thousand (31 December 2020: BGN 364 thousand).

In November 2016 BDB signed an agreement for counter guarantee with European Investment Fund (EIF) under the COSME programme for small and medium-sized enterprises. The COSME programme is implemented with the support of EFSI (the European Fund for Strategic Investment), known as the "Juncker Plan". BDB is able to cover up to 60 per cent of the risk on loans extended to SMEs by commercial banks it will partner with. Half of this risk will be counter-guaranteed by EIF and the total amount of the counter-guarantee is EUR 10 million. By using the resource guaranteed by the COSME programme, the banks-partners to BDB will be able to extend investment loans and loans for working capital, bank guarantees and revolving loans. The maximum amount of loans extended is EUR 150,000. The term of repayment varies from 1 to 10 years.

As of 31 December 2021, and 2020, there are no claimed amounts on behalf of the Bank under the counter-guarantee agreement.

Off-balance sheet commitments, primarily the unutilised portion of authorized loan facilities, letters of guarantee and letters of credit, which represent an irrevocable commitment of the Bank to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Bank and bear the same credit risk as the balance sheet loan exposures.



#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

The Bank forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

- Direct lending –portfolio of credit commitments with debtors-legal entities, other than bank financial institutions, and loans to individuals (loans to Bank's employees), as well as subjects from the public sector;
- Indirect lending or „on-lending“ – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria;
- Financing by the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) in compliance with Council of Ministers decree No 18;

Beyond the credit portfolio, the Bank's activity is exposed to credit risk also with respect to exposures related to other activities of the Bank:

- portfolio of financial instruments, other than loans, formed in connection with the Bank's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria and other EU countries, classified as „ Financial assets at fair value through other comprehensive income“;
- to banks in connection with money market transactions, placed term deposits and available balances in nostro accounts;
- exposure to receivables relating to the State budget.

The Bank applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios, and currently monitors the credit risk of concentration of financial assets on the basis of industry criteria, and also by individual counterparty and insurance companies ensuring coverage. Regarding the Bank's direct lending activities, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

###### *Maximum exposure to credit risk*

Exposure to credit risk attributable to financial assets recognised in the separate statement of financial position is as follows:

Financial asset	2021		2020	
	maximum	net	maximum	net
Cash in hand and balances in current account with the Central Bank	243,625	243,625	496,268	496,268
Financial assets at amortized cost – Receivables from banks	387,437	385,347	480,169	478,181
Financial assets at amortized cost – Loans and advances to customers	2,068,281	1,727,836	2,101,281	1,845,236
Financial assets at amortized cost - Receivables from the State budget	18,866	18,817	57,975	57,824
Financial assets at fair value through other comprehensive income – Debt instruments	591,943	591,943	581,711	581,711
Financial assets at fair value through other comprehensive income – Equity instruments	64,669	64,669	54,059	54,059
Financial assets at amortized cost – Debt instruments	2,011	1,920	2,011	1,930
Other financial assets	2,116	2,116	14,446	14,446
	<b>3,378,948</b>	<b>3,036,273</b>	<b>3,787,920</b>	<b>3,529,655</b>

Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounting to BGN 18,866 thousand (2020: BGN 57,975 thousand).

The exposure to credit risk arising out of off-balance sheet commitments is as follows:

	2021		2020	
	maximum	net	maximum	net
Anti-COVID guarantees	680,938	504,568	479,462	359,154
Unutilised amount of authorized loans	241,448	241,416	317,520	317,477
Bank guarantees and letters of credit	130,295	118,262	152,835	134,951
Unpaid portion of shares in Three Seas Initiative	25,031	25,031	25,399	25,399
Participation in the SIA investment program	861	861	1,006	1,006
	<b>1,078,573</b>	<b>890,138</b>	<b>976,222</b>	<b>837,987</b>
<b>Maximum exposure to credit risk</b>	<b>4,457,521</b>	<b>3,926,411</b>	<b>4,764,142</b>	<b>4,367,642</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

In assessing the net exposure, accrued impairment and provisions, highly liquid collaterals (government securities and cash), as also the net present value of liquid collaterals – real estate, have been taken into account.

##### **Credit risk - concentration**

The financial assets of the Bank (cash in current accounts and balances with the Central Bank, receivables from banks, financial assets at fair value through other comprehensive income, loans and advances to customers, receivables from the State budget and other financial assets), classified by industry sectors (at gross amount before impairment), are presented in the table on the next page:

Sectors	2021	%	2020	%
Government	711,325	21.05%	770,213	20.61%
Financial services	913,969	27.05%	1,245,205	31.98%
Trade	631,007	18.67%	445,387	11.92%
Industry, total	336,164	9.95%	486,486	13.02%
<i>Industry – energy generation and distribution</i>	103,046	3.05%	115,635	3.09%
<i>Industry – manufacture of plant and equipment</i>	91,086	2.70%	78,015	2.09%
<i>Industry – manufacture of foodstuffs</i>	46,465	1.38%	44,933	1.20%
<i>Industry – manufacture of tobacco products</i>	-	-	148,640	3.98%
<i>Industry – other industries</i>	95,567	2.83%	99,263	2.66%
Tourist services	271,309	8.03%	266,325	7.13%
Transport	207,079	6.13%	256,081	6.85%
Construction	156,914	4.64%	155,773	4.14%
Real estate transactions	57,356	1.70%	57,897	1.55%
Agriculture	32,638	0.97%	49,359	1.32%
Other industries	61,187	1.80%	55,194	1.48%
	<b>3,378,948</b>	<b>100%</b>	<b>3,787,920</b>	<b>100%</b>

The largest credit exposure of the Bank to a group of related parties /other than bank institutions/ amounts to BGN 182,419 thousand (including statement of financial position debt of BGN 147,727 thousand and amount for utilization of BGN 31,635 thousand and guarantees of BGN 3,057 thousand) at amortized cost (2020: BGN 198,839 thousand), which represents 17.05% of Bank's equity/eligible capital ratio according to Regulation 575/2013/EU (2020: 19.14%).

There is no exposure to a customer or a group of related customers as of 31 December 2021 and 2020, exceeding 25% of Bank's capital base.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### *Credit risk - concentration (continued)*

The concentration of client's portfolio (other than bank institutions) is presented in the following table:

	<b>2021</b>		<b>2020</b>	
	<b>Net exposure*</b>	<b>% of Equity</b>	<b>Net exposure*</b>	<b>% of Equity</b>
The biggest total exposure to a customer group	179,362	16.76%	192,302	18.51%
Total amount of the ten biggest exposures	1,055,352	98.62%	1,111,600	107.00%
Total amount of the twenty biggest exposures	1,423,152	132.98%	1,625,663	156.48%

\* Net exposure – the amount of the exposure net of provisions and highly liquid collateral.

The structure of the financial assets of the Bank by risk classification groups is as follows (at gross amount before impairment):

<b>As of 31 December 2021</b>	<b>Standard (Stage 1)</b>	<b>Watch (Stage 2)</b>	<b>Non- performing (Stage 3)</b>	<b>Total</b>
Cash in hand and balances in current account with the Central Bank	243,625	-	-	243,625
Financial assets at amortized cost – Receivables from banks	387,437	-	-	387,437
Financial assets at amortized cost – Receivables from the State budget	18,866	-	-	18,866
Financial assets at amortized cost – Loans for commercial property and construction	396,453	190,902	139,394	726,749
Financial assets at amortized cost – Trade loans	514,595	452,241	117,914	1,084,750
Financial assets at amortized cost – Consumer loans	1,918	6	7	1,931
Financial assets at amortized cost – Residential mortgage loans to individuals	2,032	-	-	2,032
Financial assets at amortized cost – Loans to other financial institutions	124,777	-	6,965	131,742
Financial assets at amortized cost – Debt instruments	2,011	-	-	2,011
Financial assets at amortized cost – Other loans and receivables	28,350	64,307	28,420	121,077
Financial assets at fair value through other comprehensive income – Debt instruments	591,943	-	-	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	64,669	-	-	64,669
Other financial assets	2,116	-	-	2,116
<b>Total financial assets</b>	<b>2,378,792</b>	<b>707,456</b>	<b>292,700</b>	<b>3,378,948</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

<i>As of 31 December 2020</i>	<b>Standard (Stage 1)</b>	<b>Watch (Stage 2)</b>	<b>Non- performing (Stage 3)</b>	<b>Total</b>
Cash in hand and balances in current account with the Central Bank	496,268	-	-	496,268
Financial assets at amortized cost – Receivables from banks	480,169	-	-	480,169
Financial assets at amortized cost – Receivables from the State budget	57,975	-	-	57,975
Financial assets at amortized cost – Loans for commercial property and construction	429,109	215,197	110,623	754,929
Financial assets at amortized cost – Trade loans	739,875	204,236	106,095	1,050,206
Financial assets at amortized cost – Consumer loans	1,076	17	11	1,104
Financial assets at amortized cost – Residential mortgage loans to individuals	1,150	-	-	1,150
Financial assets at amortized cost – Loans to other financial institutions	110,857	-	8,061	118,918
Financial assets at amortized cost – Debt instruments	2,011	-	-	2,011
Financial assets at amortized cost – Other loans and receivables	26,679	117,528	30,767	174,974
Financial assets at fair value through other comprehensive income – Debt instruments	581,711	-	-	581,711
Financial assets at fair value through other comprehensive income – Equity instruments	54,059	-	-	54,059
Other financial assets	14,446	-	-	14,446
<b>Total financial assets</b>	<b>2,995,385</b>	<b>536,978</b>	<b>255,557</b>	<b>3,787,920</b>

The table below presents the types of collaterals, besides commercial enterprises, received by the Bank in relation to loans granted, at fair value determined by accredited independent valuers and confirmed by a Bank's employee holding the necessary license:

<i>Type of collateral</i>	<b>2021</b>		<b>2020</b>	
	<b>Fair value</b>	<b>%</b>	<b>Fair value</b>	<b>%</b>
Mortgages	540,809	57.80	752,298	57.96
Pledge of plant, machinery, equipment, and inventories	287,494	30.73	315,850	24.34
Restricted deposits	36,653	3.92	57,968	4.47
Mortgages on ships	46,432	4.96	97,276	7.49
Credit risk insurance	23,612	2.52	50,524	3.89
Securities quoted on a stock market	-	0.00	20,536	1.58
Bank guarantees	635	0.07	3,451	0.27
<b>Total collateral</b>	<b>935,635</b>	<b>100</b>	<b>1,297,903</b>	<b>100</b>

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

Credit exposures could have more than one collateral, i.e. it could be included in more than one position. The amount of the collateral could exceed 100 per cent, as more than one collateral could be provided to secure one loan.

At the request of the contractors, the Bank is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favor of the debtor, as well whether this discount significantly modifies the cash flows and their current net amount and, respectively, the exposure should be accepted as modified/restructured and therefore, to be reclassified to Stage 2 or Stage 3.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures Impairment of BDB, the Bank monitors the exposures for indicators that may lead to impairment in the future. These indicators are as follows:

*„Article 11. Indicators of impairment:*

*(1) Significant increase in credit risk, which results in recognition of a lifetime expected credit loss for the instrument (i.e., transition from a 12-month expected credit loss) and respectively, classification in Stage 2 (Watch) would be a consequence of the following circumstances:*

*1. significant changes in internal credit risk indicators as a result of a change in credit risk relative to the beginning of the life of the asset;*

*2. other changes in interest rates or the conditions of an existing financial instrument that would be materially different if the instrument was newly granted or issued at the date of the financial statements (for example, more stringent terms and conditions, increased collateral or warranty requirements) due to changes in the credit risk of the financial instrument compared to that of its initial recognition;*

*3. significant changes in the external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same life expectancy. Changes in credit risk margins include, but are not limited to:*

*a) credit spread;*

*b) the credit default swap price for the borrower;*

*c) duration of the period or the extent to which the fair value of a financial asset is lower than its amortized cost; and*

*d) changes in the price of borrower's debt and equity instruments;*

*e) any other market information about the borrower.*

*4. actual or expected significant change in the financial instrument's external credit rating (or of the debtor);*

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

*5. actual or expected downgrade of the borrower's external credit rating or a downgrade in the scoring rating used to measure credit risk;*

*6. existing or expected adverse changes in business, financial or economic conditions, for which it is expected to result in a significant change in the borrower's ability to perform its obligations.*

*7. actual or expected significant change in the borrower's operating results, such as actual or expected decreasing revenue or margins, increase in operating risks, working capital shortage, asset quality deterioration, increased leverage, low liquidity, management problems or changes within the scope of business or organisational structure that results in a significant change in the borrower's ability to perform its obligations on the debt;*

*8. significant increases in credit risk for other financial instruments of the same borrower;*

*9. actual or expected significant adverse change in the borrower's regulatory, economic or technological environment, which has resulted in a significant change in the borrower's ability to perform its obligations;*

*10. significant changes in the value of the debt collateral or in the quality of guarantees and additional credit protection provided by a third party that are expected to reduce the economic incentive of the borrower to make scheduled contractual payments or to otherwise impact on the probability of default on the loan;*

*11. significant change in the quality of a guarantee provided by a shareholder (or by the owner of an entity) if the shareholder (owner) has an incentive and financial opportunity to prevent default through an increase in capital and / or cash;*

*12. significant changes, such as a reduction in financial support from a parent company or other subsidiary, or actual or expected significant change in the quality of credit protection that is expected to reduce the economic incentive for the borrower to make contractual payments.*

*13. expected changes in the loan documentation, including an expected breach of the contract, which may lead to the debtor being released from the obligation to comply with contractual commitments or amendments to the contract, interest rates, interest rate increases, requirements for additional collateral or guarantees, or other changes in the contractual framework of the instrument;*

*14. significant changes in the expected results and behaviour of the borrower, including changes in the creditworthiness of the borrowers within the group;*

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

15. *specific changes in the Bank's approach for managing the loan in relation to the financial instrument; for example, on the basis of newly emerging indicators of a change in financial instrument's credit risk, it is expected that the Bank's credit risk management practice will become more active or focused on instrument management, including more prudent or stringent monitoring, or active intervention in the relationships with the borrower;*

16. *information on arrears, including cases of amounts past due by more than 30 days (if there is evidence that a significant number of defaulting debtors for more than 30 days have not reached the stage of significant deterioration, this threshold may be increased; however, extensive supporting data will be required in accordance with the provision of paragraph B5.5.19 of IFRS 9);*

17. *initiation of court proceedings; claiming of bank guarantees or other circumstances that are expected to result in significant costs for the borrower;*

18. *considerable delay in the provision by the borrower of financial and other necessary information;*

19. *significant obligations of the borrower towards third parties, incl. off balance sheet, which would result in difficulties or inability to properly service the Bank's credit exposure.*

*(2) Events related to a classification where a financial instrument is classified in Stage 3, i.e., it is considered to be an asset with deteriorated credit quality and which, in most cases, correspond to the definition of default on the instrument, include:*

*1. significant financial difficulties of the debtor;*

*2. past due or unpaid liabilities to the Bank for more than 90 days;*

*3. provision of a concession to the debtor in view of its financial difficulties, which would otherwise not have been provided by the Bank;*

*a) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), the Bank estimates only the 12-month expected loss. Further analysis of the expected credit loss is carried out if an increased credit risk exists.*

*b) if, a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), but as a consequence the latter is reported as an impaired asset acquired / occurred, the Bank recognises the cumulative changes in the expected credit losses over its entire life.*

*c) if, a result of the re-negotiation and provision of a concession to the debtor, the financial asset is not derecognised, the Bank analyses whether there is a significant increase in credit risk, comparing:*

*(aa) the risk of default assessed at the reporting date (based on changed contractual terms); and*

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**



All amounts are in thousand Bulgarian Levs, unless otherwise stated

*(bb) the risk of default assessed at initial recognition (on the basis of the original unchanged contractual terms);*

*in order to establish whether it should recognise lifetime expected credit losses or 12-month expected credit losses;*

*4. high probability of insolvency of the debtor or other financial reorganization of the debtor;*

*5. other evidence of deterioration in the debtor's creditworthiness."*

The analysis should also determine whether the modification is material to the extent that gives reason to write-off the asset and recognize a new one.

In 2021, the Bank analysed the effect of modifications on its portfolio exposures, including those implemented under a private moratorium related to COVID-19 pandemic, in order to determine whether any of them indicate a need to write off and recognize a new asset. As a result of the analysis, it was assessed that the effect of the modifications is insignificant.

The analysis of changes in the amounts of the main groups of financial assets and their impairment are presented in the subsection "ECL measurement" in this section.

Regarding the loans extended under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP), it should be noted that according to the programme's parameters the amount of the loan approved is subject to regular updating in order to ensure expenditure control. The signature of annexes to the loan contracts, by means of which the financial parameters are updated, is a result of those controls.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

The table below presents data on the portfolio amount of the Bank's financial assets by type of instrument after the impairment made:

	Financial assets stated at amortized cost														Financial assets at fair value through other comprehensive income	
	Non-financial institutions		State budget		Financial institutions		Individuals		Cash in hand and balances in current account with the Central Bank		Securities at amortized cost		Other financial assets		Debt instruments	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Impaired on an individual basis																
-----standard (Stage 1)	675,005	828,852	-	-	-	-	-	-	-	-	2,011	2,011	2,116	14,446	591,943	581,711
-----watch (Stage 2)	688,531	481,929	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-----non-performing (Stage 3)	191,053	200,659	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>1,554,589</b>	<b>1,511,440</b>	-	-	-	-	-	-	-	-	<b>2,011</b>	<b>2,011</b>	<b>2,116</b>	<b>14,446</b>	<b>591,943</b>	<b>581,711</b>
<i>Incl. renegotiated</i>	1,438,103	1,110,772	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Past due but not impaired																
-----standard (Stage 1)	-	28,716	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-----watch (Stage 2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-----non-performing (Stage 3)	46,180	15,444	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>46,180</b>	<b>44,160</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Incl. renegotiated</i>	46,180	43,887	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Within 30 days</i>	-	28,716	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>From 30- 90 days</i>	2,722	2,642	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Over 90 days</i>	43,458	12,528	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.1. Credit risk (continued)**

	Financial assets stated at amortized cost										Financial assets at fair value through other comprehensive income					
	Non-financial institutions		State budget		Financial institutions		Individuals		Cash in hand and balances in current account with the Central Bank		Securities at amortized cost		Other financial assets		Debt instruments	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Impaired on a portfolio basis																
-----standard (Stage 1)	184,559	206,863	18,866	57,975	73,990	88,795	3,949	2,226	-	-	-	-	-	-	-	-
-----watch (Stage 2)	3,436	55,031	-	-	-	-	6	17	-	-	-	-	-	-	-	-
-----non-performing (Stage 3)	51,314	32,584	-	-	-	-	8	11	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>239,309</b>	<b>294,478</b>	<b>18,866</b>	<b>57,975</b>	<b>73,990</b>	<b>88,795</b>	<b>3,963</b>	<b>2,254</b>	-	-	-	-	-	-	-	-
Incl. renegotiated	164,540	245,270	18,866	-	50,271	61,578	247	200	-	-	-	-	-	-	-	-
Past due but not impaired																
----Stage 1	204,612	242,090	-	-	313,447	391,374	-	-	243,625	496,268	-	-	-	-	-	-
----Stage 2	15,483	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
----Stage 3	4,145	6,859	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>224,240</b>	<b>248,949</b>	-	-	<b>313,447</b>	<b>391,374</b>	-	-	<b>243,625</b>	<b>496,268</b>	-	-	-	-	-	-
<i>Incl. renegotiated</i>	220,767	226,764	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>2,064,318</b>	<b>2,099,027</b>	<b>18,866</b>	<b>57,975</b>	<b>387,437</b>	<b>480,169</b>	<b>3,963</b>	<b>2,254</b>	<b>243,625</b>	<b>496,268</b>	<b>2,011</b>	<b>2,011</b>	<b>2,116</b>	<b>14,446</b>	<b>591,943</b>	<b>581,711</b>
<i>Incl. renegotiated</i>	1,869,590	1,626,693	18,866	-	50,271	61,578	247	200	-	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

The Bank classifies not past due and not impaired exposures to the above classes depending on their internal credit rating, as follows:

- high class – credit rating from 1 to 3 – Stage 1
- standard class – credit rating from 4 to 5 – Stage 1
- low class – credit rating from 6 to 7 – Stage 1 (rating 6), not past due or past due up to 30 days or Stage 2 (rating 7) and past due between 30 and 90 days
- non-performing – Stage 3 (rating 8, 9 and 10) and past due over 90 days.

Watch loans and receivables (Stage 2), presented at amortised cost, are as follows:

	<b>2021</b>	<b>2020</b>
Loans for commercial property and construction	190,902	215,197
Trade loans	452,241	204,236
Consumer loans	6	17
Other loans and receivables	64,307	117,528
	<b><u>707,456</u></b>	<b><u>536,978</u></b>

When the initial terms of the agreement have been modified by the Bank by granting a concession (discounts) to a debtor experiencing difficulties in performing its financial obligations a loan is classified as “restructured” (Stage 2 or 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures’ Impairment of BDB).

The restructured loans and receivables, presented at amortised cost, are as follows:

	<b>2021</b>	<b>2020</b>
<b>Loans for commercial property and construction</b>	<b>269,061</b>	<b>75,746</b>
<i>incl. Standard (Stage 1)</i>	-	615
<i>Watch (Stage 2)</i>	169,444	8,659
<i>Non-performing (Stage 3)</i>	99,617	66,472
<b>Trade loans</b>	<b>352,245</b>	<b>73,506</b>
<i>incl. Standard (Stage 1)</i>	-	-
<i>Watch (Stage 2)</i>	268,101	58,865
<i>Non-performing (Stage 3)</i>	84,144	14,641
<b>Other loans and receivables</b>	<b>79,269</b>	<b>75,564</b>
<i>incl. Standard (Stage 1)</i>	-	-
<i>Watch (Stage 2)</i>	64,307	75,564
<i>Non-performing (Stage 3)</i>	14,962	-
	<b><u>700,575</u></b>	<b><u>224,816</u></b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

###### **Contingent commitments**

###### *Bank guarantees, letters of credit and unutilized loan commitments*

The Bank assesses the credit quality of the contingent commitments through a methodology that assesses whether events that confirm to a large extent the likelihood that resources will flow to the Bank have occurred.

These costs (losses) are determined on the basis of the Policy and Methodology for assessment of expected credit losses, and a Calculation Procedure of BDB based on a Conversion Factor (CCF) that is applied in the case of off-balance sheet exposures that are likely to turn into balance sheet exposures (payments on guarantees, utilisation of part of the allowed amount of the loan, etc.).

At the date of the financial statements, the Bank identified commitments amounting to BGN 130,108 thousand (2020: BGN 151,116 thousand), which were impaired by BGN 1,345 thousand (2020: BGN 2,782 thousand) (Note 32).

###### *Credit guarantees anti-COVID-19*

In 2020, the Bank, based on decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic (see Note 37). BDB adopted a special provisioning methodology for these programmes in view of the specifics of the programmes, customers profiles and structure of product-related inflow and cash outflow statements as follows:

###### *Programme for companies – SME and intermediate enterprises*

The main parameters of the programme and the guaranteed loans are:

- The obligation to pay under the guarantees is practically unconditional (for loans admitted in the program).
- The guarantees are 100% of the principal on the loan. A maximum limit of payments was established – initially of 30%, and by decision of the Council of Ministers the limit was raised to 50%.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 intermediate enterprises were also included by the amendments made.
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral of exposures is required). It is also possible to include a certain percentage of exposures already formed, and the self-participation of banks is set to 20%. The conditions predetermine a significantly higher risk than the usual business guarantee programs.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

##### **Contingent commitments (continued)**

##### *Credit guarantees anti-COVID-19 (continued)*

As of 31 December 2021, BDB has assumed a commitment to commercial banks for guarantees at the amount of BGN 397.5 million, and the commercial banks granted guaranteed loans of BGN 413.6.<sup>3</sup> million. The issuance of the guarantees under the program is expected to be completed in 2022 (deadline 30 June 2022).

The entire amount of the program up to BGN 400 million<sup>4</sup> will be reached by negotiating with commercial banks on additional guarantee lines in 2022.

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB will amount to 30% of the guarantee commitment and the remaining 70% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 35% of the amounts paid. This estimate shall take into account the recovery costs;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 3.33% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.51% for every 1% change.

---

<sup>3</sup> The amount of the guarantee is 50% of the total amount of the loan.

<sup>4</sup> By Decision of the Council of Ministers there is an opportunity up to BGN 100 million to be redirected from the programme for companies to the programme for individuals without changing the total amount under the programme or the limit for companies. As of 31.12.2021, the volume of guaranteed loans under the programme for individuals approaches BGN 300 million.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

##### **Contingent commitments (continued)**

##### *Credit guarantees anti-COVID-19 (continued)*

##### *Programme for individuals*

The main parameters of the program and the guaranteed loans are:

- Payments under guarantees are virtually unconditional (for loans admitted to the programme);
- The guarantees are for 100% of the principal amount of the loan;
- The selection of borrowers is based on the criterion "affected by the pandemic" and not on the usual criteria for providing funding to individuals. These are persons on unpaid leave or self-employed persons with reduced income. Borrowers' incomes are stressed and significantly lower than usual;
- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guaranteed commitment;

By Decision of the Council of Ministers (506/15.07.2021) an extension of the deadline was approved for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier". The loans have a grace period of up to two years and a term of up to 5 years.

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB will amount to 40% of the guarantee commitment and the remaining 60% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 25% of the amounts paid. This estimate shall take into account the recovery costs;
- The payment of 1.5% to commercial banks is an irrevocable commitment of the BDB, which is included in the calculation;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

As of 31 December 2021, BDB has assumed a commitment to commercial banks for guarantees in the amount of BGN 283.4 million, and the commercial banks granted guaranteed loans of BGN 236.1 million<sup>5</sup>. The issuance of the guarantees under the programme completed in December 2021.

---

<sup>5</sup> The amount of the guarantee is 100% of the total amount of the loan.

## **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **4.1. Credit risk (continued)**

#### **Contingent commitments (continued)**

##### Credit guarantees anti-COVID-19 (continued)

##### Programme for individuals (continued)

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 1.96% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.05% for every 1% change.

At the date of the financial statements, the Bank has issued guarantees at the amount of BGN 680,938 thousand, guaranteed exposures under the two programs totalling BGN 649,663 thousand, and has allocated provisions at the amount of BGN 176,370 thousand.

#### **Expected credit losses (ECL) measurement**

For instruments measured at amortised cost, ECLs reduce the carrying amount in the statement of financial position.

For debt instruments measured at fair value through other comprehensive income, ECLs are part of the negative change in the fair value due to an increased credit risk. They continue to be presented at the fair value in the statement of financial position, and the accumulated adjustment for losses is recognized in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the accumulated adjustment is recognized in the profit or loss for the period.

##### *Probability of default (PD)*

PD is the probability of a counterparty not complying with contract clauses related to debt repayment. For each individual exposure or a portfolio of collectively assessed exposures, the Bank maintains historical information on the migration of exposures between different stages.

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For exposures that are individually measured, the value of the 12M PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12M PD is calculated for each rating scale depending on the number of default cases found. The Bank adjusts the values of 12M PD to reflect the current or expected economic conditions that may differ from those during the analysed historical periods.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

###### **Expected credit losses (ECL) measurement (continued)**

###### *Exposure at default (EAD)*

EAD is potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending on the type of loan, taking into account both the amount of utilized amounts and the agreed undrawn amounts according to the expectation of future drawdowns.

###### *Loss Given Default (LGD)*

LGD is the ratio of the exposure loss due to default to the amount of exposure at default. The Bank calculates the potential loss that would have arisen if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as a percentage of Exposure at Default (EAD).

The Bank has determined relative thresholds that are used also for the exposures for which the absolute thresholds are applied and for those, for which no such thresholds have been determined. They are based on matrixes covering the overall credit cycle (through-the-cycle, TTC) and the change in the probability of default on the respective exposures from the external aggregated data of Moody's (the Bank has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### Expected credit losses (ECL) measurement (continued)

###### *Main groups of assets subject to impairment*

The following tables present the movements in the main groups of assets subject to impairment between the different stages for the period 01 January – 31 December 2021 and 01 January – 31 December 2020:

<b>Assets measured at amortised cost (except for Government and Receivables from Banks)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 1 January 2020</b>	<b>1,300,937</b>	<b>263,907</b>	<b>246,112</b>	<b>1,810,956</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(287,716)	287,716	-	-
Transfer from Stage 1 to Stage 3	(9,967)	-	9,967	-
Transfer from Stage 2 to Stage 3	-	(27,436)	27,436	-
Transfer from Stage 2 to Stage 1	110	(110)	-	-
Newly occurred and newly acquired exposures	341,568	26,201	12,050	<b>379,819</b>
Paid or transferred	(159,351)	(13,523)	(37,662)	<b>(210,536)</b>
Increased	125,177	222	(2,346)	<b>123,053</b>
<b>Balance as of 31 December 2020</b>	<b>1,310,758</b>	<b>536,977</b>	<b>255,557</b>	<b>2,103,292</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(229,334)	229,334	-	-
Transfer from Stage 1 to Stage 3	(4,335)	-	4,335	-
Transfer from Stage 2 to Stage 3	-	(51,780)	51,780	-
Transfer from Stage 2 to Stage 1	5,158	(5,158)	-	-
Newly occurred and newly acquired exposures	-	2,672	(2,672)	-
Paid or transferred	83,023	13,273	114,300	<b>210,596</b>
Increased	(203,696)	(23,615)	(130,859)	<b>(358,170)</b>
Transfers:	108,562	5,753	259	<b>114,574</b>
<b>Balance as of 31 December 2021</b>	<b>1,070,136</b>	<b>707,456</b>	<b>292,700</b>	<b>2,070,292</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### Expected credit losses (ECL) measurement (continued)

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions are included in the above table.

<b>Assets measured at amortised cost - Government</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as 1 January 2020</b>	<b>167,258</b>	-	-	<b>167,258</b>
Newly occurred and newly acquired exposures	3	-	-	<b>3</b>
Paid or transferred	(139,135)	-	-	<b>(139,135)</b>
Increased	29,849	-	-	<b>29,849</b>
<b>Balance as 31 December 2020</b>	<b>57,975</b>	-	-	<b>57,975</b>
Newly occurred and newly acquired exposures	291	-	-	<b>291</b>
Paid or transferred	(47,328)	-	-	<b>(47,328)</b>
Increased	7,928	-	-	<b>7,928</b>
<b>Balance as 31 December 2021</b>	<b>18,866</b>	-	-	<b>18,866</b>

The Bank presents under the heading Government assets measured at amortised cost relating mainly to the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

<b>Assets measured at amortised cost - Banks and financial institutions</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 1 January 2020</b>	<b>341,522</b>	-	-	<b>341,522</b>
Newly occurred and newly acquired exposures	355,801	-	-	<b>355,801</b>
Paid or transferred	(224,040)	-	-	<b>(224,040)</b>
Increased	6,886	-	-	<b>6,886</b>
<b>Balance as of 31 December 2020</b>	<b>480,169</b>	-	-	<b>480,169</b>
Newly occurred and newly acquired exposures	230,931	-	-	<b>230,931</b>
Paid or transferred	(340,727)	-	-	<b>(340,727)</b>
Increased	17,064	-	-	<b>17,064</b>
<b>Balance as of 31 December 2021</b>	<b>387,437</b>	-	-	<b>387,437</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### Expected credit losses (ECL) measurement (continued)

*Main groups of assets subject to impairment (continued)*

Loans to banks and financial institutions include both transactions on an interbank market and deposits of different maturity.

<b>Assets measured at fair value through other comprehensive income – debt instruments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 1 January 2020</b>	<b>538,541</b>	-	-	<b>538,541</b>
Newly occurred and newly acquired exposures	147,317	-	-	147,317
Paid or transferred	(231,034)	-	-	(231,034)
Increased	126,887	-	-	126,887
<b>Balance as of 31 December 2020</b>	<b>581,711</b>	-	-	<b>581,711</b>
Newly occurred and newly acquired exposures	138,749	-	-	<b>138,749</b>
Paid or transferred	(167,961)	-	-	<b>(167,961)</b>
Increased	39,444	-	-	<b>39,444</b>
<b>Balance as of 31 December 2021</b>	<b>591,943</b>	-	-	<b>591,943</b>

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

*Movement in the impairment of main groups of assets subject to impairment in 2021 and 2020*

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized loss given default (LGD) are the parameters employed in determining the provisioning rate and those parameters are determined on the basis of an individual review of the early warning signs that are homogeneous in terms of their credit characteristics and their relation to international and domestic macroeconomic variables that could affect them.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.1. Credit risk (continued)****Expected credit losses (ECL) measurement (continued)***Movement in the impairment of main groups of assets subject to impairment in 2021 and 2020 (continued)*

Movement in impairment in 2021 and 2020:

<b>Assets measured at amortised cost (except for Government)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance of impairment as of 1 January 2020</b>	<b>26,971</b>	<b>4,758</b>	<b>124,377</b>	<b>156,106</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(58,109)	58,109	-	-
Transfer from Stage 1 to Stage 3	(4,116)	-	4,116	-
Transfer from Stage 2 to Stage 3	-	(829)	829	-
Transfer from Stage 2 to Stage 1	1	(1)	-	-
New exposures	19,293	3,289	1,110	<b>23,692</b>
Paid or transferred	(3,524)	(455)	(32,556)	<b>(36,535)</b>
Increase in impairment on existing exposures	93,193	7,911	11,759	<b>112,863</b>
<b>Balance of impairment as of 31 December 2020</b>	<b>73,709</b>	<b>72,782</b>	<b>109,635</b>	<b>256,126</b>
Transfer from Stage 1 to Stage 2	(51,987)	51,987	-	-
Transfer from Stage 1 to Stage 3	(53)	-	53	-
Transfer from Stage 2 to Stage 3	-	(1,151)	1,151	-
Transfer from Stage 2 to Stage 1	-	(218)	218	-
Newly occurred and newly acquired exposures	1,302	198	45,780	<b>47,280</b>
Paid or transferred	(2,867)	(241)	(60,541)	<b>(63,649)</b>
Increased in impairment on existing exposures	2,409	97,203	1,167	<b>100,779</b>
<b>Balance of impairment as of 31 December 2021</b>	<b>22,513</b>	<b>220,560</b>	<b>97,463</b>	<b>340,536</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### Expected credit losses (ECL) measurement (continued)

*Movement in the impairment of main groups of assets subject to impairment in 2021 and 2020 (continued)*

<b>Assets measured at amortised cost - Government</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance of impairment as of 01 January 2020</b>	<b>436</b>	-	-	<b>436</b>
Net movement in impairment on EEMFRBNP	(285)	-	-	<b>(285)</b>
<b>Balance of impairment as of 31 December 2020</b>	<b>151</b>	-	-	<b>151</b>
Net movement in impairment on EEMFRBNP	(102)	-	-	<b>(102)</b>
<b>Balance of impairment as of 31 December 2021</b>	<b>49</b>	-	-	<b>49</b>

<b>Assets measured at amortised cost - Banks and financial institutions</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance of impairment as of 1 January 2020</b>	<b>2,275</b>	-	-	<b>2,275</b>
Increased/(decreased)	(287)	-	-	<b>(287)</b>
<b>Balance of impairment as of 31 December 2020</b>	<b>1,988</b>	-	-	<b>1,988</b>
Increased/(decreased)	102	-	-	<b>102</b>
<b>Balance of impairment as of 31 December 2021</b>	<b>2,090</b>	-	-	<b>2,090</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### Expected credit losses (ECL) measurement (continued)

*Movement in the impairment of main groups of assets subject to impairment in 2021 and 2010 (continued)*

<b>Assets measured at fair value through other comprehensive income – debt instruments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance of impairment as of 1 January 2020</b>	<b>1,500</b>	-	-	<b>1,500</b>
New exposures	386	-	-	<b>386</b>
Paid or transferred	(310)	-	-	<b>(310)</b>
Other movements	594	-	-	<b>594</b>
<b>Balance of impairment as of 31 December 2020</b>	<b>2,170</b>	-	-	<b>2,170</b>
New exposures	1,544	-	-	<b>1,544</b>
Paid or transferred	(252)	-	-	<b>(252)</b>
Other movements	396	-	-	<b>396</b>
<b>Balance of impairment as of 31 December 2021</b>	<b>3,858</b>	-	-	<b>3,858</b>

##### Value of collaterals as of 31 December 2021

The value of the collaterals on secured assets is presented in the following table:

<b>Type of collateral</b>	<b>Carrying amount of the loan</b>	<b>Value of the collateral</b>
Mortgages	399,518	540,809
Pledge of plant, equipment and inventories	181,803	287,494
Restricted deposits	613,548	36,653
Mortgage on a ship	32,951	46,432
Credit risk insurance	37,820	23,612
Bank guarantees	514	635
Other collaterals	443,446	2,965,408
Non-secured	18,236	-
<b>Total</b>	<b>1,727,836</b>	<b>3,901,043</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.1. Credit risk (continued)

##### Value of collaterals as of 31 December 2020

The value of the collaterals on secured assets is presented in the following table:

Type of collateral	Carrying amount of the loan	Value of the collateral
Mortgages	636,271	752,298
Pledge of plant, equipment and inventories	186,849	315,850
Restricted deposits	531,076	57,968
Mortgage on a ship	72,494	97,276
Credit risk insurance	51,407	50,524
Quoted securities	14,279	20,536
Bank guarantees	6,096	3,451
Other collaterals	319,987	3,102,524
Non-secured	26,777	-
<b>Total</b>	<b>1,845,236</b>	<b>4,400,427</b>

#### Main risk parameters affecting the amount of ECL

##### Country (sovereign) risk

The Bank has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising only government securities issued by the Republic of Bulgaria, other EU countries and USA. The Bank's exposure to sovereign is BGN 544,305 thousand as of 31 December 2021 and BGN 559,062 thousand as of 31 December 2020.

Standard & Poor's credit rating for the securities of Republic of Bulgaria stands at BBB- with stable outlook (30 November 2021). Fitch's credit rating for the securities of Republic of Bulgaria is BBB with positive outlook (23 July 2021, 22 January 2022). Moody's credit rating for the securities of Republic of Bulgaria is Baa1 with stable outlook (10 October 2020). The securities issued by the governments of other countries have rating of BBB or higher by Fitch Ratings/Standard&Poor's or the equivalent of Baa3 by Moody's.

According to Fitch Ratings, BBB credit rating means that insolvency expectations are low, and the capacity to service financial liabilities is adequate, but a deterioration in economic conditions or business environment is likely to lessen this capacity. The definitions of Moody's and Standard&Poor's of the rating assigned to the sovereign are similar.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.2. Market risk**

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Bank's profitability and financial position.

###### *Interest rate risk*

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

The interest rate risk is considered in view of the overall activity of the Bank. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis.

The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Bank's net income;
- Analysis of the interest rate sensitivity of economic capital – measuring the interest rate sensitivity of the Bank's equity economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Bank's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual net interest income after and the Bank's equity economic value applying a stress scenario involving changes in the interest rate curves by types of currencies.

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. If there are items in the statement of financial position of the Bank, classified as determined at fair value, they are referred to the applicable maturity zone in the analysis of interest rate imbalance. The Bank maintain certain interest-free assets and liabilities in relation to its payment operations.

Besides the interest rate sensitivity analyses, for the interest risk management main sources related to the change in the net interest spread of the Bank are also identified. This helps decision making on the interest rates policies of the Bank, in particular, the development of specific products and providing sources of financing having relevant characteristics.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.2. Market risk (continued)

###### *Interest rate risk (continued)*

Assets and Liabilities Committee (ALCO) currently monitors the interest rate risk to which the Bank is exposed and develops measures for its coverage and maintenance within the Bank's permitted levels and limits.

The table below summarises the interest exposure and risk of the Bank. It includes information on the Bank's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

<b>31 December 2021</b>	<b><i>With floating interest rate</i></b>	<b><i>With fixed interest rate</i></b>	<b><i>Interest free</i></b>	<b><i>Total</i></b>
<b>Financial assets</b>				
Financial assets at amortized cost				
– Receivables from banks	21,746	351,327	12,274	385,347
Financial assets at amortized cost				
– Loans and advances to customers	1,692,769	33,135	1,932	1,727,836
Financial assets at amortized cost				
– Receivables from the State budget	18,817	-	-	18,817
Financial assets at amortized cost				
– Debt instruments	-	1,920	-	1,920
Financial assets at fair value through other comprehensive income – Debt instruments	-	591,943	-	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	2,116	2,116
	<b><u>1,733,332</u></b>	<b><u>978,325</u></b>	<b><u>16,322</u></b>	<b><u>2,727,979</u></b>
<b>Financial liabilities</b>				
Borrowings from international institutions	1,063,786	46,954	-	1,110,740
Deposits from customers other than credit institutions	726,621	132,450	22,602	881,673
Deposits from credit institutions	1,719	-	-	1,719
Other borrowings	11,236	5,510	-	16,746
Liabilities under lease contracts	492	-	-	492
Other financial liabilities	-	-	3,406	3,406
	<b><u>1,803,854</u></b>	<b><u>184,914</u></b>	<b><u>26,008</u></b>	<b><u>2,014,776</u></b>
<b>Total balance sheet interest exposure</b>	<b><u>(70,522)</u></b>	<b><u>793,411</u></b>	<b><u>(9,686)</u></b>	<b><u>713,203</u></b>
<b>Contingencies and commitments</b>	<b><u>213,886</u></b>	<b><u>27,562</u></b>	<b><u>648,722</u></b>	<b><u>890,170</u></b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.2. Market risk (continued)

*Interest rate risk (continued)*

<b>31 December 2020</b>	<b>With floating interest rate</b>	<b>With fixed interest rate</b>	<b>Interest free</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets at amortized cost – Receivables from banks	23,149	442,481	12,551	<b>478,181</b>
Financial assets at amortized cost – Loans and advances to customers	1,799,554	45,682	-	<b>1,845,236</b>
Financial assets at amortized cost – Receivables from the State budget	57,824	-	-	<b>57,824</b>
Financial assets at amortized cost – Debt instruments	-	1,930	-	<b>1,930</b>
Financial assets at fair value through other comprehensive income – Debt instruments	-	581,711	-	<b>581,711</b>
Other financial assets	-	-	14,446	<b>14,446</b>
	<b>1,880,527</b>	<b>1,071,804</b>	<b>26,997</b>	<b>2,979,328</b>
<b>Financial liabilities</b>				
Borrowings from international institutions	1,148,917	89,987	-	<b>1,238,904</b>
Deposits from customers other than credit institutions	720,606	379,168	27,541	<b>1,127,315</b>
Deposits from credit institutions	8,155	-	-	<b>8,155</b>
Other borrowings	11,237	5,695	-	<b>16,932</b>
Liabilities under lease contracts	645	-	-	<b>645</b>
Other financial liabilities	-	-	3,404	<b>3,404</b>
	<b>1,889,560</b>	<b>474,850</b>	<b>30,945</b>	<b>2,395,355</b>
<b>Total balance sheet interest exposure</b>	<b>(9,033)</b>	<b>596,954</b>	<b>(3,948)</b>	<b>583,973</b>
<b>Contingencies and commitments</b>	<b>310,073</b>	<b>7,447</b>	<b>520,510</b>	<b>838,030</b>

##### Interest rate sensitivity analysis

The table below includes the financial instruments of the Bank, presented at carrying amount, classified by the earlier of the date of interest rate change under the contract and the maturity date.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.2. Market risk (continued)****Interest rate sensitivity analysis (continued)**

<i>31 December 2021</i>	<i>Up to 1 m.</i>	<i>1-3 m.</i>	<i>3-6 m.</i>	<i>6-12 m.</i>	<i>1-5 years</i>	<i>over 5 years</i>	<i>With fixed rate</i>	<i>Interest free</i>	<i>Total</i>
<b>Financial assets</b>									
Financial assets at amortized cost – Receivables from banks	21,666	80	-	-	-	-	351,327	12,274	<b>385,347</b>
Financial assets at amortized cost – Loans and advances to customers	112,659	1,580,110	-	-	-	-	33,135	1,932	<b>1,727,836</b>
Financial assets at amortized cost – Receivables from the State budget	18,817	-	-	-	-	-	-	-	<b>18,817</b>
Financial assets at amortized cost – Debt instruments	-	-	-	-	-	-	1,920	-	<b>1,920</b>
Financial assets at fair value through other comprehensive income – Debt instruments	-	53,713	439,645	8,630	32,159	57,796	-	-	<b>591,943</b>
Other financial assets	-	-	-	-	-	-	-	2,116	<b>2,116</b>
<b>Total financial assets</b>	<b>153,142</b>	<b>1,633,903</b>	<b>439,645</b>	<b>8,630</b>	<b>32,159</b>	<b>57,796</b>	<b>386,382</b>	<b>16,322</b>	<b>2,727,979</b>
<b>Financial liabilities</b>									
Borrowings from international institutions	-	57,640	21,474	61,875	656,306	266,491	46,954	-	<b>1,110,740</b>
Deposits from customers other than credit institutions	749,186	985	25,144	678	83,078	-	-	22,602	<b>881,673</b>
Deposits from credit institutions	1,719	-	-	-	-	-	-	-	<b>1,719</b>
Other borrowings	-	11,236	-	-	-	5,510	-	-	<b>16,746</b>
Liabilities under lease contracts	-	492	-	-	-	-	-	-	<b>492</b>
Other financial liabilities	3,178	-	168	-	60	-	-	-	<b>3,406</b>
<b>Total financial liabilities</b>	<b>754,083</b>	<b>70,353</b>	<b>46,786</b>	<b>62,553</b>	<b>739,444</b>	<b>272,001</b>	<b>46,954</b>	<b>22,602</b>	<b>2,014,776</b>
<b>Total exposure to interest rate sensitivity</b>	<b>(600,941)</b>	<b>1,563,550</b>	<b>392,859</b>	<b>(53,923)</b>	<b>(707,285)</b>	<b>(214,205)</b>	<b>339,428</b>	<b>(6,280)</b>	<b>713,203</b>
<b>Contingencies and commitments</b>	<b>183,713</b>	<b>30,173</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,562</b>	<b>648,722</b>	<b>890,170</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.2. Market risk (continued)****Interest rate sensitivity analysis (continued)**

<i>31 December 2020</i>	<i>Up to 1 m.</i>	<i>1-3 m.</i>	<i>3-6 m.</i>	<i>6-12 m.</i>	<i>1-5 years</i>	<i>over 5 years</i>	<i>With fixed rate</i>	<i>Interest free</i>	<i>Total</i>
<b>Financial assets</b>									
Financial assets at amortized cost – Receivables from banks	23,074	75	-	-	-	-	442,481	12,551	<b>478,181</b>
Financial assets at amortized cost – Loans and advances to customers	111,795	1,687,759	-	-	-	-	45,682	-	<b>1,845,236</b>
Financial assets at amortized cost – Receivables from the State budget	57,824	-	-	-	-	-	-	-	<b>57,824</b>
Financial assets at amortized cost – Debt instruments	-	-	-	-	-	-	1,930	-	<b>1,930</b>
Financial assets at fair value through other comprehensive income – Debt instruments	15,995	60,478	-	4,739	394,035	106,464	-	-	<b>581,711</b>
Other financial assets	-	-	-	-	-	-	-	14,446	<b>14,446</b>
<b>Total financial assets</b>	<b>208,688</b>	<b>1,748,312</b>	<b>-</b>	<b>4,739</b>	<b>394,035</b>	<b>106,464</b>	<b>490,093</b>	<b>26,997</b>	<b>2,979,328</b>
<b>Financial liabilities</b>									
Borrowings from international institutions	668	33,032	5,303	47,470	654,368	408,076	89,987	-	<b>1,238,904</b>
Deposits from customers other than credit institutions	1,026,635	928	4,532	4,678	63,001	-	-	27,541	<b>1,127,315</b>
Deposits from credit institutions	8,155	-	-	-	-	-	-	-	<b>8,155</b>
Other borrowings	-	11,237	-	-	-	5,695	-	-	<b>16,932</b>
Liabilities under lease contracts	-	645	-	-	-	-	-	-	<b>645</b>
Other financial liabilities	2,665	-	167	-	572	-	-	-	<b>3,404</b>
<b>Total financial liabilities</b>	<b>1,038,123</b>	<b>45,842</b>	<b>10,002</b>	<b>52,148</b>	<b>717,941</b>	<b>413,771</b>	<b>89,987</b>	<b>27,541</b>	<b>2,395,355</b>
<b>Total exposure to interest rate sensitivity</b>	<b>(829,435)</b>	<b>1,702,470</b>	<b>(10,002)</b>	<b>(47,409)</b>	<b>(323,906)</b>	<b>(307,307)</b>	<b>400,106</b>	<b>(544)</b>	<b>583,973</b>
<b>Contingencies and commitments</b>	<b>52,951</b>	<b>232,518</b>	<b>3,010</b>	<b>20,000</b>	<b>1,594</b>	<b>-</b>	<b>7,447</b>	<b>520,510</b>	<b>838,030</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.2. Market risk (continued)

###### *Sensitivity of the floating rate interest assets and liabilities*

The table below represents the sensitivity of the Bank to possible changes in interest rates based on the structure of floating rate assets and liabilities as of December 31, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different, as a significant portion of the loans and receivables from customers bear floating interest rates that are based on a variable portion determined by the Bank, which in turn is influenced by numerous factors.

Curren cy	2021			2020		
	Increase/de crease in percentage points	Sensitivity of the financial result	Sensitivity of the equity	Increase/de crease in percentage points	Sensitivity of the financial result	Sensitivity of the equity
BGN	0.50%	1,986	(2,700)	0.50%	2,322	(4,522)
EUR	0.50%	(1,537)	(4,358)	0.50%	(1,444)	(6,997)
USD	0.50%	(386)	(213)	0.50%	(474)	(2)
BGN	-0.50%	(1,986)	2,700	-0.50%	(2,322)	4,522
EUR	-0.50%	1,537	4,358	-0.50%	1,444	6,997
USD	-0.50%	386	213	-0.50%	474	2

\* Equity sensitivity, measured by the potential change in the market value of debt instruments reported at fair value in other comprehensive income, when interest rate curves change by 50 basis points.

The average interest rates by financial assets and financial liabilities are presented in the following table:

	31.12.2021	31.12.2020
Financial assets	2.26%	2.39%
Financial liabilities	0.84%	1.07%

###### *Currency risk*

The currency risk is the risk that the financial position and cash flows of the Bank might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Bank follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes but arise out of foreign currency transactions in the ordinary course of business of the Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.2. Market risk (continued)**

###### *Currency risk (continued)*

The policy of the parent company (the "Bank") is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Bank does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Bank's cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Bank. Analyses of the financial assets and liabilities by types of currency of denomination are conducted on a regular basis.

The approach of measuring the overall activity currency risk includes mainly:

- Foreign currency sensitivity analysis – measuring the Bank's income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Bank's risk appetite;
- Stress tests for currency risk, which present the potential change of annual income after the implementation of stress scenarios for exchange rate changes.

The currency risk analysis is performed by allocating the Bank's assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Bank's foreign currency policy, and in particular, the formation of specific products and ensuring sources of financing with relevant characteristics.

The Asset and Liability Management Committee (ALCO) currently monitors the currency risk to which the Bank is exposed and develops measures for its management and maintenance within the limits acceptable to the Bank.

The following table summarises the Bank's exposure to currency risk. The table includes the Bank's financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.2. Market risk (continued)***Currency risk (continued)*

<i>As of 31 December 2021</i>	<b>In USD</b>	<b>In EUR</b>	<b>In other foreign currency</b>	<b>In BGN</b>	<b>Total</b>
<b>Financial assets</b>					
Cash in hand and balances in current account with the Central Bank	28	21,026	-	222,571	<b>243,625</b>
Financial assets at amortized cost – Receivables from banks	40,588	304,058	121	40,580	<b>385,347</b>
Financial assets at amortized cost – Loans and advances to customers	-	1,076,156	-	651,680	<b>1,727,836</b>
Financial assets at amortized cost – Receivables from the State budget	-	-	-	18,817	<b>18,817</b>
Financial assets at amortized cost – Debt securities	-	-	-	1,920	<b>1,920</b>
Financial assets at fair value through other comprehensive income – Debt securities	66,476	373,609	-	151,858	<b>591,943</b>
Financial assets at fair value through other comprehensive income – Equity securities	-	20,719	-	43,950	<b>64,669</b>
Other financial assets	-	-	-	2,116	<b>2,116</b>
<b>Total financial assets</b>	<b>107,092</b>	<b>1,795,568</b>	<b>121</b>	<b>1,133,492</b>	<b>3,036,273</b>
<b>Financial liabilities</b>					
Borrowings from international institutions	-	1,110,740	-	-	<b>1,110,740</b>
Deposits from customers other than credit institutions	114,166	332,359	-	435,148	<b>881,673</b>
Deposits from credit institutions	-	696	-	1,023	<b>1,719</b>
Other borrowings	-	16,746	-	-	<b>16,746</b>
Guarantee provisions	-	785	-	176,930	<b>177,715</b>
Lease liabilities	-	492	-	-	<b>492</b>
Other financial liabilities	1	737	-	2,668	<b>3,406</b>
<b>Total financial liabilities</b>	<b>114,167</b>	<b>1,462,555</b>	<b>-</b>	<b>615,769</b>	<b>2,192,491</b>
<b>Net balance sheet currency position</b>	<b>(7,075)</b>	<b>333,013</b>	<b>121</b>	<b>517,723</b>	<b>843,782</b>
<b>Contingencies and commitments</b>	<b>6,291</b>	<b>154,690</b>	<b>-</b>	<b>917,592</b>	<b>1,078,573</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.2. Market risk (continued)***Currency risk (continued)*

<i>As of 31 December 2020</i>	<b>In USD</b>	<b>In EUR</b>	<b>In other foreign currency</b>	<b>In BGN</b>	<b>Total</b>
<b>Financial assets</b>					
Cash in hand and balances in current account with the Central Bank	32	85,839	-	410,397	496,268
Financial assets at amortized cost – Receivables from banks	110,469	315,433	63	52,216	478,181
Financial assets at amortized cost – Loans and advances to customers	-	1,161,371	-	683,865	1,845,236
Financial assets at amortized cost – Receivables from the State budget	-	-	-	57,824	57,824
Financial assets at amortized cost – Debt securities	-	-	-	1,930	1,930
Financial assets at fair value through other comprehensive income – Debt securities	7,969	412,049	-	161,693	581,711
Financial assets at fair value through other comprehensive income – Equity securities	-	3,544	-	50,515	54,059
Other financial assets	-	14,082	-	364	14,446
<b>Total financial assets</b>	<b>118,469</b>	<b>1,992,320</b>	<b>63</b>	<b>1,418,803</b>	<b>3,529,655</b>
<b>Financial liabilities</b>					
Borrowings from international institutions	-	1,238,904	-	-	1,238,904
Deposits from customers other than credit institutions	118,393	459,208	-	549,714	1,127,315
Deposits from credit institutions	-	679	-	7,476	8,155
Other borrowings	-	16,931	-	-	16,931
Guarantee provisions	-	146	-	122,944	123,090
Lease liabilities	-	645	-	-	645
Other financial liabilities	2	666	-	2,736	3,404
<b>Total financial liabilities</b>	<b>118,395</b>	<b>1,716,534</b>	<b>-</b>	<b>682,870</b>	<b>2,517,799</b>
<b>Net balance sheet currency position</b>	<b>74</b>	<b>275,786</b>	<b>63</b>	<b>735,933</b>	<b>1,011,856</b>
<b>Contingencies and commitments</b>	<b>4,955</b>	<b>165,388</b>	<b>-</b>	<b>805,879</b>	<b>976,222</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.2. Market risk (continued)

###### *Currency risk (continued)*

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December 2021.

Currency	2021					
	Exchange rate	Change in exchange rates*		Effect on the pre-tax profit in case of change in exchange rates*		Effect on equity
		Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.95583	-	-	-	-	-
USD	1.72685	810	-1,444	-154	274	-
JPY	0.01500	7	-11	-	-	-
GBP	2.32759	-1,698	1,550	-9	8	-
<b>Total effect</b>				<b>-163</b>	<b>283</b>	<b>-</b>

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December 2020.

Currency	2020					
	Exchange rate	Change in exchange rates *		Effect on the pre-tax profit in case of change in exchange rates*		Effect on equity
		Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.95583	-	-	-	-	-
USD	1.59386	939	-1,333	-199	282	-
JPY	0.01546	8	-11	-	-	-
GBP	2.17549	-1,587	1,448	-5	4	-
<b>Total effect</b>				<b>-204</b>	<b>+286</b>	<b>-</b>

\* Calculated based on 3-month change in exchange rate (historical period of 3 years) with reliability rate of 99%.

\*\* Adverse change in exchange rates relative to the Bank's net open positions in individual currencies.

The open FX position and the market volatility of the respective foreign currencies as of 31 December 2021 and 2020 would have an immaterial effect on the Bank's financial result assessed as equal to minus BGN 163 thousand (2020: minus BGN 204 thousand) if the hypothesis of unfavourable change in exchange rates occurs compared to the open positions of the Bank by separate currencies with the reported basis points (BPS: 1 b.p. = 0.0001 in decimal form).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.2. Market risk (continued)**

###### *Price risk of shares quoted on the Stock Exchange*

The Bank is exposed to price risk with respect to the shares it holds, classified as investments at fair value through other comprehensive income. Management of the Bank monitors and analyses all changes in the security market and engages the advisory services of renowned local investment intermediaries. In addition, at this stage, the Bank has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

##### **4.3. Liquidity risk**

Liquidity risk is the risk that the Bank will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Bank's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the Bank's liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, as well as the impact of the changes in interest rates and exchange rates on the pre-tax profit and equity, are important factors in assessing the Bank's liquidity. In order to manage this risk, the Bank maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by Assets and Liabilities Committee (ALCO) and are based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions that could have an impact on the Bank's liquid position and certain statutory coefficients and ratios. Additionally, varieties of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of three additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the Bank and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which is tantamount to downgrading of the institution with two degrees at least and combined shocks.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.3. Liquidity risk (continued)

The table below presents the amounts in percentage of the liquidity coverage ratio (LCR) of the Bank:

	<u>2021</u>	<u>2020</u>
As of December 31	376.61%	496.07%
Average for the period	471.23%	624.20%
Highest for the period	574.78%	864.86%
Lowest for the period	376.61%	402.95%
	<u>2021</u>	<u>2020</u>
Cash and cash balances with BNB	243,625	496,268
Balances in current accounts with other banks and international deposits of up to 90 days	242,255	282,558
Government securities	544,305	559,062
<b>Liquid assets</b>	<b><u>1,030,185</u></b>	<b><u>1,337,888</u></b>
Financial liabilities measured at amortised cost	2,010,878	2,391,306
Provisions	177,747	123,133
Employee retirement benefits	754	650
<b>Liabilities</b>	<b><u>2,189,379</u></b>	<b><u>2,515,089</u></b>
Liquidity assets ratio (LAR)	<b>47.05%</b>	<b>53.19%</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.3. Liquidity risk (continued)

The table below provides an analysis of the assets and liabilities of the Bank at carrying amount, grouped by remaining maturity:

<i>As of 31 December 2021</i>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>						
Cash in hand and balances in current account with the Central Bank	243,625	-	-	-	-	<b>243,625</b>
Financial assets at amortized cost – Receivables from banks	216,938	39,505	56,614	40,790	31,500	<b>385,347</b>
Financial assets at amortized cost – Loans and advances to customers	182,019	34,550	182,382	585,327	743,558	<b>1,727,836</b>
Financial assets at amortized cost – Receivables from the State budget	-	9,000	9,817	-	-	<b>18,817</b>
Financial assets at amortized cost – Debt securities	-	-	11	-	1,909	<b>1,920</b>
Financial assets at fair value through other comprehensive income – Debt instruments	752	55,944	42,187	435,711	57,349	<b>591,943</b>
Financial assets at fair value through other comprehensive income – Equity instruments	64,669	-	-	-	-	<b>64,669</b>
Other financial assets	866	226	1,024	-	-	<b>2,116</b>
<b>Total financial assets</b>	<b>708,869</b>	<b>139,225</b>	<b>292,035</b>	<b>1,061,828</b>	<b>834,316</b>	<b>3,036,273</b>
<b>Financial liabilities</b>						
Borrowings from international institutions	-	57,640	126,392	660,218	266,490	<b>1,110,740</b>
Deposits from customers other than credit institutions	750,205	5,244	34,440	91,784	-	<b>881,673</b>
Deposits from credit institutions	1,719	-	-	-	-	<b>1,719</b>
Other borrowings	-	11,236	213	853	4,444	<b>16,746</b>
Provisions	300	600	2,700	174,115	-	<b>177,715</b>
Lease liabilities	13	26	120	333	-	<b>492</b>
Other financial liabilities	3,178	-	168	60	-	<b>3,406</b>
<b>Total financial liabilities</b>	<b>755,415</b>	<b>74,746</b>	<b>164,033</b>	<b>927,363</b>	<b>270,934</b>	<b>2,192,491</b>
<b>Gap in maturity thresholds of assets and liabilities</b>	<b>(46,546)</b>	<b>64,479</b>	<b>128,002</b>	<b>134,465</b>	<b>563,382</b>	<b>843,782</b>
<b>Contingencies and commitments</b>	<b>59,784</b>	<b>12,949</b>	<b>116,457</b>	<b>699,059</b>	<b>6,583</b>	<b>894,832</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.3. Liquidity risk (continued)**

<i>As of 31 December 2020</i>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>						
Cash in hand and balances in current account with the Central Bank	496,268	-	-	-	-	<b>496,268</b>
Financial assets at amortized cost – Receivables from banks	294,208	65,585	25,358	58,364	34,666	<b>478,181</b>
Financial assets at amortized cost – Loans and advances to customers	157,279	29,558	155,827	658,994	843,578	<b>1,845,236</b>
Financial assets at amortized cost – Receivables from the State budget	9,582	21,627	26,615	-	-	<b>57,824</b>
Financial assets at amortized cost – Debt securities	-	-	11	-	1,919	<b>1,930</b>
Financial assets at fair value through other comprehensive income – Debt instruments	60,704	392,867	6,276	15,802	106,062	<b>581,711</b>
Financial assets at fair value through other comprehensive income – Equity instruments	54,059	-	-	-	-	<b>54,059</b>
Other financial assets	14,446	-	-	-	-	<b>14,446</b>
<b>Total financial assets</b>	<b>1,086,546</b>	<b>509,637</b>	<b>214,087</b>	<b>733,160</b>	<b>986,225</b>	<b>3,529,655</b>
<b>Financial liabilities</b>						
Borrowings from international institutions	668	33,032	95,820	654,368	455,016	<b>1,238,904</b>
Deposits from customers other than credit institutions	1,029,474	928	18,058	78,855	-	<b>1,127,315</b>
Deposits from credit institutions	8,155	-	-	-	-	<b>8,155</b>
Other borrowings	-	-	213	854	15,865	<b>16,932</b>
Provisions	2,278	12	96	56,871	63,833	<b>123,090</b>
Lease liabilities	12	25	115	493	-	<b>645</b>
Other financial liabilities	2,665	-	167	572	-	<b>3,404</b>
<b>Total financial liabilities</b>	<b>1,043,252</b>	<b>33,997</b>	<b>114,469</b>	<b>792,013</b>	<b>534,714</b>	<b>2,518,445</b>
<b>Gap in maturity thresholds of assets and liabilities</b>	<b>43,294</b>	<b>475,640</b>	<b>99,618</b>	<b>(58,853)</b>	<b>451,511</b>	<b>1,011,210</b>
<b>Contingencies and commitments</b>	<b>106,364</b>	<b>6,463</b>	<b>117,157</b>	<b>476,976</b>	<b>135,565</b>	<b>842,525</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)****4.3. Liquidity risk (continued)**

The table below presents the gross undiscounted cash flows related to the Bank's liabilities as of 31 December:

<i>As of 31 December 2021</i>	<b>Carrying amount</b>	<b>Gross flow</b>	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>
<b>Financial liabilities</b>							
Borrowings from international institutions	1,110,740	1,167,245	-	58,256	127,089	691,285	290,615
Deposits from customers other than credit institutions	881,673	881,833	750,205	5,245	34,448	91,935	-
Deposits from credit institutions	1,719	1,719	1,719	-	-	-	-
Other borrowings	16,746	18,058	-	11,264	295	1,247	5,252
Other financial liabilities	3,406	3,406	3,178	-	168	60	-
Lease liabilities	492	492	13	26	120	333	-
	<b>2,014,776</b>	<b>2,072,753</b>	<b>755,115</b>	<b>74,791</b>	<b>162,120</b>	<b>784,860</b>	<b>295,867</b>
Bank and credit guarantee provisions	177,715	177,715	300	600	2,700	174,115	-
Unutilised amount of approved loans	241,448	241,448	27,183	9,946	100,676	100,143	3,500
<i>As of 31 December 2020</i>							
<b>Financial liabilities</b>							
Borrowings from international institutions	1,238,904	1,315,769	668	33,215	96,363	689,822	495,701
Deposits from customers other than credit institutions	1,127,315	1,127,512	1,029,475	929	18,073	79,035	-
Deposits from credit institutions	8,155	8,155	8,155	-	-	-	-
Other borrowings	16,932	18,310	-	-	298	1,262	16,750
Other financial liabilities	3,404	3,404	2,665	-	167	572	-
Lease liabilities	645	645	12	25	115	493	-
	<b>2,395,355</b>	<b>2,473,795</b>	<b>1,040,975</b>	<b>34,169</b>	<b>115,016</b>	<b>771,184</b>	<b>512,451</b>
Bank and credit guarantee provisions	123,090	123,090	2,278	12	96	56,871	63,833
Unutilised amount of approved loans	317,520	317,520	73,199	1,566	100,693	133,062	9,000

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.3. Liquidity risk (continued)

Considering the specific activity of the Bank, the funds attracted from the biggest 20 non-bank depositors as of 31 December 2021 represent 85.52% of the total amount of payables to other customers (31 December 2020: 85.10%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 14.62% (31 December 2020: 15.83%).

The financial assets of the Bank available for future financing and the financial assets pledged as collateral for financial liabilities are presented in the table below:

##### As of 31 December 2021

Financial assets	Pledged as collateral*	Available for collateral	Other**	Total
Cash in hand and balances in current account with the Central Bank	-	108,009	135,616	<b>243,625</b>
Receivables from banks	12,274	373,073	-	<b>385,347</b>
Financial assets at amortized cost – Loans and advances to customers	-	1,002,047	725,789	<b>1,727,836</b>
Financial assets at amortized cost – Receivables from the State budget	-	18,817	-	<b>18,817</b>
Financial assets at amortized cost – Securities	-	1,920	-	<b>1,920</b>
Financial assets at fair value through other comprehensive income – Debt instruments	6,482	585,461	-	<b>591,943</b>
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	64,669	<b>64,669</b>
Other financial assets	-	-	2,116	<b>2,116</b>
<b>Total financial assets</b>	<b>18,756</b>	<b>2,089,327</b>	<b>928,190</b>	<b>3,036,273</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.3. Liquidity risk (continued)

As of 31 December 2020

Financial assets	Pledged as collateral*	Available for collateral	Other**	Total
Cash in hand and balances in current account with the Central Bank	-	329,864	166,404	496,268
Receivables from banks	12,551	465,630	-	478,181
Financial assets at amortized cost – Loans and advances to customers	-	1,235,117	610,119	1,845,236
Financial assets at amortized cost – Receivables from the State budget	-	57,824	-	57,824
Financial assets at amortized cost – Securities	-	1,930	-	1,930
Financial assets at fair value through other comprehensive income – Debt instruments	6,488	575,223	-	581,711
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	54,059	54,059
Other financial assets	-	-	14,446	14,446
<b>Total financial assets</b>	<b>19,039</b>	<b>2,665,588</b>	<b>845,028</b>	<b>3,529,655</b>

\* As of 31 December 2021, funds amounting to BGN 12,274 thousand (2020: BGN 12,551 thousand) were blocked on counter-guarantees of two corporate customers, maturing as follows:

Maturity interval	Receivables from banks pledged as collateral	
	2021	2020
From 0 to 90 days	4,080	-
From 91 to 180 days	4,571	3,509
From 181 to one year	3,154	2,721
Over one year	469	6,321
	<b>12,274</b>	<b>12,551</b>

As of 31 December 2021, restricted securities on a legal requirement to provide for funds of the State budget amount to BGN 6,482 thousand (2020: BGN 6,488 thousand).

\*\* Other represent financial assets not encumbered or restricted to be used as collateral, but the Bank would not take it into consideration as available to support a future financing in the normal course of its activity.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.3. Liquidity risk (continued)**

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

Risk Management, together with other Bank divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Bank's assets. In case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

##### **4.4. Operational risk**

The main sources of operational risk within the Bank are its personnel, processes, systems and external events. The Bank designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Bank applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. Moreover, control procedures for reducing the operational risk are added to all internal rules and procedures of the Bank.

In operational risk management all operational events, which occur in the activity of various units and processes of the Bank, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios.

The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes and minimising the conditions that would potentially result in operational events and loss for the Bank.

For the purposes of measuring its operational risk, the Bank has decided to apply the "Basic indicator method".

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.5. Capital management

The main objectives of the Bank's capital management are to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Bank should observe the regulatory requirements for capital, as well as to continue operating as a going concern.

The table below presents the main equity components following the regulatory requirements and ratios achieved by the Bank:

	<b>2021</b>	<b>2020</b>
<u>OWN FUNDS</u>	1,070,167	1,038,884
TIER I CAPITAL	1,070,167	1,038,884
COMMON EQUITY TIER I (CET1) CAPITAL	1,070,167	1,038,884
Share capital	1,441,774	1,301,774
Loss	(386,706)	(230,855)
Statutory reserves	74,939	74,939
Additional reserves	80,179	80,179
Accumulated other comprehensive income	(74,639)	(67,805)
Intangible assets	(8,065)	(8,066)
Investments in subsidiaries	(3,200)	(58,599)
(-) CET 1 Capital instruments of companies from the financial sector when the institution has material investments	(43,760)	(50,324)
Adjustments due to prudential assessment requirements	(657)	(636)
Transitional adjustments to CET1 Capital	-	7,109
Deductible deferred tax assets based on future profit and arising from temporary differences	(9,698)	(8,832)
Components of or deductions from CET1 Capital – other	-	-
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.5. Capital management (continued)

	<b>2021</b>	<b>2020</b>
<u>TOTAL RISK EXPOSURES</u>	2,987,764	3,035,046
Credit risk – Standardised approach	2,868,564	2,915,471
Central governments or central banks	9,050	-
Regional governments or local authorities	1,920	1,930
Public sector entities	-	-
Multilateral development banks	939	939
Institutions	139,543	182,950
Corporates	1,349,299	1,708,431
Retail	434,198	127,427
Secured by mortgages on immovable property	293,812	411,185
Exposures in default	276,684	213,372
Items associated with particular high risk	143,583	41,033
Equity exposures	116,088	109,297
Other items	103,448	118,907
Currency and commodity risk	-	-
Operational risk – Basic indicator approach	119,200	119,575
CET 1 Capital Ratio	<b>35.82%</b>	<b>34.23%</b>
Total Capital Ratio	<b>35.82%</b>	<b>34.23%</b>
<i>Capital conservation buffer</i>	74,694	75,876
<i>Systemic risk buffer</i>	89,633	91,051
<i>Institution-specific countercyclical capital buffer</i>	14,939	15,175
<i>Buffer of other institutions of systemic importance</i>	14,939	15,175
<u>Regulatory required levels</u>		
<i>CET 1 Capital Ratio</i>	6.25%	6.25%
<i>Tier 1 Capital ratio</i>	7.75%	7.75%
<i>Total Capital ratio</i>	9.75%	9.75%
<i>Capital conservation buffer</i>	2.50%	2.50%
<i>Systemic risk buffer</i>	3.00%	3.00%
<i>Institution-specific countercyclical capital buffer</i>	0.50%	0.50%
<i>Buffer of other institutions of systemic importance</i>	0.50%	0.50%

By decision of BNB No93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%. By decision of BNB No4 of 8 March 2022 this requirement has been increased to 2.25% for risk-weighted assets, or a minimum overall capital adequacy of 10.25%.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy.

The fair value of securities classified as financial assets at fair value through other comprehensive income with carrying amount of BGN 1,278 thousand at 31 December 2021 (2020: BGN 1,133 thousand) carried at cost is not disclosed as the Bank is of the opinion that their fair value cannot be measured reliably.

As of 31 December 2021			Carrying amount			Fair value			
	Not e	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>									
Debt instruments at fair value through other comprehensive income	22	-	591,943	-	591,943	591,943	-	-	591,943
Equity instruments at fair value through other comprehensive income	22	-	64,669	-	64,669	63,391	-	-	63,391
Assets acquired from collateral foreclosure	27	-	-	34,719	34,719	-	-	34,719	34,719
Investment property	25	-	-	7,352	7,352	-	-	7,352	7,352
		-	<b>656,612</b>	<b>42,071</b>	<b>698,683</b>	<b>655,334</b>	-	<b>42,071</b>	<b>697,405</b>
<b>Assets not measured at fair value</b>									
Cash in hand and balances in current account with the Central Bank	17	243,625	-	-	243,625	-	243,625	-	243,625
Loans to banks	18	71,900	-	-	71,900	-	76,104	-	76,104
Current accounts and term deposits of banks	18	313,447	-	-	313,447	-	313,447	-	313,447
Loans and advances to customers	19	1,727,836	-	-	1,727,836	-	1,765,516	-	1,765,516
Receivables from the State budget	20	18,817	-	-	18,817	-	24,661	-	24,661
Securities at amortized cost	21	1,920	-	-	1,920	-	1,659	-	1,659
		<b>2,377,545</b>	-	-	<b>2,377,545</b>	-	<b>2,425,012</b>	-	<b>2,425,012</b>
<b>Liabilities not measured at fair value</b>									
Borrowings from international institutions	30	-	-	1,110,740	1,110,740	-	1,142,764	-	1,142,764
Deposits from customers other than credit institutions	29	-	-	881,673	881,673	-	882,281	-	882,281
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	1,719	1,719	-	1,719	-	1,719
Other borrowings	31	-	-	16,746	16,746	-	17,843	-	17,843
		-	-	<b>2,010,878</b>	<b>2,010,878</b>	-	<b>2,044,607</b>	-	<b>2,044,607</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**5. FAIR VALUE DISCLOSURE (CONTINUED)**

<b>As of 31 December 2020</b>		<b>Carrying amount</b>				<b>Fair value</b>			
	<i>Not e</i>	<b>Financial assets at amortized cost</b>	<b>Financial assets at fair value through other comprehensive income</b>	<b>Other</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets measured at fair value</b>									
Debt instruments at fair value through other comprehensive income	22	-	581,711	-	581,711	581,711	-	-	581,711
Equity instruments at fair value through other comprehensive income	22	-	54,059	-	54,059	52,926	-	-	52,926
Assets acquired from collateral foreclosure	27	-	-	33,938	33,938	-	-	33,938	33,938
Investment property	25	-	-	7,785	7,785	-	-	7,785	7,785
		-	<b>635,770</b>	<b>41,723</b>	<b>677,493</b>	<b>634,637</b>	-	<b>41,723</b>	<b>676,360</b>
<b>Assets not measured at fair value</b>									
Cash in hand and balances in current account with the Central Bank	17	496,268	-	-	496,268	-	496,268	-	496,268
Loans to banks	18	86,807	-	-	86,807	-	92,190	-	92,190
Current accounts and term deposits of banks	18	391,374	-	-	391,374	-	391,374	-	391,374
Loans and advances to customers	19	1,845,236	-	-	1,845,236	-	1,906,698	-	1,906,698
Receivables from the State budget	20	57,824	-	-	57,824	-	64,303	-	64,303
Securities at amortized cost	21	1,930	-	-	1,930	-	1,890	-	1,890
		<b>2,879,439</b>	-	-	<b>2,879,439</b>	-	<b>2,952,723</b>	-	<b>2,952,723</b>
<b>Liabilities not measured at fair value</b>									
Borrowings from international institutions	30	-	-	1,238,904	1,238,904	-	1,289,839	-	1,289,839
Deposits from customers other than credit institutions	29	-	-	1,127,315	1,127,315	-	1,127,614	-	1,127,614
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	8,155	8,155	-	8,155	-	8,155
Other borrowings	31	-	-	16,932	16,932	-	18,495	-	18,495
		-	-	<b>2,391,306</b>	<b>2,391,306</b>	-	<b>2,444,103</b>	-	<b>2,444,103</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair value of assets and liabilities measured at fair value is presented in the following table by types of assets at the reporting date:

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2021	31.12.2020				
Financial assets at fair value through other comprehensive income - Debt instruments	591,943	581,711	Level 1	Quoted market price without adjustment	N/A	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	63,391	52,926	Level 1	Quoted market price without adjustment	N/A	N/A

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**5. FAIR VALUE DISCLOSURE (CONTINUED)**

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2021	31.12.2020				
Investment property	7,352	7,785	Level 3	Market analogues method  Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of a range of prices of similar property or prices per sq. m. previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough. Currently, investment property is assessed between BGN 109 and BGN 1,523 /sq. m.		The higher (lower) fair value if:
Assets, acquired from collateral foreclosure	34,719	33,938	Level 3	Income capitalisation method (revenue method)  The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which in turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use. Currently, rental levels of leased investment property vary between BGN 1-14/sq. m.	Market analogues method: 1. Market realisation coefficient (0.8-0.95) 2. Location coefficient (0.81-1.0) 3. Coefficient of specific features (status) (0.8-1.1) 4. Offer market adequacy adjustment coefficient (from -10% to +5%)  Income capitalisation method (revenue method): 1. rent per sq. m. – BGN 1-14/sq. m. 2. price growth assumptions – 0-10% 3. levels of vacant unoccupied space – 3-25% 4. discount rate – 5-9%	- Higher (lower) market realisation coefficient - Higher (lower) location coefficient - Higher (lower) coefficient of specific features (status) - Higher (lower) offer market adequacy adjustment coefficient - price growth is expected to be higher (lower) - the levels of unoccupied space are low (high) - discount rate is lower (higher)

The Bank discloses voluntary the fair values of the assets acquired from collateral foreclosure as of 31 December 2021 and 31 December 2020.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair values of financial assets and liabilities that are not measured at fair value, but a disclosure at fair value is required.

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2021	31.12.2020				
Loans to banks	76,104	92,190	Level 2	Discounted cash flows Future cash flows are discounted by EURIBOR for 12 months but nor less than 0, adjusted for yield curve of Bulgarian government securities on primary market according to Bloomberg publication.	N/A	N/A
Loans and advances to customers	1,765,516	1,906,698	Level 2	Discounted cash flows Future cash flows are measured using the contractual effective interest rates for respective exposures based on officially published by BNB interest rates (unadjusted) of new loans for December 2021.	N/A	N/A
Receivables from the State budget	24,661	64,303	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2021.	N/A	N/A
Securities at amortized cost	1,659	1,890	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December 2021.	N/A	N/A
Other borrowings	17,843	18,495	Level 2	Discounted cash flows	N/A	N/A
Borrowings from international institutions	1,142,764	1,289,839	Level 2	Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2021.	N/A	N/A

For the assets and liabilities from the statement of financial position not disclosed in the table the Bank's management is of the opinion that their fair value approximates their carrying amount.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**6. NET INTEREST INCOME**

	<u>2021</u>	<u>2020</u>
<b>Interest income</b>		
<i>Financial assets measured at amortised cost</i>		
Loans and advances to customers	70,047	70,503
Loans to banks	1,131	1,426
Receivables from the State budget	320	2,742
Deposits placed with other banks	188	124
Financial assets at fair value through other comprehensive income	2,564	3,035
Other liabilities (effect of negative interest)	1,080	587
	<u>75,330</u>	<u>78,417</u>
Incl. Interest income on loans and receivables in Phase 2 and 3	<u>22,372</u>	<u>16,969</u>
<b>Interest expenses</b>		
Borrowings from international institutions	(15,267)	(15,802)
Deposits from customers other than credit institutions	(203)	(283)
Other borrowings	(113)	(117)
Other assets (effect of negative interest)	(3,050)	(3,565)
Finance lease	(18)	(39)
Deposits from credit institutions	(1)	(1)
	<u>(18,652)</u>	<u>(19,807)</u>
<b>Net interest income</b>	<u>56,678</u>	<u>58,610</u>

All interest income, except interest income on financial assets at fair value through other comprehensive income, arises from financial assets carried at amortized cost and recognized using the effective interest method.

**7. NET FEE AND COMMISSION (EXPENSE)/INCOME**

	<u>2021</u>	<u>2020</u>
<i>Fee and commission income under IFRS 15</i>		
Transaction-related services	569	713
Issuance of guarantees and letters of credit	2,916	1,871
Account maintenance	174	119
<b>Total fee and commission income from contract with customers</b>	<u>3,659</u>	<u>2,703</u>
Other charges	19	20
<b>Total fees and commissions income</b>	<u>3,678</u>	<u>2,723</u>
<b>Fee and commission expenses</b>		
Co-management fee COVID guarantees	(3,970)	(1,530)
Agent's commissions	(11)	(31)
Servicing of accounts with other banks	(22)	(40)
Transfers and treasury operations in other banks	(3)	(5)
<b>Total fee and commission expenses</b>	<u>(4,006)</u>	<u>(1,606)</u>
<b>Net fee and commission (expense)/income</b>	<u>(328)</u>	<u>1,117</u>

Fee and commission income represents revenue reported under IFRS 15 Revenue from Contracts with Customers (see Note 3.5 for details on the recognition of fee and commission income). The source of income are transactions made on the territory of Bulgaria. The prices of the respective services are fixed.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 8. NET GAIN ON FOREIGN EXCHANGE DEALS

	<u>2021</u>	<u>2020</u>
Net gain on dealing in foreign currencies	420	468
Net loss on foreign currency translation of assets and liabilities	7	(11)
	<u><b>427</b></u>	<u><b>457</b></u>

## 9. NET GAIN ON SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2021</u>	<u>2020</u>
Net gain on dealing in securities measured at fair value through OCI, incl. realised revaluation reserve	1,101	2,432
	<u><b>1,101</b></u>	<u><b>2,432</b></u>

## 10. OTHER OPERATING INCOME

	<u>2021</u>	<u>2020</u>
Income from rent of investment property	903	748
Refunded litigation expenses	175	227
Proceeds from disposal of FTA (fixed tangible assets)	90	51
Dividends received	76	26
Income from revaluation of investment properties	29	153
Other income	348	635
	<u><b>1,621</b></u>	<u><b>1,840</b></u>

## 11. OTHER OPERATING EXPENSES

	<u>2021</u>	<u>2020</u>
Loss on revaluation of investment property	(462)	-
Expenses on assets held for sale	(445)	(379)
Direct operating expenses relating to investment property	(244)	(206)
Expenses on disposal of FTA	(90)	-
Litigation expenses	(37)	(23)
	<u><b>(1,278)</b></u>	<u><b>(608)</b></u>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**12A. NET EXPENSES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS**

	<b>2021</b>	<b>2020</b>
(Expenses) for impairment on loans, net	(127,774)	(136,975)
(Expenses) for provisions on credit guarantees anti-COVID programs, net	(56,307)	(120,308)
(Expenses) for impairment on assets at fair value through OCI, net	(1,688)	(516)
Impairment of securities at amortized cost, net	(10)	(25)
Income from reversed impairment on unutilised loans	31	80
Income from reversed guarantee provisions, net	1,738	398
<b>Net expenses for impairment of financial instruments</b>	<b>(184,010)</b>	<b>(257,346)</b>

**12B. NET EXPENSES FOR IMPAIRMENT OF NON-FINANCIAL ASSETS**

	<b>2021</b>	<b>2020</b>
(Expenses) for impairment of assets acquired from collateral foreclosure	(407)	(3,281)
Impairment of subsidiaries	(1,193)	(1,032)
<b>Net expenses for impairment of non-financial assets</b>	<b>(1,600)</b>	<b>(4,313)</b>

**13. EMPLOYEE BENEFITS**

	<b>2021</b>	<b>2020</b>
Staff remuneration and social security	(15,454)	(14,435)
Remuneration to members of the Management and Supervisory Boards	(1,373)	(1,707)
	<b>(16,827)</b>	<b>(16,142)</b>

<i>Staff remuneration and social security</i>	<b>2021</b>	<b>2020</b>
Salaries	(13,445)	(12,627)
Social security	(1,703)	(1,515)
Social benefits	(192)	(168)
Amounts accrued on retirement benefits	(114)	(125)
	<b>(15,454)</b>	<b>(14,435)</b>

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2021</b>	<b>2020</b>
Communications and IT services	(1,583)	(1,354)
Hired services	(1,550)	(841)
Legal and consulting services	(1,472)	(262)
Advertising and entertainment expenses	(1,340)	(1,118)
Office and office equipment maintenance	(1,315)	(1,347)
Audit services by the registered auditors	(952)	(798)
Taxes and government charges	(364)	(231)
Other services provided by the registered auditors	(103)	(269)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(65)	(61)
Business trips	(32)	(26)
Rents	(8)	(10)
Contribution to the Bank Resolution Fund (BRF)	-	(7,740)
Bank supervision fees	-	(681)
	<b>(8,784)</b>	<b>(14,738)</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 14. GENERAL AND ADMINISTRATIVE EXPENSES (CONTINUED)

The amounts charges for the year for services provided by the registered audit firms of the Bank include: independent financial audit: BGN 952 thousand (2020: BGN 798 thousand), as well as agreed-upon procedures for BGN 103 thousand (2020: BGN 269 thousand) as a result of agreed-upon procedures related to regulating requirements and Pillar assessment for the purposes of funds assignment by the European Commission. In 2022 audit procedures were performed related to Comfort Letter on draft Offering Memorandum. The Bank did not receive tax advisory services or other services not related to audit by the statutory auditors.

#### 15. TAXATION

	<u>2021</u>	<u>2020</u>
Current tax expense	(16,442)	(31,713)
Deferred tax benefit due to temporary differences	105	352
Tax loss asset not recognized	16,442	31,713
<b>Total current tax benefit</b>	<b><u>105</u></b>	<b><u>352</u></b>
	<u>2021</u>	<u>2020</u>
<b>Accounting loss</b>	<b>(155,956)</b>	<b>(231,207)</b>
Income tax calculated at the effective tax rate (10% for 2021, 10% for 2020)	15,596	23,121
Expense on non-deductible expenses	(174)	(241)
Non-deductible income	1,125	9,185
Tax loss asset not recognized	(16,442)	(31,713)
<b>Total tax benefit</b>	<b><u>105</u></b>	<b><u>352</u></b>
<b>Effective tax rate</b>	<b><u>Not applicable</u></b>	<b><u>Not applicable</u></b>

In 2021, the Bank paid advance corporate income taxes of BGN 0 thousand (2020: BGN 900 thousand).

Outstanding balances of deferred taxes relate to the following items of the separate statement of financial position and changes in the separate statement of comprehensive income:

	<u>Assets</u>		<u>Liabilities</u>		<b>Changes in the statement of comprehensive income</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	
Property and equipment	(6)	(6)	-	-	-
Other assets	(79)	(97)	-	-	18
Investment properties	-	-	29	153	(124)
Securities at fair value through other comprehensive income	(9,642)	(8,882)	-	-	(760)
	<b><u>(9,727)</u></b>	<b><u>(8,985)</u></b>	<b><u>29</u></b>	<b><u>153</u></b>	<b><u>(866)</u></b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 15. TAXATION (CONTINUED)

The changes in the temporary differences during the year are recognised in the separate statement of comprehensive income.

The probability that the individual differences might reverse in the future and the Bank's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

## 16. NET CHANGE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2021</u>	<u>2020</u>
Losses during the year	(7,605)	(88,830)
10% tax	761	8,883
<i>Incl. debt instruments</i>	(2,044)	(2,321)
10% tax	205	232
<i>Incl. equity instruments</i>	(5,561)	(86,509)
10% tax	556	8,651
<b>Other comprehensive income for the year, net of tax</b>	<b><u>(6,844)</u></b>	<b><u>(79,947)</u></b>

## 17. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANK

	<u>2021</u>	<u>2020</u>
Cash in hand	839	590
Current account with the Central Bank	242,786	495,678
<i>Incl. Minimum statutory reserves</i>	135,616	166,404
<b>Total cash with the Central Bank</b>	<b><u>242,786</u></b>	<b><u>495,678</u></b>
<b>Total cash in hand and in accounts with the Central Bank</b>	<b><u>243,625</u></b>	<b><u>496,268</u></b>

In 2021 the current account with the Central Bank bears interest rate of minus 0.70% on the excess over 105% of the minimum statutory reserves (2020: minus 0.70%).

## 18. RECEIVABLES FROM BANKS

	<u>2021</u>	<u>2020</u>
Current accounts and demand deposits with local banks	200	250
Current accounts and demand deposits with foreign banks	33,739	35,375
<b>Total current accounts and demand deposits</b>	<b>33,939</b>	<b>35,625</b>
<i>incl. Current accounts with an original maturity of less than 90 days</i>	21,666	23,074
Term deposits with local banks (incl. repo deals)	-	153,538
Term deposits with foreign banks (incl. repo deals)	279,508	202,211
<b>Total term deposits</b>	<b>279,508</b>	<b>355,749</b>
<i>incl. Term deposits with an original maturity of less than 90 days</i>	220,590	259,484
Loans to local banks	73,990	88,795
<b>Total loans granted</b>	<b>73,990</b>	<b>88,795</b>
Allowance for impairment and uncollectability of receivables from banks	(2,090)	(1,988)
	<b><u>385,347</u></b>	<b><u>478,181</u></b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **18. RECEIVABLES FROM BANKS (CONTINUED)**

As of 31 December 2021, special-purpose loans, denominated in BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 1.50% to 4.50% (2020: 1.50% to 4.50%), were extended with the aim to develop small and medium-sized enterprises.

Funds amounting to BGN 12,274 thousand were blocked in current accounts with foreign banks to cover letters of credit (2020: BGN 12,551 thousand).

As of 31 December 2021, loans were provided to local banks denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand (31 December 2020: BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loans in four instalments. These are special-purpose loans extended to banks for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

#### **Disclosure of exposures to banks that would be adversely affected by EU sanctions following the Russian invasion of Ukraine.**

Following the Russian invasion of Ukraine on 24 February 2022, the EU imposed sanctions on Russian companies and individuals. These sanctions included the freezing of assets, exclusion from payment systems and others aimed at restricting the activities of Russian or Russian-controlled companies. The Bank has the following exposures to Russian or Russian-controlled banks:

#### ***International Bank for Economic Co-operation (IBEC)***

As of 31 December 2021, the Bank has receivables on deposits in IBEC (headquartered in Moscow, Russian Federation) with BGN equivalent of BGN 10,029 thousand, maturing on 2 March 2022. Upon maturity, IBEC paid the interest due, but not the principal of the deposit, which was overdue for a short period and subsequently repaid. As of the date of issuance of these financial statements, BDB has no receivables from IBEC.

#### ***International Investment Bank (IIB)***

As of 31 December 2021, the Bank has receivables on deposits with IIB, headquartered in Moscow with BGN equivalent of BGN 74,308 thousand to the International Investment Bank (IIB), headquartered in Budapest. The deposits are due, respectively:

- BGN 19,553 thousand - on 15 February 2022
- BGN 5,866 thousand - on 17 February 2022
- BGN 48,889 thousand - on 12 April 2022.

As of the date of issuance of these financial statements, the Bank has the following deposits with IIB:

- BGN 15,647 thousand – maturity on 23 May 2022.

It is probable that the Bank will not be able to receive the amounts due in full. As of the date of these financial statements, the Bank has not accrued a to its receivable from IIB.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**19. LOANS AND ADVANCES TO CUSTOMERS**

	<b>2021</b>	<b>2020</b>
Loans (gross amount)	2,068,281	2,101,281
Allowance for impairment and uncollectability of loans	(340,445)	(256,045)
	<b>1,727,836</b>	<b>1,845,236</b>
	<b>2021</b>	<b>2020</b>
<b>A. Analysis by customer type (gross amount)</b>		
Corporate and sole traders	2,063,891	2,098,600
Municipalities	427	427
Individuals	3,963	2,254
	<b>2,068,281</b>	<b>2,101,281</b>
	<b>2021</b>	<b>2020</b>
<b>B. Analysis by industry sector (gross amount)</b>		
Trade	631,007	445,387
Industry, total	313,044	463,829
<i>Industry – manufacture of tobacco products</i>	-	148,640
<i>Industry – manufacture of plant and equipment</i>	91,086	78,015
<i>Industry – energy generation and distribution</i>	79,933	92,978
<i>Industry – manufacture of foodstuffs</i>	46,465	44,933
<i>Industry – other industries</i>	95,560	99,263
Tourist services	271,309	266,325
Financial services	207,370	200,941
Transport	207,079	256,081
Government sector	148,154	153,176
Construction	142,179	155,773
Real estate transactions	57,356	57,897
Agriculture	32,638	49,359
Other industries	58,145	52,513
	<b>2,068,281</b>	<b>2,101,281</b>

The Bank finances mainly the activities of small and medium-sized enterprises, as well as investment projects to achieve return from 5 to 10 years.

**C. Movement in the allowance for loan impairment and uncollectability**

	<b>2021</b>	<b>2020</b>
<b>As of 1 January</b>	<b>256,045</b>	<b>156,045</b>
Impairment costs	226,753	167,072
Reversed impairment	(98,979)	(30,097)
Written-off against impairment	(43,374)	(36,975)
<b>As of 31 December</b>	<b>340,445</b>	<b>256,045</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 20. RECEIVABLES FROM THE STATE BUDGET

	<u>2021</u>	<u>2020</u>
Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	18,866	57,975
Allowance for impairment and uncollectability of loans (collective impairment)	(49)	(151)
	<u><b>18,817</b></u>	<u><b>57,824</b></u>

By Decree No. 18 of 2 February 2015, the Council of Ministers of the Republic of Bulgaria approved Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) (the Programme) on the terms and conditions for grants award under the Programme and for designating the bodies that will be in charge of its implementation.

The financing under the Programme goes through BDB. For the purpose, the Bank concludes trilateral agreements with regional governors (representatives of the State) and municipal mayors (authorized representatives of the owners' associations).

The Bank believes that the existing receivables bear a minimal credit risk in so far as the source of the payments is the budget of the Republic of Bulgaria. The resources attracted by international partners for the purpose of financing the Programme is covered by a State guarantee (see Note 30).

Funds utilised and not paid under the Programme as of 31 December 2021 amount to BGN 18,866 thousand (as of 31.12.2020: BGN 57,975 thousand).

## 21. SECURITIES MEASURED AT AMORTIZED COST

The available securities, financial assets measured at amortized cost as of 31 December 2021 and 2020 are as follows:

<b>2021</b>	<b>Nominal value</b>	<b>Gross amount</b>	<b>Impairment</b>	<b>Carrying amount</b>
Bonds denominated in BGN	2,000	2,011	(91)	1,920
	<b>2,000</b>	<b>2,011</b>	<b>(91)</b>	<b>1,920</b>
<b>2020</b>	<b>Nominal value</b>	<b>Gross amount</b>	<b>Impairment</b>	<b>Carrying amount</b>
Bonds denominated in BGN	2,000	2,010	(80)	1,930
	<b>2,000</b>	<b>2,010</b>	<b>(80)</b>	<b>1,930</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2021</u>	<u>2020</u>
Government securities	544,305	559,062
Corporate bonds	47,638	22,649
<b>Total debt instruments</b>	<b>591,943</b>	<b>581,711</b>
Non-publicly traded companies' shares	19,807	2,778
Participation in investment program SIA (Note 37)	1,095	950
Public companies' shares	43,767	50,331
<i>Of which shares of First Investment Bank AD</i>	<i>43,760</i>	<i>50,324</i>
<b>Total equity instruments</b>	<b>64,669</b>	<b>54,059</b>
<b>Total financial assets measured at fair value through OCI</b>	<b>656,612</b>	<b>635,770</b>

### Debt instruments

Movement in debt financial assets measured at fair value through other comprehensive income in the current and prior periods are as follows:

	<u>2021</u>	<u>2020</u>
<b>As of 1 January</b>	581,711	538,541
Increase (purchases)	329,832	141,005
Disposals (sale and/or maturity)	(315,869)	(105,468)
Net (decrease)/increase due to revaluation of financial assets measured at fair value through other comprehensive income	(3,731)	7,633
<b>As of 31 December</b>	<b>591,943</b>	<b>581,711</b>

Financial assets measured at fair value through other comprehensive income – debt instruments, consist mainly of government securities issued by the Republic of Bulgaria and other European states, as well as corporate bonds.

### Equity instruments

The movement of the equity financial assets, measured at fair value through other comprehensive income in the current and prior period, is as follows:

	<u>2021</u>	<u>2020</u>
<b>As of 1 January</b>	54,059	3,578
Additions (purchases)	21,243	136,990
Disposals (sale and/or maturity)	(5,071)	-
Net (decrease) due to revaluation of financial assets measured at fair value through other comprehensive income	(5,562)	(86,509)
<b>As of 31 December</b>	<b>64,669</b>	<b>54,059</b>

Equity instruments owned by the Bank are reported at fair value through other comprehensive income, and the Bank considers that the conditions of IFRS 9 in paragraph 5.7.5 are met, as these shares are neither held for trading nor represent contingent consideration recognized by the buyer in a business combination to which IFRS 3 applies.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

### **Equity instruments (continued)**

#### ***Shares in public companies***

Financial assets measured at fair value through other comprehensive income – equity instruments, consist of the following securities:

##### *First Investment Bank AD*

The Bulgarian Development Bank EAD holds 27,350,000 shares, representing 18.35% of the equity of First Investment Bank AD, with a par value of BGN 1 each.

The Bank has elected to classify this investment as financial asset measured at fair value through other comprehensive income, since the investment is long-term and strategic, it is not held for trading, and it is not a contingent consideration recognised in accordance with IFRS 3.

As of 31 December 2021, the Bank has assessed its participation in the capital of FIB according to the closing price received by the Bulgarian Stock Exchange (BSE) for shares of FIB on the last working day of the month of December 2021: BGN 1.6000 (as of 31.12.2020.: BGN 1.8400) per share.

##### *Chimimport AD*

The Bank holds 9,632 shares of the Chimimport AD conglomerate. As of 31 December 2021, the price per share is BGN 0.68, and the total amount of the investment is BGN 7 thousand (as of 31.12.2020: BGN 7 thousand).

#### ***Shares in non-public companies***

##### *Three Seas Initiative*

By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the Investment Fund of the “Three Seas” Initiative. The fund is a financial mechanism for the implementation of priority projects in the region: transport, digital and energy infrastructure. His exclusive investment advisor is Amber Infrastructure Group (Amber) - a specialized international manager working in the field of investment creation, asset and fund management.

The participation of BDB is related to a contribution of EUR 20 million in the capital of a specially created company. The Three Seas Initiative has an objective to strengthen investments, relations and cooperation – political and financial, between the member states in the region. This is a public-private financial instrument whose purpose is to complement the financing from the European Union’s structural and other funds.

The Fund manager periodically reports the net value of the assets for this instrument and the Bank revalues its participation according to it.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

### **Equity instruments (continued)**

#### ***Shares in non-public companies (continued)***

##### *Three Seas Initiative (continued)*

The Bulgarian Development Bank EAD nominated two representatives to the management of the Three Seas Investment Fund – in March 2021 the executive directors of BDB Nikolay Dimitrov and Panayot Filipov were elected at the General Meeting of the Three Seas Investment Fund and to represent Bulgaria in the Investment Fund. After changes in the management of the BDB as new representatives of the Bank by decision of the General Meeting of the Investment Fund of 22 September 2021 were elected: as member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director and Mr. Ilija Lingorski – Chief economist of the BDB as member of the Management Board of the Investment Fund, which will provide part of the necessary funding to strengthen the co-operation between the member-states in the Black, Adriatic and Baltic Sea region. In July 2021 the BDB hosted an investment panel during the Three Seas Forum in Bulgaria.

As of 31 December 2021, the amount of the investment of BDB in the Three Seas Fund is BGN 14,321 thousand (as of 31.12.2020: BGN 13,717 thousand.<sup>6</sup>) The commitment for capital contribution, which is still not due is disclosed in note 37 Contingencies and commitments.

##### *European Investment Fund*

The non-public companies' shares held by the Bank include shares of the European Investment Fund (EIF) amounting to BGN 5,304 thousand. The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

##### *Social Impact Accelerator (SIA)*

BDB participates in the EIF initiative Social Impact Accelerator (SIA), providing funding for start-up companies. As of 31 December 2021, eighteen equity contributions were made under the initiative amounting to EUR 560 thousand equivalent to BGN 1,095 thousand (2020: EUR 486 thousand equivalent to BGN 950 thousand).

##### *Borica AD*

The remaining portion of the non-public companies' shares amounting to BGN 183 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA AD.

---

<sup>6</sup> As the certificate for purchased shares was received after the date of the report, as of 31.12.2020 the amount is reflected in "Prepaid expenses and advances".

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## **22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

### **Equity instruments (continued)**

#### ***Shares in non-public companies (continued)***

Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute.

The revaluation reserve formed on financial assets measured at fair value through other comprehensive income is presented in Note 35:

	<u>2021</u>	<u>2020</u>
Revaluation reserve as of 1 January	(67,764)	12,183
Impairment	1,687	670
Revaluation	(9,293)	(89,500)
Tax	<u>762</u>	<u>8,883</u>
<b>Revaluation reserve as of 31 December</b>	<b><u>(74,608)</u></b>	<b><u>(67,764)</u></b>

In 2021 and 2020, there are no reported expenses for impairment of assets measured at fair value through other comprehensive income in current profit or loss for the year (Note 12).

## **23. INVESTMENTS IN SUBSIDIARIES**

As of 31 December 2021, and 2020, the Bank has the following investments in subsidiaries:

### **National Guarantee Fund EAD**

The Bank is a sole owner of the capital of National Guarantee Fund EAD, registered with the Commercial Register on 22 August 2008. The total registered share capital as of 31 December 2021 consists of 800,000 shares of BGN 100 each (31 December 2020: 800,000 shares of BGN 100 per share). The registered capital as of 31 December 2021 amounts to BGN 80,000 thousand (31 December 2020: BGN 80,000 thousand). The investment in the subsidiary as of 31 December 2021 amounts to BGN 80,000 thousand (31 December 2020: BGN 80,000 thousand), measured at historical cost of acquisition.

### **BDB Micro Financing EAD (former name Micro Financing Institution JOBS EAD)**

The Bank is a sole owner of the capital of BDB Micro Financing EAD (former name Micro Financing Institution JOBS EAD), registered on 14 January 2011. The total registered share capital as of 31 December 2021 amounts to BGN 14,643 thousand, split into 146,430 shares of BGN 100 each (as of 31.12.2020: BGN 7,643 thousand, split into 76,430 shares of BGN 100 each.). The investment in the subsidiary as of 31 December 2021 amounts to BGN 14,643 thousand (31 December 2020: BGN 7,643 thousand), measured at historical cost of acquisition.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **23. INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

#### **BDB Micro Financing EAD (former name Micro Financing Institution JOBS EAD) (continued)**

In the beginning of the month of September 2021 the Management Board of BDB in its capacity of sole owner of the capital of BDB Micro Financing EAD, adopted a decision to increase the capital of BDB Micro Financing EAD by an amount of BGN 7,000,000 by issuing new shares. The company's capital increase is to be entered in the Trade Register and Register of Non-Profit Legal Entities on 13 October 2021.

#### **Capital Investments Fund AD**

Bulgarian Development Bank EAD and National Guarantee Fund EAD are owners of the capital of the Capital Investments Fund AD incorporated on 24 August 2018. The company's capital amounts to BGN 65,000 thousand split into 650,000 shares of BGN 100 each. BDB subscribed 550,000 registered shares for the total amount of BGN 55,000 thousand, representing 84.62% of the capital. National Guarantee Fund EAD subscribed 100,000 shares for the total amount of BGN 10,000 thousand, representing 15.38% of the Fund's capital.

As of 31 December 2021, and 31 December 2020, the capital of the Fund is fully paid. The carrying amount of the investment of BDB is BGN 54,414 thousand as of 31 December 2021 (2020: BGN 55,000 thousand).

#### **BDB Leasing EAD**

The Bank is the sole owner of the capital of BDB Leasing EAD, registered according to the Trade Register and Register of Non-Profit Legal Entities on 12 March 2019 with capital amounting to BGN 2,000 thousand. In 2020 BDB increased the capital of BDB Leasing up to BGN 20,000 thousand by issuing new shares entirely purchased by the sole owner. The total registered share capital as of 31 December 2021 and 31 December 2020 is 200,000 shares of BGN 100 each. As of 31 December 2021, the amount of the paid-in capital is BGN 20,000 thousand (2020: BGN 20,000 thousand).

The carrying amount of the investment as of 31 December 2021 is BGN 20,000 thousand (2020: BGN 20,000 thousand).

#### **BDB Factoring EAD**

The Bank is the sole owner of the capital of BDB Factoring EAD, registered according to the Trade Register and Register of Non-Profit Legal Entities on 13 March 2019. As of 31 December, 2021 and as of 31 December 2020, the total amount of the registered share capital is 20,000 shares of BGN 100 each. As of 31 December 2021, and as of 31 December 2020, the amount of the paid-up capital is BGN 2,000 thousand. As of 31 December 2021, and 31 December 2020, the carrying amount of the investment is BGN 1,255 thousand (2020: BGN 1,463 thousand).

#### **Trade Centre Maritsa EOOD**

By decision of the Bank's Management Board, as recorded in Protocol 29 of 18 May 2018, Trade Centre Maritsa EOOD became an ownership of Bulgarian Development Bank EAD. The carrying amount of the company's shares is BGN 3,200 thousand as of 31 December 2021 (31 December 2020: BGN 3,600 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 23. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

#### Trade Centre Maritsa EOOD (continued)

As at 31 December 2021, management conducted a review for impairment of the investments in subsidiaries and found that the participations in following companies are subject to impairment:

- Capital Investments Fund AD – BGN 586 thousand
- Trade Centre Maritsa EOOD – BGN 400 thousand
- BDB Factoring EAD – BGN 208 thousand.

There are no indications of impairment for the remaining subsidiaries compared to the values in 2020.

### 24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
<b>Cost</b>						
<b>As of 1 January 2020</b>	<b>32,553</b>	<b>2,923</b>	<b>676</b>	<b>1,038</b>	<b>5,777</b>	<b>42,967</b>
Additions	22,310	780	78	587	4,517	28,272
Disposals	-	(22)	-	(358)	-	(380)
<b>As of 31 December 2020</b>	<b>54,863</b>	<b>3,681</b>	<b>754</b>	<b>1,267</b>	<b>10,294</b>	<b>70,859</b>
Additions	-	100	26	2	2,229	2,357
Disposals	-	(3)	-	(252)	(1,150)	(1,405)
<b>As of 31 December 2021</b>	<b>54,863</b>	<b>3,778</b>	<b>780</b>	<b>1,017</b>	<b>11,373</b>	<b>71,811</b>
<b>Accumulated depreciation/amortization</b>						
<b>As of 1 January 2020</b>	<b>2,449</b>	<b>1,570</b>	<b>377</b>	<b>494</b>	<b>1,122</b>	<b>6,012</b>
Charge for the year	608	524	86	192	1,106	2,516
Disposals	-	(22)	-	(283)	-	(305)
<b>As of 31 December 2020</b>	<b>3,057</b>	<b>2,072</b>	<b>463</b>	<b>403</b>	<b>2,228</b>	<b>8,223</b>
Charge for the year	961	588	91	236	1,081	2,957
Disposals	-	(2)	-	(164)	-	(166)
<b>As of 31 December 2021</b>	<b>4,018</b>	<b>2,658</b>	<b>554</b>	<b>475</b>	<b>3,309</b>	<b>11,014</b>
<b>Net book value</b>						
<b>As of 1 January 2020</b>	<b>30,104</b>	<b>1,353</b>	<b>299</b>	<b>544</b>	<b>4,655</b>	<b>36,955</b>
<b>As of 31 December 2020</b>	<b>51,806</b>	<b>1,609</b>	<b>291</b>	<b>864</b>	<b>8,066</b>	<b>62,636</b>
<b>As of 31 December 2021</b>	<b>50,845</b>	<b>1,120</b>	<b>226</b>	<b>542</b>	<b>8,064</b>	<b>60,797</b>

The fully depreciated/amortized property, plant and equipment still in use as of 31 December 2021 amount to BGN 1,818 thousand at cost (2020: BGN 914 thousand) and intangible assets amount to BGN 1,226 thousand (2020: BGN 743 thousand), respectively.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 25. INVESTMENT PROPERTY

	<b>2021</b>	<b>2020</b>
Carrying amount at the beginning of period	7,785	7,633
Gain/(loss) on change in the fair value included in profit or loss for the period	(433)	152
	<b>7,352</b>	<b>7,785</b>

The Bank holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2021 amounts to BGN 903 thousand (2020: BGN 748 thousand) (Note 10).

The Bank classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers using valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

## 26. ASSETS HELD FOR SALE

As of 31 December 2021, properties (land, buildings and fixtures and fittings), held for sale amount to BGN 4,107 thousand (2020: BGN 608 thousand).

The assets have not been used and it is not planned to be used in the Bank's activity. Management actively seeks buyers with the purpose to sell them by the end of 2022.

<b>Movement in assets held for sale during the year:</b>	<b>2021</b>	<b>2020</b>
Carrying amount at the beginning of period	608	-
Acquired from collateral foreclosure	4,107	608
Reclassified to assets acquired from collateral foreclosure	(608)	-
	<b>4,107</b>	<b>608</b>

## 27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE

	<b>2021</b>	<b>2020</b>
Carrying amount at the beginning of period	33,938	35,187
Reclassified from held for sale	608	-
Reclassified to receivables from non-financial institutions	-	(906)
Additional capitalised costs	632	2,938
Sold	(52)	-
Impairment (Note 12)	(407)	(3,281)
Carrying amount at the period-end	<b>34,719</b>	<b>33,938</b>

Assets acquired from collateral foreclosure (IAS 2), include assets acquired from collateral foreclosure on loans, which were Assets held for sale (IFRS 5), but not realised within the stipulated 12-month period and reclassified to assets acquired from collateral foreclosure. These assets are measured at the lower of cost and net realisable value.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE (CONTINUED)

	<b>2021</b>	<b>2020</b>
Assets acquired from collateral foreclosure	34,719	33,938
Prepayments and advances	2,296	18,842
Overpayment of income tax	-	900
VAT refundable	-	138
Other assets	2,116	728
Artwork	69	48
	<b>39,200</b>	<b>54,594</b>

## 28. DEPOSITS FROM CREDIT INSTITUTIONS

	<b>2021</b>	<b>2020</b>
Deposits from local banks	1,034	7,487
Deposits from foreign banks	685	668
	<b>1,719</b>	<b>8,155</b>

All deposits from credit institutions are demand deposits. There are no interest payables on deposits from credit institutions as of 31 December 2021 (2020: no payables).

## 29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	<b>2021</b>	<b>2020</b>
Companies and sole traders	810,888	1,051,711
Special-purpose deposits	63,065	68,183
Individuals	7,720	7,421
	<b>881,673</b>	<b>1,127,315</b>
	<b>2021</b>	<b>2020</b>
Term deposits	132,450	379,169
Demand deposits	749,223	748,146
	<b>881,673</b>	<b>1,127,315</b>

Interest payable on deposits from customers, other than credit institutions as of 31 December 2021 amount to BGN 96 thousand (2020: BGN 27 thousand).

The amount of the special-purpose deposits comprises the deposits of National Guarantee Fund EAD, a subsidiary of BDB, in connection with projects for establishing a Guarantee Fund to support rural areas of the country under the Rural Development Programme of the Republic of Bulgaria (2007-2013) at the Ministry of Agriculture and Food, and of the Operational Programme for Development of Fisheries Sector (2007-2013) at the Executive Agency Fisheries and Aquacultures (EAFA).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

	<b>2021</b>	<b>2020</b>
China Development Bank	720,813	732,061
Industrial and Commercial Bank of China /EUROPE/	132,041	146,637
Long-term framework loan agreement with the Council of Europe Development Bank	82,159	144,750
The Export – Import Bank of China	98,395	98,355
Long-term loans from the Kreditanstalt für Wiederaufbau	35,678	71,356
Long-term loans from the European Investment Bank	40,901	42,946
Long-term loans from the Nordic investment bank	753	2,799
	<b>1,110,740</b>	<b>1,238,904</b>

In order to fulfil its mission, BDB attracts funds from various sources, focusing on attracting funds from International Lending Institutions. The effective interest rates on funds attracted from international institutions as of 31 December 2021 are in the range from 0% to 1.70% (31.12.2020: from 0% to 1.70%).

The interest payables on the borrowings from international institutions as of 31 December 2021 amount to BGN 1,299 thousand (2020: BGN 1,469 thousand).

As of 31 December 2021, the main funding sources of the Bulgarian Development Bank EAD are presented below, as follows:

#### ***Council of Europe Development Bank***

On 30 March 2011, a new loan agreement was signed between Bulgarian Development Bank EAD and the Council of Europe Development Bank for EUR 20,000 thousand. The purpose of the loan is to improve the access to financing of the Bulgarian small and medium-sized enterprises, to create new jobs, and to preserve already existing ones. The loan is unsecured.

As of 31 December 2021, the loan is fully utilised and the outstanding principal under the loan amounts to EUR 3,000 thousand equivalent to BGN 5,867 thousand (31.12.2020: EUR 5,000 thousand equivalent to BGN 9,779 thousand). The interest rate on the first tranche is floating, based on the 3 M EURIBOR plus margin, and the interest rate on the second tranche is fixed.

On 23 February 2016, Bulgarian Development Bank EAD signed a Loan agreement with the Council of Europe Development Bank (CEDB) amounting to EUR 150,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan has a special purpose and will be used for renovation of multi-family buildings. As of 31 December 2021, the loan was fully utilised.

The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between the CEDB and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 3 May 2016.

### **30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)**

#### ***Council of Europe Development Bank (continued)***

As of 31 December 2021, the loan payable amounts to EUR 39,000 thousand equivalent to BGN 76,277 thousand (as of 31.12.2020: EUR 69,000 thousand equivalent to BGN 134,952 thousand). The interest rate on the first tranche of the loan is floating, based on 3M EURIBOR plus a margin, and on the second tranche it is fixed.

#### ***Kreditanstalt für Wiederaufbau (KfW)***

On 16 August 2016, Bulgarian Development Bank EAD signed an Agreement with KfW for EUR 100,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures, implemented by SMEs in Bulgaria under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between KfW and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 30 December 2016. As of 31 December 2021, the loan was fully utilised.

As of 31 December 2021, the outstanding principal under the facility amounted EUR 18,182 thousand equivalent to BGN 35,561 thousand (as of 31 December 2020 the outstanding principal amounted to EUR 36,364 thousand equivalent to BGN 71,121 thousand). The interest rate is floating, based on the 6M EURIBOR plus margin.

#### ***European Investment Bank***

On 18 November 2016, BDB signed a third contract with European Investment Bank for the amount of EUR 150,000 thousand for financing of projects of small and medium-sized enterprises. The funds are provided with the support of the EU and are backed by an EFSI (European Fund for Strategic Investment) guarantee, part of the Investment Plan for Europe – the Juncker Plan. The funds are intended to finance SMEs, including innovative projects, to support regions with high unemployment rates, as well as youth employment or start-up company projects. The loan can be allocated through partner banks, other financial intermediaries or directly. The loan is unsecured.

As of 31 December 2021, the outstanding principal under the loan amounted to EUR 20,910 thousand equivalent to BGN 40,896 thousand (as of 31 December 2020: EUR 21,955 thousand equivalent to BGN 42,941 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

### **30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)**

#### ***Nordic Investment Bank***

On 15 December 2010, a second credit line was signed between the Nordic Investment Bank and Bulgarian Development Bank EAD for EUR 20,000 thousand. The purpose of the loan is financing of renewable energy projects or environmental projects; projects involving the Nordic Investment Bank member states, as well as indirect financing through commercial partner banks. The loan is unsecured. As of 31 December 2021, the loan was fully utilised.

As of 31 December 2021, the outstanding principal under the facility amounted to EUR 385 thousand equivalent to BGN 753 thousand (31 December 2020: EUR 1,430 thousand equivalent to BGN 2,797 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

#### ***China Development Bank***

On 12 May 2017, BDB signed a loan agreement with China Development Bank for the amount of EUR 80,000 thousand. The purpose of the loan is financing the general lending activity of BDB – investment and working capital loans. BDB could also use the funds to support strategic projects within the Belt & Road initiative. The loan is unsecured. As of 31 December 2021, the loan was fully utilised.

As of 31 December 2021, the outstanding principal under the loan amounted to EUR 76,000 thousand equivalent to BGN 148,643 thousand (as of 31 December 2020: EUR 78,000 thousand equivalent to BGN 152,555 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured. As of 31 December 2021, the loan is fully utilised.

As of 31 December 2021, the outstanding principal on the loan amounts to EUR 292,500 thousand equivalent to BGN 572,080 thousand (as of 31 December 2020: EUR 296,250 thousand equivalent to BGN 579,415 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

#### *The Export – Import Bank of China*

On 28 September 2017, BDB signed an agreement with the Export – Import Bank of China for the amount of EUR 50,000 thousand. This was the first loan agreement between BDB and the Export – import Bank of China, following the financial cooperation agreement, signed in 2014 between the two institutions and setting their interest in joint financing of key projects or areas. The funds can be used to finance the overall lending activity of BDB, a short-term and mid-term trade financing, trans-border economic and commercial transactions between China and Bulgaria. The loan is unsecured. As of 31 December 2021, the loan is fully utilised.

As of 31 December 2021 the outstanding principal on the loan amounts to EUR 50,000 thousand equivalent to BGN 97,792 thousand (31 December 2020: EUR 50,000 thousand equivalent to BGN 97,792 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

#### *Industrial and Commercial Bank of China (through its divisions in Austria and Poland)*

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured. As of 31 December 2021, the loan is fully utilised.

As of 31 December 2021, the nominal debt on the loan amounts to EUR 67,500 thousand equivalent to BGN 132,019 thousand (as of 31 December 2020 EUR 75,000 thousand equivalent to BGN 146,687 thousand.) The interest rate is floating, based on the 6M EURIBOR plus a margin.

### 31. OTHER BORROWINGS

	<b>2021</b>	<b>2020</b>
Loan financing from the Ministry of Finance with funds from KfW	11,236	11,237
KfW funds provided by the Ministry of Finance for trust management	5,510	5,695
	<b>16,746</b>	<b>16,932</b>

There are no interest payables accrued on other borrowings as of 31 December 2021 and 31 December 2020.

### **31. OTHER BORROWINGS (CONTINUED)**

#### ***Loan financing from the Ministry of Finance with funds from KfW***

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period.

On 28 April 2017 BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

As of 31 December 2021, the outstanding principal and the capitalised interest amounted to EUR 5,745 thousand equivalent to BGN 11,236 thousand (as of 31 December 2020: EUR 5,745 thousand equivalent to BGN 11,236 thousand). The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2021, the Bank has extended under this contract loans to commercial banks amounting to EUR 5,745 thousand equivalent to BGN 11,236 thousand (31 December 2020: EUR 5,745 thousand equivalent to BGN 11,236 thousand).

#### ***KfW funds provided by the Ministry of Finance for trust management***

Since 2001 the Bank has been working on the concluded agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt für Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for financing of small and medium-sized enterprises. The Ministry of Finance bears the risk under the loans to partner-banks. The Bank selects the partner-banks and transfers the funds to those approved; gathers information and performs periodic reviews of the funds utilisation, monitors the timely interest and principal payments to the special account of the Ministry of Finance.

As of 31 December 2021, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,817 thousand equivalent to BGN 5,510 thousand (31 December 2020: EUR 2,912 thousand equivalent to BGN 5,695 thousand).

The Bank receives a management fee and accrues interest on the special account on a quarterly basis.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 32. PROVISIONS

	<b>2021</b>	<b>2020</b>
Provisions for guarantee programmes related to COVID-19 pandemic	176,370	120,308
Bank guarantee provisions	1,345	2,782
<b>Total provisions for guarantees</b>	<b>177,715</b>	<b>123,090</b>
Provisions for unutilized loans	32	43
	<b>177,747</b>	<b>123,133</b>

Provisions for guarantee programmes related to COVID-19 pandemic represent the valuation of expected credit losses on the guarantees issued in relation to programmes loans to individuals, micro, small and medium-sized enterprises and large enterprises, assigned to BDB by the Council of Ministers of the Republic of Bulgaria (see Note 37). They are calculated according to a methodology adopted by the BDB especially for these loans and the provisioning percent is 18.70% for loans for enterprises and 36% for individuals. Accordingly, the provisions accrued in 2021 amount to BGN 17,802 thousand (2020: BGN 56,530 thousand) for loan guarantees for enterprises and BGN 38,260 thousand (2020: BGN 63,778 thousand) for guarantees for loans for individuals.

Bank guarantee provisions are amounts determined under the ECL model of IFRS 9, apart from the amounts of the bank guarantees under Project "Guarantee Fund for Micro Lending" (GFML)<sup>7</sup> project of MLSP (Ministry of labour and social policy), reported in accordance with IAS 37 (using the option not to apply IFRS 9 for past off-balance sheet commitments). The provisions for the GFML amount to BGN 0 thousand (2020: BGN 146 thousand), and the amount of the issued guarantees for individuals is BGN 1,345 thousand (2020: BGN 2,636 thousand).

The following table presents the movement in provisions by guarantees:

	<b>2021</b>	<b>2020</b>
<b>Balance as of 1 January</b>	<b>123,090</b>	<b>2,822</b>
Accruals for the year – anti-COVID programmes	62,745	120,308
Utilised in the year	(245)	-
Reversed in the year	(6,438)	-
	<u>56,062</u>	<u><b>120,308</b></u>
Accruals for the year – bank guarantees	1,329	505
Utilised in the year	301	358
Reversed in the year	(3,067)	(903)
	<u>(1,437)</u>	<u><b>(40)</b></u>
<b>Balance as of 31 December</b>	<b>177,715</b>	<b>123,090</b>

<sup>7</sup> These amounts were finally derecognized in 2021.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 33. LEASE LIABILITIES

Lease liabilities represent liabilities to lease companies, related to assets purchased on lease. As of 31 December 2021, these liabilities amount to BGN 492 thousand (as of 31 December 2020: BGN 645 thousand).

### 34. OTHER LIABILITIES

	<b>2021</b>	<b>2020</b>
Accruals for expenses	973	1,622
Payables to personnel for salaries and social security	898	824
Retirement benefit liabilities	754	650
Tax liabilities	304	218
Charges on debenture loans and guarantees	168	167
Other creditors	1,062	573
	<b>4,159</b>	<b>4,054</b>

Payables to personnel for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon.

Employee retirement benefits are due by the Bank to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he/she has worked for more than 10 years for the Bank – to six gross monthly salaries at the time of retirement. The Bank estimated the amount of these liabilities by using mathematical models and the services of a certified actuary. On the basis of the calculations made, the amount of BGN 754 thousand was included in the separate statement of financial position as of 31 December 2021 (31 December 2020: BGN 650 thousand).

	<b>2021</b>	<b>2020</b>
<b>Present value of the liability as of 1 January</b>	<b>650</b>	<b>552</b>
Current service cost	113	127
Interest expense	4	4
Amounts paid in the period	-	(13)
Actuarial gains from changes in demographic and financial assumptions and actual experience	(13)	(20)
<b>Present value of the liability as of 31 December</b>	<b>754</b>	<b>650</b>

	<b>Amounts on retirement for old age and length of service</b>		<b>Amounts on retirements due to illness</b>		<b>Total</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Actuarial gain/(loss) as of 1 January</b>	(42)	(56)	-	-	(42)	(56)
Actuarial gain / (loss) recognized in other comprehensive income for the period	11	14	-	-	11	14
<b>Actuarial gain/(loss) as of 31 December</b>	<b>(31)</b>	<b>(42)</b>	<b>-</b>	<b>-</b>	<b>(31)</b>	<b>(42)</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 34. OTHER LIABILITIES (CONTINUED)

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2021:

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2018 – 2020;
- staff turnover rate – from 1 per cent to 10 per cent depending on five age groups formed;
- rate of early retirement due to illness – from 0.027% to 0.3212% depending on five age groups formed;
- effective annual interest rate for discounting – 0.6% (2020 г. – 0.5%);
- assumptions for the future level of working salaries in the Bank are based on the Bank's development plan for 2022 – 2% compared to the 2021 level and for 2023 and subsequent years – 2% compared to the previous year level.

The effect for 2021 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "-"- decrease)	19	(16)
Change in the present value of the liability as of 31 December 2021 ("+"- increase, "-"- decrease)	80	(70)
	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "-"- decrease)	(8)	10
Change in the present value of the liability as of 31 December 2021 ("+"- increase, "-"- decrease)	(70)	82
	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "-"- decrease)	(17)	20
Change in the present value of the liability as of 31 December 2021 ("+"- increase, "-"- decrease)	(74)	86

The effect for 2020 of the increase and decrease by 1 per cent of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 34. OTHER LIABILITIES (CONTINUED)

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "-"- decrease)	18	(15)
Change in the present value of the liability as of 31 December 2020 ("+"- increase, "-"- decrease)	74	(68)
	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "-"- decrease)	(8)	10
Change in the present value of the liability as of 31 December 2020 ("+"- increase, "-"- decrease)	(64)	76
	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "-"- decrease)	(16)	19
Change in the present value of the liability as of 31 December 2020 ("+"- increase, "-"- decrease)	(68)	80

### 35. SHARE CAPITAL

	2021	2020
<b>Share capital</b>		
Ordinary shares issued paid in cash	1,427,964	1,427,964
Ordinary shares issued – in-kind contribution (land for the building of the bank)	12,200	12,200
Ordinary shares issued - in-kind contribution (the building of the bank)	1,610	1,610
	<b>1,441,774</b>	<b>1,441,774</b>

As of 31 December 2021, the capital of the Bank consists of 14,417,735 ordinary registered voting shares with par value of BGN 100 each (2020: 14,417,735 shares with par value BGN 100).

The Bulgarian Development Bank Act provides that not less than 51 per cent of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51 per cent of the registered share capital are non-transferable.

By virtue of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the shares of the Bank's capital, apart from the Bulgarian state, may be acquired and held by the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, by development banks from EU member states. In these cases Art. 31 of the Credit Institutions Act is not applied. In view of the provision of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the members of the management and control bodies, the procurators and the senior management may not hold shares and may not be provided with options on BDB securities, and in subsequent reporting periods no agreements may arise, as a result of which changes in the relative share of shares held by current shareholders may occur in the future.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **35. SHARE CAPITAL (CONTINUED)**

In August 2017, by decision of the SB, the Bank's shares were transferred from the Ministry of Finance to the Ministry of Economy.

In 2020, by Decision №215 of 27 March 2020 the Council of Ministers took a decision to increase the capital of BDB by BGN 700 million and the funds should be used "for the implementation of measures to support the economy in connection with the epidemic of COVID-19, incl. to issue portfolio guarantees to banks to enable them to provide more flexible terms for business loans for a certain period, under certain conditions and on an individual assessment on a case-by-case basis".

By Decree of the Council of Ministers № 134 of 18 June 2020 changes to the budget of the Ministry of Economy were approved for 2020 and making additional payments regarding the portion of financing of the budget balance at the expense of the central budget, by Decision № 402 of 18 June 2020 the Council of Ministers the Bulgarian State decided to increase its participation in the share capital of Bulgarian Development Bank EAD by making a monetary contribution at the total amount of BGN 140,000,000. For the implementation of these measures an extraordinary General Meeting of the Shareholders of the Bank was held on 6 July 2020 at which a decision was adopted to increase the capital of the Bank by issuing 1,400,000 new registered dematerialized voting shares with a par value of BGN 100 each at the total amount of BGN 140,000,000. Thus, the capital of the Bulgarian Development Bank EAD was increased from BGN 1,301,773,500 to BGN 1,441,773,500.

As of 31 December 2021, 100% of the shares of the Bank are owned by the state through the Ministry of Economy (31 December 2020 – 99.99% of the shares of the Bank are owned by the State through the Ministry of Economy). DSK Bank holds 8 shares of the capital of BDB.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank EAD. By this decision the increase in the shareholding of the State in the capital of Bulgarian Development Bank EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of Bulgarian Development Bank EAD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of Bulgarian Development Bank EAD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, the Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

With an amendment to the Law on the Bulgarian Development Bank, in force since 18 March 2022, the rights of the state as the sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **36. RESERVES**

In accordance with the general provisions of the Commercial Act, the Bank shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10% of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least ½ of its after-tax annual profit until the reserves reach 50% of its share capital.

The Reserve Fund may be used by the Bank only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is similar.

As of 31 December 2021, the Reserve Fund of the Bank amounted to BGN 74,939 thousand (31 December 2020: BGN 74,939 thousand).

As of 31 December 2021, the Additional Reserves of the Bank amounted to BGN 80,148 thousand (31 December 2020: BGN 80,137 thousand) and are formed as a result of distribution of profits of the Bank from prior periods, according to decisions of the General Meeting of Shareholders.

In 2020, as a consequence of the COVID-19 pandemic and with the objective of establishing additional capital buffers the Bulgarian National Bank issued instructions to all banks in Bulgaria to capitalize the profit from 2019. Following these instructions, the Bank capitalized its entire profit from 2019 and has not paid dividend to its shareholders.

As of the date of issuance of these financial statements, the sole owner has not taken a decision to cover the loss from 2020.

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank is allowed to waive the right to a dividend and then the dividend amount is transferred to Additional Reserves.

All unrealised gains and losses on fair value revaluation of the financial assets measured at fair value through other comprehensive income held at the end of each reporting period are recognised in equity, in a special component thereof formed by the Bank and titled Reserve for financial assets measured at fair value through other comprehensive income. These gains and losses are transferred to current profits and losses upon sale/maturity of the respective securities and/or on permanent impairment. The Reserve for financial assets measured at fair value through other comprehensive income is presented net of taxes.

As of 31 December 2021, this reserve is a negative value in the amount of BGN 74,608 thousand. (31 December 2020: negative value of BGN -67,764 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 37. CONTINGENCIES AND COMMITMENTS

	<u>2021</u>	<u>2020</u>
<b>Contingent liabilities</b>		
Anti-COVID guarantees	680,938	479,462
Bank guarantees and letters of credit	130,108	151,116
incl. with cash collateral	(10,688)	(15,102)
Letters of credit, incl. with borrowings-		
Reported as loan commitment	187	1,719
Guarantee provisions (Note 32)	(177,715)	(123,090)
<i>Incl. provisions under guarantees for Anti-Covid programmes</i>	(176,370)	(120,308)
<b>Total contingent liabilities</b>	<b><u>622,830</u></b>	<b><u>494,105</u></b>
<b>Irrevocable commitments</b>		
Unutilised amount of approved loans	241,448	317,520
Incl. letters of credit with borrowings	-	(156)
Provisions on unutilized loans (Note 32)	(32)	(43)
Unpaid portion of shares of Three Seas Initiative	25,031	25,399
Participation in the SIA investment program	861	1,006
Unclaimed portion of par value of EIF shares	4,694	4,694
<b>Total irrevocable commitments</b>	<b><u>272,002</u></b>	<b><u>348,420</u></b>
	<b><u>894,832</u></b>	<b><u>842,525</u></b>

#### ***Anti-COVID programmes***

In its role as national development bank BDB received mandates from the government for the implementation of financial instruments in support of Bulgarian citizens and businesses affected by the COVID-19 pandemic. They were secured with an increase in the Bank's capital of BGN 700 million (see Note 35) and included the following measures:

##### Measures for individuals and households

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee program to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

The Interest-free loan guarantee program aims to support individuals on unpaid leave and self-insured who are temporarily unable to work in an emergency state.

The program parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans. Term for application was extended until 30 August 2021, or until the guarantee limits are exhausted. These changes became effective in January 2021.

### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID programmes (continued)***

##### *Measures for individuals and households (continued)*

According to Decision of the Council of Ministers No 194/05.03.2021, "Bulgarian Development Bank" AD was granted the right to increase by up to BGN 100 million the amount of the guarantee programme for interest-free loans to individuals on unpaid leave and self-insured (the "Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic") at the expense of the budget of the Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic. Thus, the possibilities for making guarantee commitments under the Guarantee Programme for interest-free loans for individuals on unpaid leave and self-insured was increased to BGN 300 million.

By Decision of the Council of Ministers No 506/15.07.2021, the deadline for applying under the Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted.

As of 31 December 2021, the total approved limit under the programme is BGN 290,543 thousand, portfolio guarantees amounting to BGN 283,438 thousand were issued to commercial banks and 52,925 loans to individuals were approved in the total amount of BGN 236,109 thousand.

As of 31 December 2020, the total approved limit under the programme is BGN 179,860 thousand, portfolio guarantees amounting to BGN 177,162 thousand were issued to commercial banks and 25,448 loans to individuals were approved in the total amount of BGN 106,425 thousand.

##### *Measures for micro, small and medium-sized enterprises*

By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020. The guarantee program, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million. It can include enterprises from all sectors, and the measure is expected to benefit mainly companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc.

In order to apply for loans, it is sufficient for the companies to meet one of the following conditions:

- To be micro, small and medium-sized enterprises, as determined in the manner specified in the Law on small and medium-sized enterprises or large enterprises-commercial companies, whose indicators for personnel and assets and/or turnover exceed the indicators specified in the Law on small and medium-sized enterprises;

### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID programmes (continued)***

##### *Measures for micro, small and medium-sized enterprises (continued)*

- That the enterprises were not in a difficult situation as of 31.12.2019, which is established by checking pre-set, normative criteria. Recent changes to the programme introduce a relief from the “Temporary Framework for State Aid” for micro and small enterprises. It is sufficient for them not to have been the subject of insolvency proceedings, under national law and have not received rescue or restructuring aid (meaning rescue or restructuring aid). In addition, if the BDB guarantee includes existing loans, they must not have been non-performing, and the borrower must not be overdue for more than 90 days – in 2019. For existing loans, the borrower must have submitted to the commercial bank - partner forecast estimates and forecast plan for resumption of its activities, which does not require a strictly defined form and details;

Funding and guarantee can be used by companies that have encountered difficulties or have fallen into difficulty after 31 December 2019 due to the outbreak of the COVID-19 epidemic. The difficulty is identified by the borrower himself, and it is sufficient to describe one of the following reasons that led to his difficulties:

- Decrease in turnover after the first quarter of 2020 compared to the same period in 2019 (based on financial statements or documents of the company);
- Existence of receivables from customers, that have not been received/amounts not paid to suppliers after 1 March 2020 (based on financial statements and documentation of the company);
- Terminated import deliveries necessary for the activities of the enterprise – after 1 January 2020, cancelled export contracts (based on documents submitted by the company);
- Cases of illness and self-isolation of employees, total reduction of the number of employees, closed production facilities, premises and offices (based on documents submitted by the company);
- Existence of other circumstances, establishing the difficulties experienced by enterprises due to COVID-19, according to methodology adopted by the commercial banks, which is provided to BDB.

Because the funding covered by the guarantee under the programme is state aid:

- Borrowers are prohibited from financing one and the same expenditure with a loan under the programme and other state/minimum aid. (The same expense means, for example, payment on a specific invoice from 30 November 2020 or payment of rent for a specific office for the month of December 2020, or payment of salaries of specific employees for a specific month.) If the client uses for these specific expenses state/minimum (de minimis) aid, the client cannot use the loan to cover the same costs (prohibition of double financing).

### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID programmes (continued)***

##### *Measures for micro, small and medium-sized enterprises (continued)*

- The borrower must not have infringed the State aid rules and be entered in the specially created "Degendorf Register" <https://stateaid.minfin.bg/bg/page/483>;
- If the borrower or a related person has benefited from/uses other state /minimum aid for the same type of expenses, as the expenses that he or she wants to be financed by the loan under the programme (e.g., total costs for salaries, total rental costs, total costs for maintenance of facilities), he or she is obliged to declare this to the commercial bank by a declaration according to a model of the programme and should not to allow double financing as mentioned above.

New loans, as well as existing loans, may be included in the programme managed by the Bulgarian Development Bank, but provided that the company is experiencing difficulties in servicing the loans after 31 December 2019 and has no overdue payments over 90 days during the last year. The loans which the commercial banks will grant have a maximum amount of BGN 300,000 and the BDB will cover up to 80% of the loans.

The banks themselves will determine the minimum and maximum repayment period and the grace period for newly granted loans will be up to three years.

During the last quarter of 2020 the Programme was renewed by Decision of the Council of Ministers 979/2020, as follows:

- The loans granted now have an amount up to BGN 1 million for small and medium-sized enterprises and up to BGN 2 million for large enterprises;
- The term of inclusion of loans in the Guarantee portfolio has been extended until 31 December 2021;
- The deadline for application under the measure for micro, small and medium-sized enterprises is 30 June 2022.
- The percentage of collateral for the loans has changed from 20% to up 50%, according to the amount of financing;
- A reduction of at least 80 basis points on loan interest rates is required;
- The term of the guarantee provided by BDB has be extended from 5 to 6 years;
- The guarantee coverage will cover investment loans granted by the banks;
- The limit of the guarantee payments by the BDB AD has been extended from 30% to 50%.

The Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic was updated by Decision of the Council of Ministers No 194/05.03.2021 and by Decision of the Council of Ministers No 578/05.08.2021. The programme is aiming to synchronize it with the upgrading mechanism for intervention developed in May 2021 by the Ministry of Economy and the Ministry of Finance, which provides liquid support to enterprises - "Portfolio guarantee to overcome the consequences of COVID-19".



### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID programmes (continued)***

##### *Measures for micro, small and medium-sized enterprises (continued)*

As of 31 December 2021, the total approved limit under the programme is BGN 795,000 thousand, portfolio guarantees amounting to BGN 397,500 thousand were issued to commercial banks and 2,290 loans to individuals were approved in the total amount of BGN 413,555 thousand.

As of 31 December 2020, the total approved limit under the programme is BGN 743,000 thousand, portfolio guarantees amounting to BGN 302,300 thousand were issued to commercial banks and 1,282 loans to individuals were approved in the total amount of BGN 157,127 thousand.

#### ***SIA***

On 17 July 2015, Bulgarian Development Bank EAD signed a funds management contract with EIF for accession to the SIA (Social Impact Accelerator) investment program of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. In 2018, a Consent for extending the investment period of the SIA Fund by 1 year. The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program.

As of 31 December 2021, eighteen equity contributions were made under the initiative amounting to EUR 560 thousand equivalent to BGN 1,095 thousand (2020: EUR 486 thousand equivalent to BGN 950 thousand) (Note 22).

#### ***Guarantee programmes for small and medium-sized businesses***

In 2015, the Bank launched a new program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30 per cent of the amount of the individual sub-loans - on loans granted by partner banks to businesses. As of 31 December 2021, the Bank has effective agreements with five partner banks and the so-formed portfolio of guarantees amounts to BGN 1,118 thousand (31 December 2020: five partner banks and portfolio of guarantees amounting to BGN 1,482 thousand).

#### ***BDB's programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME+ Programme, with the support of the European Fund for Strategic Investments (Cosme+ Programme)***

At the end of 2018 BDB EAD updated framework conditions of the on-landing product: BDB Programme for Indirect Financing of SMEs with Guarantee Facility and Counter-Guarantee under the COSME + Programme of the European Investment Fund, with the support of the European Fund for Strategic Investments with which, in addition to banks, non-bank financial institutions are allowed to participate in the Programme.

The purpose of the Program is to provide long-term targeted funding plus a guarantee for payment of up to 60% of principal and accrued contractual interest by the 90th day on each of the eligible subcontracts of the Programme, but not more than a certain "Payment Limit" (CAP), in amount of 12% of the guarantee from BDB EAD. The EIF provides a counter-guarantee covering up to 50% of BDB's commitment.

### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***BDB's programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME+ Programme, with the support of the European Fund for Strategic Investments (Cosme+ Programme) (continued)***

As of 31 December 2021, BDB has concluded contracts under the Programme with 8 financial institutions in the total amount of EUR 26,149 thousand, of which with two commercial banks and six non-banking financial institutions entered in the register of BNB.

As of 31 December 2021, the amount of the guarantees of BDB EAD is BGN 29,071 thousand (EUR 14,864 thousand), and the guaranteed amount is BGN 17,443 thousand (BGN 8,918 thousand).

#### ***Pan-European Guarantee Fund***

The Pan-European Guarantee Fund was established as part of the overall package of measures of the EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises in the EU and public enterprises, providing important services such as healthcare, medical research and others. The total amount of financing is expected to be EUR 200 billion. The **Bulgarian Development Bank Group applied and was approved as financial intermediary under the guarantee programme** of the Pan-European Guarantee Fund, under which its new product was created. From the end of September 2021 through financial instruments of the Pan-European Guarantee Fund, BDB will present three new products on the Bulgarian market for small and medium-sized businesses, the sector of creative industries and start-ups in production. The programme, amounting to EUR 40 million in volume, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB will be able to grant direct loans under easier loan terms.

As of 31 December 2021, the Bank has not granted loans nor issued guarantees under the programme.

#### ***Nature of the instruments and credit risk***

These contingent commitments bear off-balance sheet credit risk, because only the fees are recognized in the financial statements up to the performance or expiration of the term of the commitments. The amounts shown in the table above as guarantees represent the maximum accounting loss that would be recognized at the end of the reporting period, if the counterparties did not fully meet their contractual obligations. The term of many of the contingent liabilities will have expired without being partially or fully advanced. Therefore, the amounts do not represent expected future cash flows. Collateral for the issuance of ordinary bank guarantees is over 100% and represents mainly blocked deposits with the Bank, mortgaged real estate and insurance policies issued in favour of the Bank. Upon occurrence of conditions for activation of an issued guarantee, the Bank assesses the possibility for recourse receivable from the counterparty and possible realization of the provided collateral.

**37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

The guarantees issued by the Bank under the MLSP Guarantee Fund Project are unsecured. In case of activation of a component of a guarantee issued by the Bank, the payment made by it is not assessed as a final loss, as the partner bank has an obligation to take all necessary actions for realization of the received collaterals under the problem loan and to reimburse the respective amount to BDB.

The unpaid part of the par value of the shares of the European Investment Fund held by the Bank becomes due for payment after a special decision for the purpose of the General Meeting of the Fund's shareholders. No such decision has been taken by the date of these financial statements.

**38. CASH AND CASH EQUIVALENTS**

	<b>2021</b>	<b>2020</b>
Cash in hand (Note 17)	839	590
Current accounts with the Central Bank (Note 17)	242,786	495,678
Receivables from banks with original maturity up to 3 months (Note 18)	242,256	282,558
	<b><u>485,881</u></b>	<b><u>778,826</u></b>

The following table summarises the movements in the liabilities arising from financing activity, including cash-flow and non-monetary changes, with a reconciliation between the opening and closing balances in the statement of financial position of the liabilities arising from financing activity for the year ended 31 December 2021.

	<b>1 January 2021</b>	<b>Cash inflows</b>	<b>Cash outflows</b>	<b>31 December 2021</b>
Current borrowings from international institutions	1,238,904	-	(128,164)	1,110,740
Current liabilities on other borrowings	16,932	112	(298)	16,746
<b>Total liabilities from financing activity</b>	<b><u>1,255,836</u></b>	<b><u>112</u></b>	<b><u>(128,462)</u></b>	<b><u>1,127,486</u></b>

\* The interest accruals of BGN 15,381 thousand are included in the operating cash flows of the Bank

	<b>1 January 2020</b>	<b>Cash inflows</b>	<b>Cash outflows</b>	<b>31 December 2020</b>
Current borrowings from international institutions	1,211,937	146,687	(119,720)	1,238,904
Current liabilities on other borrowings	17,119	117	(304)	16,932
<b>Total liabilities from financing activity</b>	<b><u>1,229,056</u></b>	<b><u>146,804</u></b>	<b><u>(120,024)</u></b>	<b><u>1,255,836</u></b>

\* The interest accruals of BGN 15,802 thousand are included in the operating cash flows of the Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

<i>Entity/person</i>	<i>Type of control</i>
Ministry of Economy	State Ministry, exercising rights of ownership on the Bank on behalf of the State until 18 March 2022
Ministry of Innovation and Growth	State Ministry, exercising the rights of ownership on the Bank on behalf of the State after 18 March 2022
Ministry of Finance	State Ministry, issuer of securities, depositor
National Guarantee Fund EAD	Subsidiary
BDB Micro Financing EAD (former name Microfinancing Institution JOBS EAD))	Subsidiary
Capital Investments Fund AD	Subsidiary
TC Maritsa EOOD	Subsidiary
BDB Leasing EAD	Subsidiary
BDB Factoring EAD	Subsidiary
Kohoferm OOD	Company controlled by BDB
Avtomagistrali EAD	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
Eco Antracite EAD	Company under joint control with the State
Montazhi –Sofia EOOD	Company under joint control with the State
ICGB AD	Company under joint control with the State
Holding Bulgarian State Railways EAD	Company under joint control with the State
Saint Ekaterina University Multiprofile Hospital for Active Treatment	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
Terem – Holding EAD	Company under joint control with the State
Bulgarian Energy Holding EAD	Company under joint control with the State
Energy Investment Company EAD	Company under joint control with the State
Kintex EAD	Company under joint control with the State
Water Supply and Sewerage EOOD Plovdiv	Company under joint control with the State
TPP Maritsa East 2 EAD	Company under joint control with the State
State Consolidation Company EAD	Company under joint control with the State
Aviosnams AD	Company under joint control with the State
Water Supply and Sewerage Shumen OOD	Company under joint control with the State
Montazhi EAD	Company under joint control with the State
Bulgarian ViK Holding EAD	Company under joint control with the State
Bulgartransgaz EAD	Company under joint control with the State
State Enterprise KABYUK DP	Company under joint control with the State
MBAL Lozenets EAD	Company under joint control with the State
BDZ – Freight transport EOOD	Company under joint control with the State
Sofia Tech Park AD	Company under joint control with the State

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

The table above shows the companies with which the Bank had transactions during the reporting period. All related party transactions are at arm's length.

#### *Related party balances in the statement of financial position:*

##### **Assets**

<i>Entity/person</i>	<i>Type of balance</i>	<b>2021</b>	<b>2020</b>
Ministry of Finance	Financial assets at fair value through other comprehensive income	388,127	403,277
BDB Micro Financing EAD (former name Microfinancing Institution JOBS EAD)	Loans and advances to customers	20,755	15,550
BDB Leasing EAD	Loans and advances to customers	41,829	24,757
BDB Leasing EAD	Other assets (Prepaid expenses)	18	22
BDB Factoring EAD	Loans and advances to customers	10,149	11,568
Companies controlled by BDB	Loans and advances to customers	406	1,539
Companies under joint control with the State	Loans and advances to customers	317,252	300,992
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	23,113	22,649
<b>Total</b>		<b>801,649</b>	<b>780,354</b>
<b>Of which with subsidiaries</b>		<b>72,751</b>	<b>51,897</b>

##### **Liabilities**

<i>Entity/person</i>	<i>Type of balance</i>	<b>2021</b>	<b>2020</b>
Ministry of Finance	Other borrowings	16,746	16,931
National Guarantee Fund EAD	Liabilities to customers on deposits	79,676	78,141
BDB Micro Financing EAD (former name Microfinancing Institution JOBS EAD)	Liabilities to customers on deposits	8,281	530
BDB Leasing EAD	Liabilities to customers on deposits	3,917	6,109
BDB Leasing EAD	Other liabilities (lease liabilities)	388	476
BDB Factoring EAD	Liabilities to customers on deposits	47	949
Trade Center Maritsa EOOD	Liabilities to customers on deposits	-	2
Capital Investments Fund AD	Liabilities to customers on deposits	51,745	61,098
Companies controlled by BDB	Liabilities to customers on deposits	-	24
Companies under joint control with the State	Liabilities to customers on deposits	273,750	360,579
<b>Total</b>		<b>434,550</b>	<b>524,839</b>
<b>Of which with subsidiaries</b>		<b>144,054</b>	<b>147,305</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)***Related party transactions:*

<i>Entity/person</i>	<i>Type of relation</i>	<b>2021</b>	<b>2020</b>
Ministry of Finance	Fee and commission income	57	58
	Interest income	1,410	1,906
	Interest expenses	(113)	(117)
National Guarantee Fund EAD	Fee and commission income	2	3
	Interest expenses	(2)	(3)
	Rental income	93	39
BDB Micro Financing EAD (former name Microfinancing Institution JOBS EAD)	Fee and commission income	4	4
	Interest income	305	206
	Rental income	58	37
	Other operating income	-	2
BDB Leasing EAD	Fee and commission income	2	1
	Interest expenses	(11)	(7)
	Interest income	609	351
	Other operating income	62	58
BDB Factoring EAD	Fee and commission income	1	1
	Interest income	162	59
	Other operating income	44	59
Trade Center Maritsa EOOD	Fee and commission income	-	1
Capital Investments Fund AD	Fee and commission income	-	1
	Other operating income	12	-
Companies under joint control with the State	Interest income	8,512	5,067
	Fee and commission income	202	232
	Interest expenses	(12)	(86)
	Other operating expenses	-	(21)
	Other operating income	-	37
<b>Total income</b>		<b>11,535</b>	<b>8,122</b>
<b>Total expenses</b>		<b>(138)</b>	<b>(234)</b>
<b>Total income from transactions with subsidiaries</b>		<b>1,354</b>	<b>822</b>
<b>Total expenses for transactions with subsidiaries</b>		<b>(13)</b>	<b>(10)</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

#### *Commitments and contingencies with related parties:*

<i>Entity/person</i>	<i>Type</i>	<b>2021</b>	<b>2020</b>
BDB Micro Financing EAD	Unutilised amount of a loan approved	3,500	9,000
BDB Leasing EAD	Unutilised amount of a loan approved	26,673	24,547
BDB Factoring EAD	Unutilised amount of a loan approved	24,411	22,375
Companies controlled by BDB	Bank guarantees issued	-	2,278
Companies under joint control with the State	Unutilised amount of a loan approved	23,038	40,649
Companies under joint control with the State	Bank guarantees issued	2,933	6,528
<b>Total</b>		<b>80,555</b>	<b>105,377</b>
<b>Of which with subsidiaries</b>		<b>54,584</b>	<b>55,922</b>

#### *Relations with key management personnel:*

<b>Balances with key management personnel</b>	<b>2021</b>	<b>2020</b>
Payables to customers on deposits	261	378
Remuneration payable	22	54
Loans and advances to customers	-	145
<b>Transactions with key management personnel</b>	<b>2021</b>	<b>2020</b>
Remuneration and social security contributions	(1,373)	(1,707)
Interest expenses	-	-
Interest income	-	4

### 40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the separate financial statements apart from the following non-adjusting events:

#### **Change of the principal of Bulgarian Development Bank EAD**

With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

#### **Change in the Supervisory Board of Bulgarian Development Bank EAD**

The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is entered in the Commercial Register on 13 January 2022.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

#### 40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

##### The war in Ukraine (continued)

In the early hours of 24 February 2022, a full-scale military invasion of Russia began in its southwestern neighbour Ukraine. The attack on Ukraine has been described as the most serious military conflict in Europe since the end of World War II. Russia has been subject to large-scale economic sanctions from the European Union, the United States, Britain, Canada and other countries, including traditionally neutral ones such as Switzerland, some of which extend to Belarus.

The economic situation caused by the conflict and the sanctions imposed is expected to affect a number of sectors of the economy, including disrupting the normal economic activity of economic operators. Due to the unpredictable dynamics of the conflict and its medium- and long-term economic consequences, the scope and impact on the Bank's business are difficult to assess. Depending on the duration and scale of the conflict, and the political and economic measures taken by Russia and the United States and the EU, the Bank may reconsider its assumptions and judgments, which in turn will lead to significant adjustments in the carrying amount of assets and liabilities for the next financial year.

##### **Potential immediate effects on the Bank**

As of 31 December 2021 and the date of issuance of the separate financial statements, the Bank has the following deposits in/receivables from institutions, whose main shareholder is Russia:

	<b>Amount as of 31.12.2021</b>	<b>Rating as of as of 31.12.2021</b>	<b>Amount as of the date of issuance of the financial statements</b>	<b>Rating as of the date of issuance of the financial statements</b>
International Bank for Economic Cooperation (IBEC)	10,029	Baa3 (Moody's)/ BBB (Fitch)	-	WDR/WDR
International Investment Bank (IIB)	74,308	A3 (Moody's)/ A-(Fitch)	15,647	WDR (Moody's)/ BB-(Fitch)

Due to sanctions imposed or the deteriorating solvency of their customers, which leads to deterioration of their financial position, it is likely that Russian-controlled banks will not be able to make payments on maturity deposits or within the grace period. As of the date of issuance of the separate financial statements, the banks have no overdue payments to the Bank and there are no indications that they could not meet their obligations.

##### **Potential effects on the Bank's customers**

The business of some important customers of the Bank is also expected to be affected by disrupted supply chains, travel restrictions, increased prices and more. As of the date of issuance of the separate financial statements, customers still do not have a detailed quantitative assessment of the potential effects of the war, however:

#### 40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)



## **The war in Ukraine (continued)**

### ***Potential effects on the Bank's customers (continued)***

- Customers operating in the **tourism and hospitality sector** expect a decrease in visits from Russia and Ukraine, and are not confident that they will be able to fully compensate for these visits with tourists from other markets;
- Customers operating in the **transport sector** expect a significant increase in energy costs as a result of the war in Ukraine. These customers are also unsure of the extent to which they will be able to pass on additional costs to their own customers without causing an outflow of consumption, with a corresponding negative effect on operating results and financial position;
- Customers in the **construction and real estate sector** expect high prices of materials to remain in the medium term, as suppliers of these raw materials - iron, cement and others - are Russia and Ukraine. Customers are not sure how much they will be able to pass on additional costs to their own customers;
- Customers in the **trade and services sector** expect increase in costs due to rising energy prices, as well as general inflation pressure as a result of the war, but do not expect a significant effect on their operating results and financial position: these customers expect that to a high degree, will be able to offset the effect of the increases;
- Customers in **the industry sector** are directly affected by increased energy and material prices, as well as disrupted supply chains;
- The Bank's customers in the sector "**Production, transmission, distribution and delivery of natural gas and heat**" are directly affected by increased energy prices, expecting regulatory compensational measures, given their special status of natural monopolies in respective markets. In addition, the disruption of natural gas supplies from Russia, effective as of 27 April 2022, could not be compensated fully in the short term, and will possibly lead to:
  - o Decrease of income from transmission of natural gas for the period, in which normal deliveries are offset by other sources;
  - o Increase in the short-term of costs of delivery of natural gas for heat production;

Negative effects are likely both on the operational results and financial condition of these customers for 2022, and on the economy as a whole. At the same time, it is unlikely that as a result of these developments, customers will be permanently unable to repay their obligations to the Bank.

## **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## The war in Ukraine (continued)

### **Potential effects on the Bank's customers (continued)**

As of 30 April 2022, date of preparation of the last portfolio, the Bank has the following significant exposures<sup>8</sup> to potentially affected sectors:

	<b>As of 30 April 2022</b>
Construction and real states	503,959
Industry	468,676
Trade and services	333,226
Transport	193,634
Transmission and distribution of natural gas and heat	140,020
Tourism and hoteliers	124,045
	<b>1,763,560</b>

The Bank carefully monitors the development with its customers and is ready to take appropriate measures to protect its interests, and those of its customers.

The effect of the general economic implications may lead to the need to revise certain assumptions and accounting estimates, which may lead to changes in the carrying amount of the exposures described above within the next financial year. At this stage, the Bank's management is not able to reliably assess these effects, as events develop on a daily basis.

Longer-term effects may affect the Bank's financial position, results of operations and cash flows. However, at the date of issue of these separate financial statements, the Bank continues to meet its obligations on time and therefore continues to apply the going concern principle.

### **Support for tourism Program**

In January 2022, the Bulgarian Development Bank started a new product, aimed at one of the most affected by the COVID pandemic sector - the hotel and restaurant business. Micro, small and medium-sized companies in these sectors can benefit from preferential financing, even if they have overdue debts of up to 90 days. The **volume of the program is BGN 60 million**. The program parameters are as follows:

- Direct loans for SMEs financing in the form of working capital financing
- Amount of up to BGN 500 thousand for companies with up to 49 employees and up to BGN 750 thousand for companies with employees up to 249 persons
- Estimated interest rate - 2.82%

---

<sup>8</sup> Top 25 customers, including balance sheet debt, off balance sheet exposures and undrawn lines.

#### **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

##### **Support for tourism Program (continued)**

Support for tourism Program offers the following two products:

*Product No1 "Liquidity assistance for restaurateurs"* - financing for restaurateurs, including Start-up. Working capital shall be provided for funds necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs; to refinance existing obligations to the state and to suppliers; to refinance existing liabilities to financial institutions (including with arrears of up to 90 days); for refreshment and renewal.

*The product parameters are as follows:*

- Type of financing: working capital financing
- Borrowers: restaurateurs, including start-ups
- Specific characteristics:
  - Possibility to finance companies with arrears up to 90 days;
  - To operate at an accounting profit in 2018 and 2019 if it is not a start-up business in this period;
  - Possibility to finance enterprises that are at an operating loss for two years in the period 2018 - 2021 (based on preliminary reports for 2021).
- Type of loans:
  - Revolving credit line;
  - Credit overdraft;
  - Loan with repayments (for working purposes).
- Purpose of the loan:
  - Working capital for funds necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs;
  - To refinance existing obligations to the state and to suppliers;
  - To refinance existing liabilities to financial institutions (including with arrears of up to 90 days);
  - For refreshment and renewal.
- Maximum size:
  - Credit line and standard working capital credit:
    - ✓ for companies with staff of up to 49 people – up to BGN 500 thousand
    - ✓ for companies with staff from 50 to 249 people – up to BGN 750 thousand
  - Overdraft credit: up to BGN 250 thousand

#### **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

### **Support for tourism Program (continued)**

#### *Product No1 "Liquidity assistance for restaurateurs" (continued)*

- Term:
  - Up to 60 months – for credit line and overdraft credit
  - Up to 48 months – for standard working capital loan
- Grace period: 12 months
- Collateral: all eligible collateral (real estate, plant and equipment, inventories, etc.) and with the possibility of a 70% guarantee from the Pan-European Guarantee Fund
- Estimated interest rate: from 2.82%, according to the borrower's profile

*Product No2 "Liquidity assistance for hoteliers"*- financing of hoteliers who have not ceased operations in 2020 and 2021. With the possibility of financing companies with arrears up to 90 days and enterprises operating at an operating loss for two years between 2018 and 2021 (based on preliminary reports for 2021). A requirement for borrowers is to operate at operating profit in 2018 and 2019.

#### The product parameters are as follows:

- **Type of funding:** working capital financing
- **Borrowers:** hoteliers who have not ceased operations in 2020 and 2021.
- **Specific characteristics:**
  - Possibility to finance companies **with arrears up to 90 days;**
  - To operate at operating profit in 2018 and 2019 (i.e., it is permissible to operate at an accounting loss);
  - Possibility to finance enterprises operating at an operating loss for two of the years between 2018 and 2021 (based on preliminary reports for 2021).
- **Type of loans:**
  - Revolving credit line
  - Credit overdraft
  - Loan with repayments (for working purposes)
- **Purpose of the loan:**
  - Working capital for funds necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs;
  - To refinance existing obligations to the state and to suppliers;
  - To refinance existing liabilities to financial institutions (including with arrears of up to 90 days);
  - For refreshment and renewal.

### **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

### **Support for tourism Program (continued)**

#### Product No2 "Liquidity assistance for hoteliers" (continued)

- Maximum size:
  - Credit line and standard working capital credit:
    - ✓ for companies with staff up to 49 people – up to BGN 500thousand
    - ✓ for companies with staff from 50 to 249 people – up to BGN 750 thousand
  - Overdraft credit: up to BGN 250 thousand
- Term:
  - Up to 60 months – for credit line and overdraft credit
  - Up to 48 months – for standard working capital credit
- Grace period: 18 months
- Collateral: all eligible collateral (real estate, plant and equipment, inventories, etc.) and with the possibility of 70% warranty from the Pan-European Guarantee Fund
- Estimated interest rate: from 2.82%, according to the borrower's profile

### **Rose Processing Support Programme**

In January 2022, the Bulgarian Development Bank EAD created a special product with preferential conditions for Bulgarian rose processors with the name "Support for rose processing". The aim of the funding is to support the sector, overcome the negative effects of the Covid-19 pandemic and alleviate pro-inflation pressures. Bulgarian rose oil is known as one of the most sought after and expensive on the international market, but in recent years the industry has faced problems that lead to the accumulation of large stocks of the valuable product. **The volume of the programme is BGN 20 million.**

The Rose Processing Support programme will provide working capital funding to micro, small and medium-sized companies in the rose processing sector, facing serious difficulties and reduce liquidity. The volume of the programme is BGN 20 million. Direct loans will be granted in the form of a revolving working capital credit line of up to BGN 1 million with a period of up to 3 years, with a simplified funding scheme and minimum collateral requirements, including pledge of rose oil in the National Research and Certification Institute under the Special Pledges Act.

## **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

### **Rose Processing Support Programme (continued)**

Eligible for the programme are candidates who meet both the following three criteria:

- 1) they are traders registered in the Republic of Bulgaria under the Commerce Act or are registered as agricultural producers.
- 2) they are micro, small or medium enterprises within the meaning of Art. 3 and Art. 4 of the Small and Medium Enterprises Act.
- 3) they are registered in the National Electronic Register of Rose Producers, Rose Processors, Sites for Production of Oil-bearing Rose Products and Oil-bearing Rose Plantations.

### **Energy Support Programme**

In February 2022, the BDB launched the Energy Support Programme, which aims to overcome the negatives of rising electricity prices. **The volume of the program is BGN 10 million.**

This product aims to assist companies in the unexpected increase in electricity prices. The Bank allows them to de-schedule their electricity costs for four consecutive months of choice within 2022. Companies can apply for funding for future payments and unpaid invoices. The amount of funding will be determined on the basis of the net value (after deduction of state compensation) of invoices for the electricity consumed by the companies for the period January - December 2022, and the Bank can cover up to 75% of the value of the respective invoice. The minimum amount of the targeted loan is BGN 20 thousand and the maximum amount is BGN 200 thousand.

#### The product parameters are as follows:

- Size: From BGN 20 thousand up to BGN 200 thousand
- Up to 4 unpaid electricity invoices and up to 75% of the net invoice value are financed
- No collateral requirement

#### Criteria for granting a loan

- Companies from all sectors of the economy are eligible.
- Without Requirement about Collateral about Borrowers with good credit rating. Jointly co-indebtedness on owners about borrowers with a-Risk profile.
- Companies with electricity costs of at least 5% of operating costs and up to 20% of revenue are financed.
- Provides financing to companies with a financial and business history of less than two years.
- Companies with unpaid taxes and compulsory social security contributions, as well as companies in insolvency, cannot benefit from the financing.

## **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **Working capital credit for raw materials**

The program was announced in early April.

The Bulgarian Development Bank offers small and medium-sized enterprises a new product to overcome the negative effects of the prolonged increase in inflation and rising prices of basic goods and services.

The programme provides working capital loans of up to **BGN 200 thousand** for companies – SMEs operating in all sectors, which want to purchase raw materials at current prices and thus prevent higher costs in the future. This will help them to hold down the price of the final product they produce without anticipating a recent increase. The BDB's programme is open to companies from all sectors. The condition is that they must be viable enterprises, and companies with lower credit ratings are also eligible.

**The volume of the program is BGN 10 million**, and the loans to be granted under it – credit lines and overdrafts will be without collateral. The Bank will guarantee its receivables through co-debtor from the owners or another company.

#### The product parameters are as follows:

- Credit facility or overdraft from BGN 50 thousand to BGN 200 thousand, the amount is determined as follows:
  - For a credit facility - up to 40% of the net sales revenue for the previous year.
  - For an overdraft facility - up to 20% of credit turnover through current accounts for the last 12 months.
- Repayment period – up to 3 years