BULGARIAN DEVELOPMENT BANK EAD

ANNUAL SEPARATE REPORT ON THE ACTIVITIES

INDEPENDENT AUDITORS' REPORT

ANNUAL SEPARATE FINANCIAL STATEMENTS

31 December 2023

Unofficial translation from Bulgarian

BULGARIAN DEVELOPMENT BANK EAD

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ANNUAL SEPARATE MANAGEMENT REPORT ON THE ACTIVITIES

OF

BULGARIAN DEVELOPMENT BANK EAD

FOR 2023

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1 GENERAL INFORMATION

Bulgarian Development Bank EAD

The shareholder structure as of 31 December 2023 and as of the date of approval of this report: the Republic of Bulgaria (the State) through the Minister of Innovation and Growth – 100%.

Supervisory Board (SB) as of 31 December 2023 and as of the date of approval the annual financial statements:

- Rosen Andreev Karadimov - Chairman of the SB

- Delyana Valerieva Ivanova - Deputy Chairman and Member of the SB

- Stamen Stamenov Yanev – Member of the SB

Management Board (MB) as of 31 December 2023 and as of the date of approval the annual financial statements:

MB as of 31 December 2023:	**MB as of the date of approval of the annual financial statements:**
- Iliya Zapryanov Karanikolov - Member of the MB and Executive Director - Ivan Valentinov Cerovski - Member of the MB and Executive Director - Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director	- Iliya Zapryanov Karanikolov - Member of the MB and Executive Director - Ivan Valentinov Cerovski - Member of the MB and Executive Director - Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director - Teodora Petrova Pesheva - Member of the MB

Head office and registered address as of 31 December 31.12.2023:

1000 Sofia, Sredets district, 1 Dyakon Ignatij Str.

Registration Number - UIC 121856059

Joint auditors of Bulgarian Development Bank EAD:

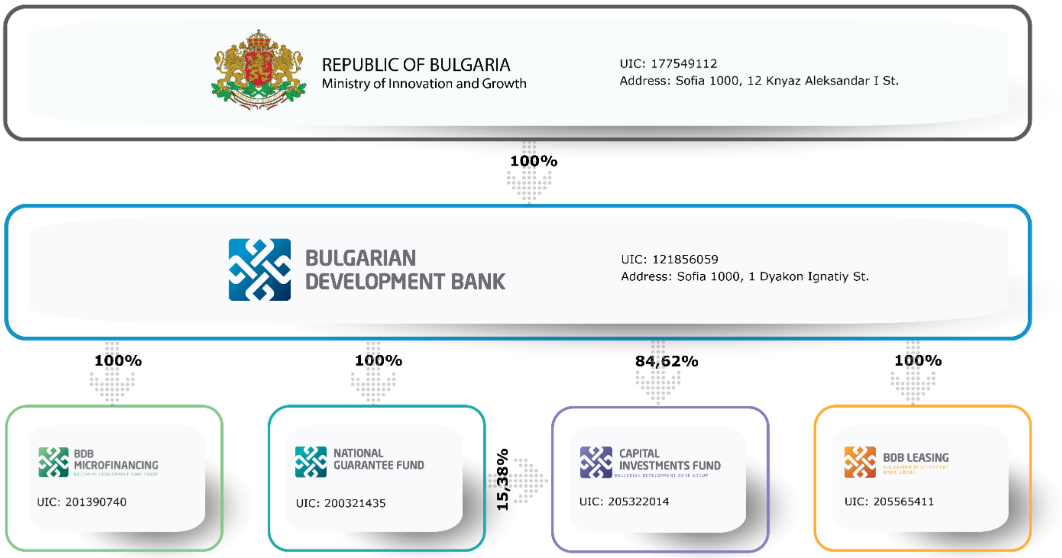
Deloitte Audit OOD	Grant Thornton OOD
4, Mihail Tenev Str., fl.12	26, Cherni Vrah Blvd.
Balkan Business Center	1421 Sofia
1784 Sofia	Bulgaria
Bulgaria	
cebgreceptionteam@deloittece.com	office@bg.gt.com

2 INFORMATION ABOUT THE BANK AND THE GROUP

2.1 BDB GROUP

As of 31 December 2023, Bulgarian Development Bank's Financial Group (the Group, BDB Group or the Financial Group) consists of the Bulgarian Development Bank EAD („BDB", the „Bank") and its subsidiaries – National Guarantee Fund EAD („NGF"), BDB Microfinancing EAD, Capital Investments Fund AD (CIF) and BDB Leasing EAD ("BDB Leasing").

As of 31 December 2023, and as of the date of approval of this report the Group has the following structure:



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.

The Bulgarian Development Bank Act (BDBA) was adopted on 23 April 2008. The Act regulates the scope of activity of the Bank and the establishment of subsidiaries.

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.

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.

The Bank fulfils the requirements of the BNB for the minimum required share capital to exercise banking activity. From its establishment until August 2017 the participation of the state in BDB was under the control of the Minister of Finance. By amendments made in the BDBA in 2017 the governance of participation of the state was transferred under the control of the Minister of Economy.

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 joint stock company.

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. As of 31 December 2023, the ownership of the capital is allocated as follows: 100% is owned by the Republic of Bulgaria, and the rights of the state as sole owner of the capital are exercised by the Minister of Innovations and Growth.

As of 31 December 2023, the capital of the Bank amounts to BGN 1,135,500,000 and consists of 11,355,000 ordinary registered shares with voting rights with a nominal value of BGN 100 each. The shares of the BDB are not traded on a regulated market.

The Bulgarian Development Bank Act stipulates that not less than 51% of the shares in the Bank's capital are owned by the State and are non-transferable. The rights of the shares may not be subject of transfer transactions.

By virtue of Art. 6 para. 4 of the BDBA shares from the share capital of the Bank, apart from the Bulgarian state, can be acquired and owned by the Council of Europe Development Bank, European Investment Bank and the European Investment Fund, by development banks of Member States of the European Union. In this case Art. 31 of the Credit Institutions Act is not applied.

BDB is governed in accordance with Article 5 of BDBA, according to which the Bank has a two-tier management system.

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 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 financing;
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.

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

The Bank also provides other types of loans, but such exposures to one client or a group of related parties other than credit institutions, central governments and central banks are subject to compliance with the requirements and limits of Regulation (EU) No 575/2013, its implementing acts and the Statute of the Bank, after taking into account the effect of credit risk mitigation in accordance with the procedure determined by the Management Board of the Bank.

The Bank may 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 5,000,000.

The restriction referred to in the preceding sentence shall not apply to exposures to subsidiaries of the Bank, other credit institutions, the Council of Europe Development Bank, the European Investment Bank and the European Investment Fund and development banks from Member States of the European Union, in cases where the Bank carries out financial transactions within its scope of activity, programmes specifically assigned by the Government of the Republic of Bulgaria, as well as in certain cases in existing exposures.

The Bank does not grant loans for:

- activities which are in non-compliance with national legislation, including environmental protection;
- companies with unknown ultimate controlling owner;
- political parties and persons related with them. Individuals related to political parties are: youth, women's and other organizations, which by law parties can establish, as well as entities established by political parties for the implementation of only the business activity permitted by law - publishing, copyright and use of intellectual property, as well as from the sale and distribution of print, audio and audio-visual materials with party - propaganda content;
- non-profit companies and organisations;
- media;
- activities related to sport and sports events;
- activities prohibited by law.

The Bank provides loans directly or through commercial intermediary banks. The terms and conditions for granting loans shall be determined by the Management Board.

As of 31 December 2023 and 31 December 2022, there is no client or group of related client exposure greater than 25% of the Bank's share capital.

The exposure to a single client or group of related clients other than credit institutions, central governments and central banks shall follow the requirements and limits of Regulation (EU) No 575/2013, taking into account the effect of credit risk mitigation in accordance with a procedure determined by the Management Board.

In view of its specific function for conducting a state promotion policy, BDB prioritizes in its activities programs and products for the promotion of SMEs, on-lending programs, export financing and financing under assigned mandates.

Bulgarian Development Bank EAD has a license under which it can provide investment services and perform 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 the MFIA according to a license issued by the BNB. The Bank does not provide investment services and activities under art. 6, para. 2, items 8 and 9 of the MFIA – organization of a multilateral trading facility and an organized trading facility.

The number of employees of the Bank at the end of 2023 is 201 (as of 31 December 2022: 233).

As of 31 December 2023, the Bulgarian Development Bank EAD has no branches.

The head office and registered address of Bulgarian Development Bank EAD is at 1, Dyakon Ignatij Str., 1000 Sofia City.

There is no specialised Research and Development unit in the Bank and no such activity has been carried out during the reporting period.

BDB complies with the applicable Bulgarian and European environmental protection legislation. The Bank 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 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 Bank requires compliance with these higher standards by its clients and monitors their performance.

As of 31 December 2023, there are no pending court, administrative or arbitration proceedings concerning liabilities or receivables of the BDB amounting to 10% or more of the equity.

At the end of 2023, BDB had no obligations on existing or new issues of securities.

2.2.1 Significant changes in the management bodies, the Statute, the structure and the capital of the Bank in 2023 and in 2024 until the date of approval of the Report on activities:

In 2023 and 2024, the Bank made the following changes in governance and structure.

2.2.1.1 Changes in the MB of the Bank

Iliya Zapryanov Karanikolov and Ivan Valentinov Cerovski were elected as new members of the BDB Supervisory Board under Protocol No 2 of 12 January 2023. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 20 January 2023. By a decision of the Management Board under Protocol No 5/13.01.2023 Mr. Iliya Zapryanov Karanikolov and Mr. Ivan Valentinov Cerovski are authorized to represent and manage the Bank as Executive Directors. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 20 January 2023. Mr. Iliya Zapryanov Karanikolov was elected Chairman of the Management Board.

By a decision of the Supervisory Board under Protocol No 9 of 8 February 2023, Krum Georgiev Georgiev was dismissed as a member of the BDB Management Board. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 14 February 2023.

By a decision of the Supervisory Board under Protocol No 14 of 9 March 2023, Mrs. Mariana Dimitrova Petkova was dismissed as a member of the Management Board of BDB and Executive Director. The decision was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 16 March 2023.

By a decision of the Supervisory Board under Protocol No 11 of 19 March 2024 Teodora Petrova Pesheva was elected as a new member of the Management Board. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 25 March 2024.

2.2.1.2 Changes in the SB of the Bank

As of 31 December 2023 there are no changes in the Supervisory Board of BDB.

2.2.1.3 Changes in the Audit Committee of the Bank

As of 1 January 2023 the Audit Committee of Bulgarian Development Bank EAD has the following members: Svetlana Hristova Kourteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova.

2.2.1.4 Changes to the Bank's Statute and capital

By decision of 21 July 2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease.

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute are entered in the Commercial Register and the Register of Non-Profit Legal Entities on 30 May 2023. The change affect neither the value of Bank's net assets as of 31 December 2023 or for subsequent periods nor the amount of Bank's regulatory equity.

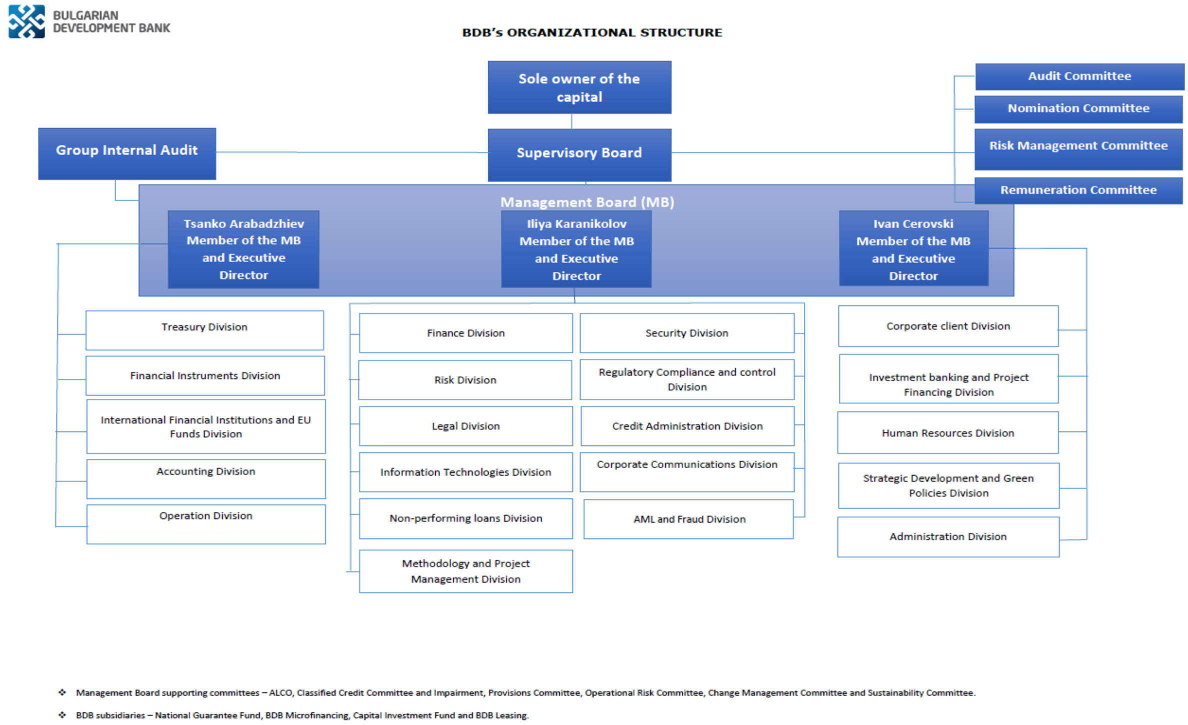
As of 31 December 2023, the capital of the Bank amounts to BGN 1,135,500,000 and consists of 11,355,000 ordinary registered shares with voting rights with a nominal value of BGN 100 each. The shares of the BDB are not traded on a regulated market.

2.2.2 Change in the structure of the Bank

Change in the responsibilities of the members of the Management Board in 2023 and 2024

After the changes in the composition of the MB at the beginning of 2023, the organizational structure effective during the year is divided into three sectors, which have the following allocation of executive directors, presented in the chart on the next page.

The chart of the Bank's current organizational structure is as follows (effective as of 7 February 2024):



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

In order to increase the efficiency of the activity by optimizing the structure of the units and staff, as of 20 April 2023, the management body of the Bank has adopted a change in the organizational structure of the Bank as follows:

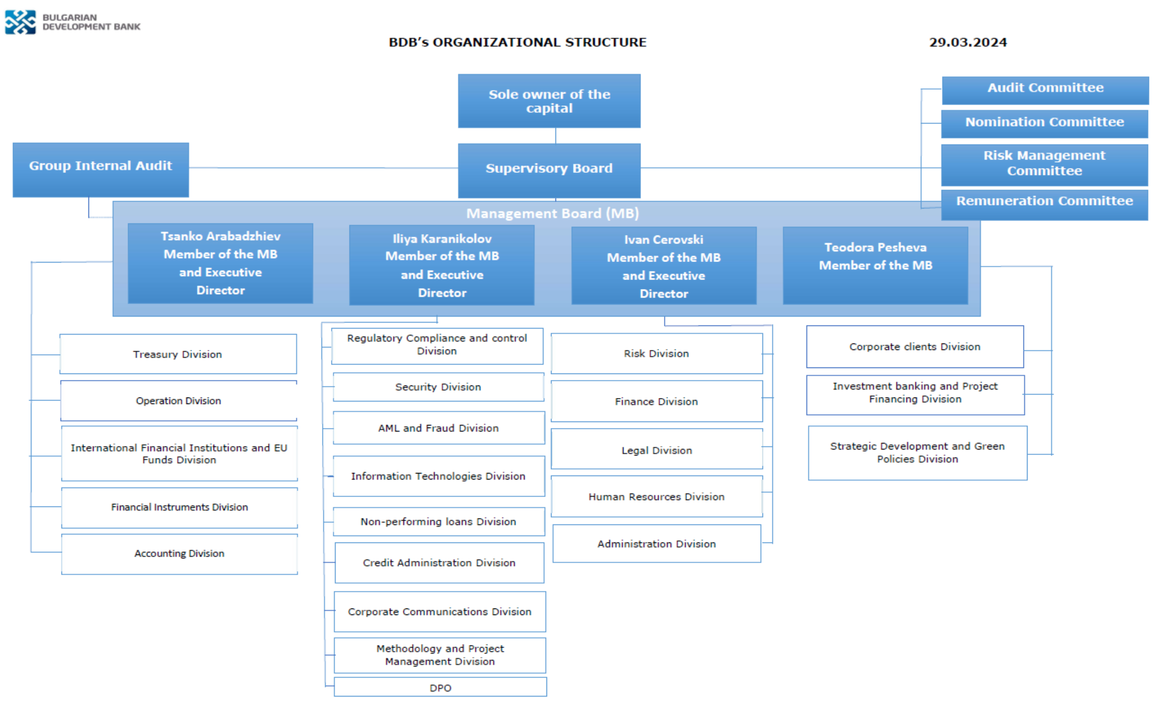
- The Regulatory Compliance Division is transformed into two new functional units - the Regulatory Compliance and Control Department, which will be responsible for the adequate identification, measurement and management of compliance risk and is part of the internal control environment of the Bank, and the Prevention of Money Laundering and Fraud Division, the functions of which will be related to the implementation of the measures against money laundering and terrorist financing in the BDB, protection of classified information and protection of individuals with regard to the processing of their personal data.
- The name of the "Small and Medium-sized Enterprises" Division is changed to "Corporate Clients".
- In order to ensure compliance between the name of the Project Finance Division and the functions it actually performs, the same is changed to the Investment Banking and Project Finance Division and the Corporate Communications Department was transformed into a division.
- In view of the similarity in the functions and objectives of the divisions "External Programs" and "Financial Instruments" and in order to achieve synergy at the expert level, they are united in the "Financial Instruments" Division, structured in two departments.

- Establishment of the "Methodology and Project Management" Division, which will carry out activities related to ensuring an up-to-date and working regulatory environment and will allow the units for which this activity is uncharacteristic to focus on the fulfilment of their main functions, and the "Project and Process Management" Division is closed.
- In 2023 in relation to the approved organizational structure of the Bank as adopted by the decisions of the Management Board under Protocols No 35/06.04.2023 and 36/13.04.2023 and approved by decision of the Supervisory Board under Protocol No 19/12.04.2023 Regulatory Compliance and Control Department to Regulatory Compliance Division is transformed into a separate Regulatory Compliance and Control Division keeping its core functions as an internal control unit unchanged.

There are no significant changes in the distribution of responsibilities among the members of the Management Board in 2023, except:

- By decision under Protocol No 35/06.04.2023 of MB regarding the approval of the Business plan of BDB EAD as approved by SB by decision No 19/12.04.2023, Project and Process Management Division is transferred from Mr. Tsanko Arabadzhiev to Mr. Iliya Karanikolov and is transformed into Methodology and Project Management Division.
- As of 1 December 2023 the Management Board carries out its activities without a chairman.

In connection with the election of Teodora Pesheva as a member of the MB, a redistribution of the responsibilities of the members of the MB was made, presented in the following diagram:



- Management Board supporting committees – ALCO, Classified Credit Committee and Impairment, Provisions Committee, Operational Risk Committee, Change Management Committee and Sustainability Committee.
- BDB subsidiaries – National Guarantee Fund, BDB Microfinancing, Capital Investment Fund and BDB Leasing.

3 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2023

3.1 KEY EVENTS AND PROCESSES

3.1.1 Regulatory changes

In 2023, as the most significant changes in the regulatory framework of the BDB, the following can be mentioned:

- Guidelines on policies and procedures relating to compliance management and the role and responsibilities of the compliance officer in relation to the AML/CFT, pursuant to Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05, of 14 June 2022, applied as of December 2022);
- Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and restructured exposures (EBA/GL/2022/13), applied as of 31.12.2022, amended by Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and restructured exposures (EBA/GL/2022/13);
- Guidelines on the use of Remote Customer Onboarding Solutions under Article 13 (1) of Directive (EU) 2015/849 (EBA/GL/2022/15);
- Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 - Digital Operational Resilience Act /DORA/. The Regulation was published in the Official Journal of the European Union on 27 December 2022 and entered into force on 16 January 2023. As of that date, institutions have 24 months to reflect the new rules in their processes;
- Guidelines of EBA issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (EBA/GL/2022/14), (applied as of 30 June 2023);
- Guidelines for institutions and resolution authorities to complement the resolvability assessment for transfer strategies (Transferability guidelines) (EBA/GL/2022/11). The guidelines are issued by the European Banking Authority, published on its official website and applicable from 1 January 2024.

Changes in the national legal framework:

- Ordinance on Amendment of Ordinance No 20 of 2019 on the requirements to the members of the management and control bodies of a credit institution and on the assessment of the suitability of their members and the key function holders;
- Act on Amendment and Supplement to the Markets in Financial Instruments Act; Ordinance on amendment and supplement to Ordinance No 38 of 21 May 2020 on the requirements to the activity of investment intermediaries;
- Ordinance on Amendment of Ordinance No 21 of 26 November 2015 on Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks; Ordinance on Supplement of Ordinance No 58 of 28 February 2018 of Financial Supervision Commission;
- Ordinance on Amendment and Supplement of Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements to the Activity of Operators of Payment Systems with Settlement Finality;
- Act on Amendment and Supplement to the Measures against Money Laundering Act;
- Protection of Persons Who Report or Publicly Disclose Information on Breaches Act;
- Counter-Corruption Act – new, effective as of 6 October 2023.

3.1.2 Rating

In August 2023, the international rating agency Fitch Ratings confirmed the outlook for the Bank's long-term credit rating - BBB, with a positive outlook. 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.

Rating effective as of:	**Date of preparation of the rating:**	**Long - term Rating (IDR, SRF)**	**Outlook**
As of 31.12.2022	17.08.2022	„BBB“	Positive
As of 31.12.2023 and the date of approval of the Annual Financial Statements	07.08.2023	„BBB“	Positive

The Bank’s rating is equal to the rating of the sovereign – the Bulgarian state and it is practically the highest possible credit rating for BDB. The assessment reflects BDB's good capital position, return to profit and the fact that the Bank is 100% owned by the Bulgarian state, which can support it if necessary. Its financing is stable, with a significant part coming from the public sector or guaranteed by the state, and the rest from international development institutions.

3.2 BUSINESS HIGHLIGHTS

In 2023, the development of the Bank's product and loan portfolio continued, as well as the diversification of funding sources.

3.2.1 „COSME+“ programme

As at the end of 2023, BDB has continued the execution of agreements, concluded 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 2,3 billion 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.

Requests for payment under the guarantee commitment made by BDB, amounting to EUR 103 thousand, received in 2023, has been approved (COSME and FORWARD), for which BDB has received a corresponding payment under the counter guarantee given by EIF under COSME Programme.

3.2.2 Leasing Line programme

In 2023 three new on-lending agreements for EUR 7.0 million were enacted 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.

3.2.3 BROD programme

BDB continues 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 + 3.5% margin but not less than 3.5%. The partners under the BROD Programme finance small and medium-sized enterprises in compliance with a certain interest rate ceiling and a total annual increase, which are consistent with changes in the value of EURIBOR. In 2023, 1 agreement amounting to EUR 1.2 million was concluded.

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 2023, BDB has issued guarantees in the total amount of BGN 373,894 thousand[1], and it has guaranteed exposures under the two programmes in the total amount of BGN 554,763 thousand (31.12.2022: BGN 715,979 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 2023.

At the end of 2023 the provisions under the Anti-Covid programmes amount to BGN 111,845 thousand (31.12.2022: BGN 127,215 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 – The 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). Companies from all sectors are included in the programme. The companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality, and restaurant business, benefited mostly from the programme.

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

[1] For the programme for individuals, 100% of the exposure under the principal of the partner bank to the client is guaranteed. For the programme for micro, small and medium-sized enterprises, BDB guarantees 80 % of the principal of the loans, at 50 % limit of guarantee payments on portfolio basis.

After the introduction of the renewed conditions under the Recovery Programme, the maximum amount of funding became up to BGN 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 could benefit from the guarantee instrument.

Eligible companies had to carry out business activity and to be registered in Bulgaria, as well as to 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.

Banks had to 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 had to apply their internal rules and usual pricing practice, taking into account the guarantee provided by the BDB.

No material collateral was required. The loans were 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 measure was approved by European Commission Decision No C (2020) 2342 of 8.04.2020 on State aid SA.56933 (2020/N) — Bulgaria COVID-19, as amended by EC Decision No C (2020) 8384 of 24.11.2020 and EC Decision C (2021) 7260 of 01.10.2021.

The loans were 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.

The formation of portfolios under the Programme ended on 30 June 2022, and according to final data from the commercial partner banks under the scheme, 2,894 loans with an original loan amount of BGN 630,349,165 have been guaranteed, for which a guarantee of BDB has been provided in the amount of 80% or BGN 504,279,332.

The status of the portfolio is updated on a quarterly basis. As of 31 December 2023, 2,184 loans with a total amount of BGN 427,042 thousand have been guaranteed. Approved requests for payment of guaranteed amounts under the Programme amount to BGN 7,741 thousand and recovered amount to BDB at the end of 2023 is BGN 225 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 was 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 programme aimed 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 408/2020 of the Council of Ministers, Decision 910/10.12.2020 of the Council of Ministers and Decision 194/05.03.2021 of the Council of Ministers. Eligible borrowers had the opportunity to receive interest-free loans of up to BGN 6,900 (the initially allowed maximum amount was BGN 4,500), which are granted in full 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 interest, fees, commissions, charges or penalties 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.

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.

Decision 448/2022 of the Council of Ministers adopted changes that are a prerequisite for easing loan conditions: the deadline for repayment is extended by another two years (from 5 to 7 years) and the grace period of 24 months can be used in parts.

The achieved aggregate result under the Programme includes 52,915 loans guaranteed by BDB, totalling BGN 254,609 thousand.

As of 31 December 2023, BDB has guaranteed 42,840 loans amounting to BGN 127,720 thousand. The guarantees paid to commercial banks and the costs of establishing and collecting the loans amount to BGN 4,836 thousand and as of the same date BGN 183 thousand have been reimbursed to BDB.

3.2.5 Programme of the Bulgarian Development Bank EAD to support households by financing investments in renewable energy sources in implementation of the National Recovery and Resilience Plan of the Republic of Bulgaria (Framework Conditions)

By decision of the Management Board of BDB EAD under Protocol No 57 of 13.07.2023, a portfolio guarantee was approved with a loss ceiling to partially cover the credit risk of bridge financing, provided by commercial banks for investments in renewable energy, in support of households under the "National Scheme for Support of Households in the Field of Renewable Energy" of the Ministry of Energy (the Scheme). The Programme's start-up budget is BGN 56 million.

The aim is to facilitate and improve the access to bridge financing for investments in RES under the Scheme and to reach the optimal number of potential candidates under the Scheme - clients of commercial banks from all over the country. The term of the guarantee is up to 5 years, but not longer than the term of the individual guaranteed credit.

Limit of guarantee payments (Loss ceiling)

The maximum amount of covered losses under the Portfolio Guarantee under the Programme is BGN 16,800 thousand. In any case, the Guarantee Payment Limit is the maximum amount to which BDB's obligation is limited to pay to each commercial bank, calculated on a portfolio basis, by applying the percentage of the Guarantee Payment Limit to Guaranteed Portfolio multiplied by 70%.

Conditions for eligibility of Borrowers and financing under the Program

Eligible borrowers:

Applicants approved for funding under the Scheme who have signed a contract under the Scheme with the Monitoring and Reporting Structure (MRS). The borrower under the Programme is allowed to be different from the grant recipient under the Scheme if due to objective circumstances for the financing bank (e.g. old age, reduced working capacity, significant indebtedness, weaker creditworthiness, or other), the Applicant would not receive a bridging loan for financing the investment in RES under the Scheme.

In such cases, the applicant approved for financing under the Scheme is jointly and severally liable with the Borrower for the repayment of the loan, and the grant is paid to the recipient's account in the financing bank and should provide collateral for the loan as if the Applicant were the recipient of the loan. Commercial banks should indicate to the BDB the objective circumstances that prevent the provision of credit under the Program in favor of the Applicant.

Type and purpose of financing:

Provision of bridge loans for realization of investments in RES, for which a grant has been approved and a contract has been signed with the MRS for financing under the Scheme, namely: 1. Solar installation for domestic hot water supply (DHW installation) or 2. Photovoltaic system up to 10 kWp, which may include electrical energy storage systems (System). The purpose of the financing is stated in the loan agreement under the Programme, which specifically defines the costs eligible for financing. Credit amounts: up to BGN 3,000 for investments in DHW installations; up to BGN 22,000 for investments in systems, loan term - up to 5 years.

As of 31 December 2023, the evaluation process of applicants interested in the Commercial Banks Program was completed. As of the date of issue of this report BDB has signed agreements with four commercial banks under the programme.

3.2.6 "Three Seas" Initiative

The Three Seas Initiative (Black, Adriatic, Baltic) aims to strengthen investment, ties and cooperation – politically and financially – between the member states in the region. It is a public-private financial instrument whose purpose is to complement funding from the Structural and Other Funds of the European Union. By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved BDB's participation in the Investment Fund to the Three Seas Initiative. At the end of 2020, a Subscription Agreement relating to Three Seas Initiative Investment Fund S.A. SICAV – RAIF was signed between BDB and the Fund, with which BDB officially became a Class A shareholder in the Fund. As of 31 December 2023, BDB has paid share contributions amounting to EUR 18,620 thousand.

In 2023, the structuring of the Three Seas Innovation Fund and the participation of BDB in the working group of representatives from the current shareholders in the Three Seas Investment Fund continued. The communication with EIF was continued in relation to the fund of funds presented by them - Central Europe Fund of Funds. The Fund is expected to amount to Euro 60-180 million and aims to increase opportunities for capital investment in the stage of growth of enterprises in the CEE region by attracting investment from other private and public investors in the region. The structuring is at an advanced stage and includes discussion of the fund's legal documentation, as well as the possibilities for BDB participation. The fund is expected to be established in 2024.

3.2.7 „InvestEU" Programme

InvestEU Programme envisages a single European Investment Support Facility for the new programming period 2021-2027. The programme is based on the successful experience of the implementation of the EFSI and the current EC instruments. The InvestEU Programme will provide an EU budget guarantee to support financial products provided by partners implementing the Programme. The funds are spread over four "windows" (areas) where the financial products will be developed: 1) sustainable infrastructure; 2) research, innovation and digitalization; 3) SMEs and small enterprises with medium market capitalization; 4) social investment and skills. BDB carried out a Pillar Assessment audited by an independent auditor, which was finally completed in 2023 and in November 2023 signed a Guarantee Agreement with the European Commission, thus becoming an Implementing Partner under the program. The funds from the EU budget that the Bank will have at its disposal are EUR 165 million. In exchange for them, the Bank expects to guarantee loans to be granted by partner institutions amounting to more than EUR 1 billion.

3.2.8 BDB programme with a guarantee from InvestEU Fund (IEU)

The InvestEU Fund provides a guarantee from the EU budget that supports financial products provided by the Implementing Partners. The Fund encourages the attraction of investments in five areas where financial products that will benefit from an EU guarantee should be developed.

In July 2023, BDB signed a Guarantee Agreement with the EIF under the InvestEU Fund. BDB Leasing is a participant, but not a signing party to the Guarantee Agreement. The agreement allows BDB to provide direct financing to SMEs with an EIF guarantee with a payment limit in three areas: "SMEs – Competitiveness", "Innovation and Digitalization" and "Sustainability". Each of the areas has specific eligibility requirements, a payment limit and a maximum guaranteed portfolio below which transactions can be included. BDB in turn is committed to providing a financial advantage – a reduction in the risk margin with the coverage of the InvestEU guarantee, which is reflected in:

- reduction of the interest rate on each of the guaranteed loans in the three directions;
- reduction of the required collateral for investment loans and lack of collateral for working capital loans under the SMEs – Competitiveness area.

Final recipient clients must comply with certain conditions and requirements related to an InvestEU guarantee. The maximum amount of the guaranteed portfolio under InvestEU is EUR 45.50 million, and the agreed portfolio – EUR 34.125 million.

As of 31.12.2023, the achieved guaranteed portfolio amounted to:

- "SMEs – Competitiveness" – EUR 6.752 million and includes 61 transactions of micro and SMEs – 43% guaranteed limit reached.
- "Innovation and Digitalization" – EUR 2.474 million and includes 3 transactions of micro and SMEs – 47% guaranteed limit reached.
- "Sustainability" – EUR 1.497 million and includes 4 transactions of micro and SMEs – 11% guaranteed limit reached.

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

The Pan-European Guarantee Fund was established in the second half of 2020 with the participation of EU member states on a voluntary basis, incl. Bulgaria. For the formation of the Fund's budget, Member States shall contribute a contribution in proportion to their participation in the capital of the EIB. The products offered are in two directions 1) guarantees and counter-guarantees for small businesses, SMEs and healthcare and 2) private equity financing in private funds.

In September 2021, BDB signed with EIF a Guarantee Agreement under the Pan-European Guarantee Fund. The guarantee agreement allows BDB to provide direct financing with a guarantee from EIF (AAA-rated) without limit of payments for losses, with a coverage of 70% of the loss on guaranteed loan to SMEs. For its part, BDB undertakes to provide a financial advantage – a reduction in the risk margin with the coverage of the PEGF guarantee, which is reflected in a reduction in the interest rate on each of the guaranteed loans. The customers who are the final recipients must comply with certain conditions and requirements related to the guarantee of the PEGF and the state aid regime.

As of 31 December 2023, the guaranteed portfolio amounts to EUR 18.05 million and includes 51 transactions of micro- and SMEs (as of 31 December 2022: EUR 21.17 million and 52 transactions). As of the same date BDB claimed payments under the guarantee for three transactions at the total amount of EUR 203 thousand.

3.2.10 New products

BDB's lending activity is carried out both through direct lending and financing through lending programs (products) to commercial banks, which use the funds received to provide loans to SMEs and agricultural producers, or the so-called on-lending.

The Bank announced several loan products to support SMEs and promote certain sectors, which at the end of 2023 are as follows:

- Green Energy Financing Programme;
- Support for Rose Processing Programme – continuation;
- Programme for financing SMEs with approved projects under European and national Programmes;
- Working Capital Financing for Construction Companies;
- Direct financing with invest EU guarantee;
- A program to support households that apply for the replacement of their energy sources of solid fuel (stove, boiler, fireplace or other) with renewable ones under the National Recovery and Sustainability Plan.

3.2.10.1 Green Energy Financing Programme

In 2023, BDB continued the initiative to finance the construction of photovoltaic facilities for the purpose of generating electricity.

Since the beginning of the initiative in 2021, BDB has supported a total of 51 projects for the construction of photovoltaic installations through funding.

3.2.10.2 Support for Rose Processing Programme

The work on the Support for Rose Processing Programme, which has become a permanent program of the Bank to support a traditional export industry, also continued. Bulgarian rose oil is renowned as one of the most sought-after and expensive on the international market, but in recent years the industry has faced problems that have led to the accumulation of large stocks of the valuable product. The volume of the program is BGN 20 million.

3.2.10.3 Programme for financing SMEs with approved projects under European and national Programmes

The Bulgarian Development Bank supports companies with projects under the National Recovery and Resilience Plan (NRRP) and the European Structural and Investment Funds (ESIF). The new program is in fulfilment of the Bank's strategic goals to support the implementation of government policies and to contribute to increasing investment activity among small and medium-sized businesses. It replaces the Energy Efficiency of SMEs Program and the Technological Modernization of SMEs Program and provides a tool for accelerated utilization of EU funds, as well as supporting the green transition of the Bulgarian economy.

This is the first loan program of the Bank, developed entirely in sync with the business. Through it, BDB provides access to resources for the implementation of projects under European and national programs, making it easier for companies facing difficulties to start their activities due to lack of bridge or supplementary funding.

The Bank provides investment loans of up to BGN 5 million with a total term of up to 8 years including a grace period of up to 2 years for companies applying for grants under national and European programs. Companies approved for financing over BGN 2 million can additionally benefit from an unsecured working capital loan of up to BGN 200 thousand in addition to the funds for investments. The terms of the two loans are preferential. BDB provides funding for the full cost of the projects (100%) to the already approved applicants, as well as up to 85% of the costs for those who have not yet signed their grant contracts.

3.2.10.4Working Capital Financing for Construction Companies

The Bank offers working capital financing for construction companies that have signed a Contract for the Execution of Construction and Assembly Works (CAW) with Contractors, a party to a Grant Agreement under national and European programs. Its scope includes two directions:

- DIRECTION 1 – projects under the National Recovery and Sustainability Plan (NRSP) and under the European Structural and Investment Funds (ESIP);
- DIRECTION 2 – projects under Measure 7.6 „Studies and investments related to the maintenance, restoration and improvement of the cultural and natural heritage of villages" of the European Agricultural Fund for Rural Development (EAFRD).

3.2.10.5Direct financing with invest EU guarantee

The Bulgarian Development Bank facilitates access to financing for small and medium-sized enterprises that have a higher risk profile, contributes to the ecological transformation or the implementation of digital technologies. In partnership with the European Investment Fund and the European Commission, the Bank will offer lending with alleviated collateral requirements and preferential interest rate under the Invest EU Guarantee Programme. Enterprises can receive funds in three directions:

- "Competitiveness of SMEs" – in order to facilitate access to and availability of debt financing for SMEs that have a higher risk profile or lack sufficient collateral
- "Sustainability" – to increase access to debt financing for SMEs and mid-caps that:
  - contribute to the green and sustainable transformation of the European economy;

    - are aimed at improving the accessibility of services, products and infrastructure, as well as at developing assistive technologies and providing access to the organization and its premises for customers and employees with disabilities and/or impaired functioning;
- "Innovations and digitalization" - to improve access to finance for SMEs:
    - with intensive research and development activities
    - implementing digital technologies and digital transformation of companies.
- The Bank grants:
    - Investment loan - for financing tangible and intangible assets, business transfers.
    - Working capital loan, including a revolving credit line.
    - Good performance guarantees – line for issuing guarantees or one-time guarantee.
    - The maximum amount is up to EUR 2,000,000 or BGN 3,911,599, inclusive.
    - Minimum loan term: 12 months from the date of the loan agreement.

Maximum loan term: up to 12 years (144 months), but not later than 17.07.2037.

3.2.10.6 Financing programme for hospital care facilities

The program was announced at the beginning of July 2022 and includes investment and/or working capital loans for the improvement of infrastructure and medical equipment in order to increase the volume and quality of medical services provided up to BGN 5 million. The application deadline was 31.08.2023. The volume of the program is BGN 25 million with the possibility of increasing it to BGN 50 million, in case of budget implementation before the expiry of the deadline for applying. The Programme is being updated.

3.2.10.7 Financing of farmers' groups and organizations

The program was announced in December 2022. Beneficiaries of the programme are groups and organizations of farmers, and these groups are required to be recognized by the Minister of Agriculture and Food and to have at least one completed financial year. The application deadline was 31 December 2023. The volume of the new programme of the Bank is BGN 10 million.

3.2.10.8 National Programme for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB)

In 2023 Bulgarian Development Bank EAD continues the activities under the National Programme 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 contributed 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: according to an expert evaluation as a result of the Programme, the reduction of carbon dioxide emissions is estimated at 319,000 tCO2/year and the energy saving is 726,000,000 kWh/year.

The economic effect is also extended to designers, construction industry, companies for technical research, companies for energy efficiency research, materials' producers, etc., most of them - 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. The programme was terminated in 2024.

3.3 FUNDING FROM INTERNATIONAL FINANCING 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 38 credit agreements with 16 international institutions at the amount of EUR 1,589 billion.

By decision of the Council of Ministers No. 554 of 29 July 2022 BDB EAD was approved as a recipient of loans with a state guarantee for EUR 350 million from the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). The decision is a consequence of the one provided for in art. 70, item 2 of the State Budget of the Republic of Bulgaria Act for 2022 possibility to issue state guarantees under new loan agreements of the Bulgarian Development Bank EAD in the amount of up to BGN 700 million or their currency equivalence in compliance with state aid legislation.

3.3.1 European Investment Bank (EIB)

On 11 July 2023 the BDB signed with European Investment Bank a financial agreement amounting to EUR 175 million to finance small and medium-sized enterprises. The loan is supported by a state guarantee, approved by the Council of Ministers and ratified by the National Assembly of the Republic of Bulgaria. With the provided resource, BDB will be able to provide long-term loans on preferential terms both directly and through commercial banks in the country, and at least 20% of the financing will be directed to support the green transition, with an emphasis on renewable energy and energy efficiency projects.

3.3.2 Council of Europe Development Bank (CEB)

On 13.07.2023, the Framework Loan Agreement was signed between the Council of Europe Development Bank and the Bulgarian Development Bank to support micro, small and medium-sized enterprises for the creation and preservation of viable jobs and environmental protection in the amount of EUR 175 million for financing small and medium-sized enterprises, including green projects. The agreement benefits from a state guarantee under the Solidarity Guarantee Agreement signed between the Republic of Bulgaria and the Council of Europe Development Bank on 20 July 2023.

The state-guaranteed financing provided by CEB for BDB has a number of advantages, such as a large volume, a long term and an attractive price. The first-class rating of CEB and Bulgaria's shareholding in it, as well as the alignment of BDB's risk with the risk of the state, allow for maximum optimization of the cost of the requested financing.

The received state guarantee for the loans from the EIB and CEB will allow BDB to fulfil its goals and policies to support SMEs at optimal price levels to end customers and in the transfer of benefits arising from the guarantee, including start-ups, innovative companies, customers with a lower level of collateralization and difficult access to commercial bank loans.

3.3.3 The Export – Import Bank of China

On 05.12.2023, a contract was signed between the Export – Import Bank of China and the Bulgarian Development Bank in the amount of EUR 50 million and for a period of 5 years. The funds under the agreement can be used to finance BDB's general lending activities and clients, medium-term or short-term transactions for trade finance and other purposes after coordination with the lender.

3.4 HUMAN RESOURCES

At Bulgarian Development Bank EAD, we recognize that investing in the development of our employees is critical to the overall success of our organization. That is why we have implemented a number of initiatives aimed at increasing their skills and abilities.

Through a wide range of Bank-sponsored training programs, we provide our team members with opportunities to expand their knowledge and experience. These programs cover a variety of topics, including technical and specialized skills related to banking, as well as important soft skills such as communication, leadership, and providing feedback.

However, our efforts extend beyond providing training opportunities. We are dedicated to creating an inclusive and supportive work environment where every employee feels valued and has the opportunity to reach their full potential. This includes constantly evaluating and improving workplace culture, policies, and conditions to ensure they align with our vision of being the employer of choice.

3.5 INFORMATION TECHNOLOGIES

The period 2022 - 2023 was extremely dynamic in the context of IT projects.

The IT infrastructure is supported by the updated version of the anti-virus software for the entire BDB group - ESET protect и Anti-malware platform. BDB EAD has implemented an updated solution for hardware and software monitoring of the entire environment - Axence Nvision and at the end of 2023 a Help Desk system was configured through the same application..

Over the past year, a number of business processes in the Bank and subsidiaries have been automated. A successful migration of the information systems of the subsidiaries (NGF, CIF and BDB Microfinancing) to a modern BrightOS platform of CSoft OOD was carried out. A report module (Reporting) was implemented where predefined reports are automatically prepared.

Numerous changes were implemented in the main banking system BrightOS, dictated by the regulatory requirements of Ordinance 43, changes in SWIFT, certification of BDB EAD, migration of budget payments to ISO 20022 standard and generation of XML messages and successfully completed national tests with BORICA AD, changes in reporting to the BNB in accordance with ECB requirements. Changes and automatic generation of reporting forms for the Register of Institutions and Affiliates Data (RIAD) have been successfully implemented.

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

A project was launched to build a system (CapitalBridge) to automate data analysis and reporting to financial institutions.

New processes were introduced in the DocuWare document management system as well as digitalization and elimination of paper, such as: documents to be submitted to the Management Board and the Supervisory Board, Decisions and Protocols of the Management Board and the Supervisory Board, issued powers of attorney, contracts with suppliers, etc.

The Bank has built a WI-FI network for employees and a separate one for guests, in order to eliminate paper and digitize the processes for conducting work meetings and efficiency in accessing information resources.

The protection of information systems is an important part in any organization, and the main part of it is the backup of servers. In this regard, the Bank delivered and installed a new solution (Veeam backup) for backup and recovery, including hardware and system software (licenses) with Telelink Business Services EAD.

Regarding increasing information security, a VPN with two-factor identification was built for remote access of management members to the Bank's resources. In connection with the improvement of the hardware of the Bank's building, new network access devices (Access Switches) were purchased and installed.

The Bank has included additional DDos protection for the Internet line of BDB EAD in order to prevent hacker attacks on the Bank's Internet line from adjacent IP addresses.

In connection with the constantly growing volumes of files stored in shared space, a project was initiated for the optimization of the file server (Public) and the applied policies.

The Bank has initiated projects for the implementation of a Security information event management system (SIEM) and a Network Detection & Response (NDR) threat detection system, and by the end of the first quarter of 2024, these projects have been completed, the systems have been implemented and operational.

In September 2022, BDB launched the Business Booster digital platform to help micro and SMEs. At this stage, the project offers the opportunity to apply online for funding of up to BGN 100,000. Business Booster is a huge facilitation for micro, small and medium-sized companies in the country in need of financing, as the Bank does not have a branch network. All necessary documents are filled out and signed entirely online. To create a company profile, it is necessary to fill in company data, which is automatically checked through API integration in several registers. The documents shall be signed with a qualified electronic signature. The company Evrotrust has been chosen as a provider of the authentication service. At the moment, the development and implementation of a back-office system has been initiated, which will speed up the consideration of loan applications – Credit Quest. Business Booster also offers a free "Business Academy", which includes training with manuals, video tutorials and a digital library, where all the necessary forms and documents for starting a business are published, as well as a special tool for creating a business plan - Business Plan Wizard. The new digital platform of BDB allows for easy and free opening of an online store with a built-in module for issuing invoices.

3.6 COMMUNICATIONS AND PUBLIC RELATIONS

In 2023, the Bulgarian Development Bank expanded its partnerships and signed a series of agreements with financial and public institutions to achieve its goals even more effectively. They also became the main focus of communication activities during the year.

The Bank received accreditation and was approved as an implementing partner of the European Commission under the InvestEU program. The topic was widely covered in a number of interviews with the management and in publications in print and electronic media. BDB also began to apply the first instruments for direct financing under the program, which were subject to increased online advertising.

In 2023, cooperation with international financial institutions was expanded, with financial agreements worth BGN 700 million with the European Investment Bank and the Council of Europe Development Bank. The topic was widely covered by the national print and electronic media, and BDB is gradually strengthening its reputation as a reliable and sought-after partner of the European institutions in Bulgaria.

Evidence of the good work of the Banking Group and its integrity was the signed memorandum of cooperation with Transparency International Bulgaria, part of the international organization Transparency International, which received strong media coverage.

Key progress in strengthening communication with business was the establishment in February 2023 of an Advisory Council to the Supervisory Board of BDB, which includes nationally representative employers' organizations in the country, NAMRB and trade unions. The meetings provided a working information channel between BDB and the business, which supports the process of developing new financial instruments of the banking group and effectively informs the members of the organizations about the current programs and products.

The year was a jubilee year for the National Guarantee Fund, which celebrated 15 years since its establishment. The topic was widely communicated through a series of media appearances presenting the results of the Fund's activities, as well as an official event with the key partners of the company.

In 2023, BDB continued its meetings with companies in the country and its participation in events and conferences that allow it to present its products for business financing. The Bank hosted a meeting with associations and venture capital funds, as well as a meeting on the protection of business intellectual property. BDB was also represented at the forums Bulgaria in Support of Sport, Automotive & Battery Forum '23, Bulgaria in the Eurozone – the Next Steps for the Business, The Green Transition, Powers Summit, Investor Finance Forum, SIM Expo, Be Renewable, Green Smart Growth, Industrial Zones - Growth for Municipalities and Regions, Project Financing Board of BCCI, Financial Instruments for Export Support of Bulgarian Companies of BCCI, the 14th ICAP Credit Risk Conference, the Annual Forum of the Microfinance Centre for Central and Eastern Europe, as well as meetings with local businesses in Plovdiv, Burgas, Kyustendil, Ruse, Stara Zagora, Bansko, Shumen.

During the year, the Bank presented and promoted its new financial products – loans and leasing with an InvestEU guarantee, as well as its new "Instrument for Accelerated Disbursement of European Funds", aimed at companies with projects under the National Recovery and Sustainability Plan (NRSP) and ESIF. Success stories of companies supported by the banking group were presented in the media.

4 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2023

4.1 ECONOMIC ENVIRONMENT

In 2023, the global economy was marked by the ongoing recovery from the COVID-19 crisis, coupled with the shocks of the war in Ukraine and the subsequent energy and other economic problems in Europe. The slowdown in inflation is stabilizing European economies, with interest rates expected to fall in 2024, which, together with lower energy prices, will give an additional boost to economic growth on the continent.

In 2023, the real growth of Bulgaria's gross domestic product was 1.8%, against an expected growth of 2.0% in the autumn forecast of the Ministry of Finance (MoF).

In 2023, there is a downward trend in the annual inflation rate according to the HICP, which was 4.7% at the end of the year. The slowdown in inflationary processes in the country is largely due to the decline in international prices of energy goods and other raw materials.

In 2023 there was stability in employment and unemployment rates. For 2024, employment is expected to follow the growth of the Bulgarian economy and labor productivity.

In the first half of 2024, the BNB expects real GDP to grow both on a chain and annual basis, supported mainly by domestic demand and assumptions for improving the prospects for external demand for Bulgarian goods and services.

4.2 BANKING SECTOR

In 2023, banks in Bulgaria operated in conditions of declining inflation and stabilization of the economic environment, which, combined with the significant increase in interest rates, led to record profits in the banking sector.

As of 31 December 2023, there are 23 banks operating in Bulgaria, six of which are branches of foreign banks, and at the end of the fourth quarter of 2023, the market share of the five largest banks in terms of assets reached 76.3%. In the fourth quarter of 2023, the assets of the banking system increased by BGN 7.0 billion (4.2%) and at the end of December amounted to BGN 172.1 billion.

As of 31 December 2023, the profit of the banking system amounted to BGN 3.4 billion, by BGN 1.3 billion (64.4%) more than reported as of 31 December 2022. For 2023 the net interest income is BGN 4.8 billion, which is by BGN 1.6 billion (50.2%) higher than the one reported for 2022.

The equity in the balance sheet of the banking system at the end of the fourth quarter of 2023 amounted to BGN 20.0 billion, by BGN 687 million (3.6%) more than at the end of September.

At the end of December 2023, gross non-performing loans and advances amounted to BGN 3.85 billion (compared to BGN 4.12 billion at the end of September 2023), and their share in the total amount of gross loans and advances is 3.63% (compared to 3.81% at the end of September 2023).

When presenting the indicator in a wide range (including cash balances with central banks and other deposits on demand), the share of gross non-performing loans and advances is 2.76% at the end of the fourth quarter of 2023 (compared to 3.06% at the end of the third quarter). The net value of non-performing loans and advances (after deduction of their inherent impairment) at the end of December 2023 is BGN 1.95 billion (compared to BGN 2.04 billion at the end of September 2023), and its share in the total net value of loans and advances is 1.89% (compared to 1.95% at the end of September 2023).

In 2023, there was a gradual increase in the average interest rates on newly contracted deposits and loans, with the increase in loans being significantly more noticeable than in deposits. The average interest rate for newly contracted deposits with agreed maturity for non-financial companies increased from 0.33% to 2.00% for deposits in BGN, and from 0.47% to 2.60% for those in EUR. The average interest rates on newly granted loans to non-financial companies increased from 3.12% to 4.55% for those in BGN, and from 3.92% to 5.79% for those in EUR.

The impact of a number of regulations and regulatory requirements also has an impact on the performance of the banking sector. In October 2023, the BNB designated six banks as Other Systemically Important Institutions (O-SIIs), with the O-SIIs buffer levels in the range of 0.50%-1% as of 1 January 2024. The increase of the countercyclical capital buffer by BNB from 1% to 1.5% as of January 2023 and the announced increase up to 2% as of 1 October 2023 did not significantly affected the capital indicators given the good capitalization of the banking system. The activity of the banking system in 2024 is expected to be influenced by banks' preparation for the future introduction of the euro.

5 OVERVIEW OF ACTIVITY AND SELECTED FINANCIAL INFORMATION

5.1 OPERATING RESULTS AND FINANCIAL POSITION

Bulgarian Development Bank EAD continues to work actively on its objectives, maintaining high levels of liquidity and capitalization.

Comprehensive income for 2023 and 2022:

Comprehensive income	2023	2022	YoY change
Net interest income	66,908	58,410	14.5%
Net fee and commission income	1,850	836	121.3%
Net gain from foreign exchange transactions	258	524	(50.8%)
Net loss from financial assets at fair value through other comprehensive income	(11)	(851)	98.7%
General and administrative expenses	(27,739)	(28,981)	4.3%
Other operating income/(expenses)	7,646	1,890	304.6%
Operating profit before impairment and provisions	**48,912**	**31,828**	**53.7%**
Expenses for impairment and provisions on non-financial assets	(381)	(10,606)	96.0%
Expenses for impairment and provisions on financial instruments	(16,870)	(1,308)	(1,189.8%)
Profit before income tax	**31,661**	**19,914**	**59.0%**
Income tax (expense)/benefit	(81)	305	(126.6%)
Profit for the year	**31,580**	**20,219**	**56.2%**
Actuarial (loss)/gain on defined benefit plans, net of taxes	(12)	172	(107.0%)
Net change in fair value of equity instruments at fair value through other comprehensive income	24,448	10,610	130.4%
Net change in fair value of debt instruments at fair value through other comprehensive income	13,721	(31,457)	143.6%
Total comprehensive income	**69,737**	**(456)**	**15,393.2%**

The interest income for the financial year 2023 amounted to BGN 117,940 thousand (for 2022: BGN 77,227 thousand). Interest expenses increased to BGN 51,032 thousand compared to BGN 18,817 thousand for the same period in 2022. The growth in both interest income and expenses is mainly due to the increased interest rate benchmark as well as to the elimination of negative interest rates on balances in the BNB and on placements with commercial banks.

As a result of the realized interest income and expenses in 2023, net interest income was reported by 14.5% higher compared to 2022.

Fee and commission income for the twelve months of 2023 amounted to BGN 4,719 thousand and increased by 5% compared to the same period of 2022. The net result of accrued fees and commissions for 2023 was positive and amounted to BGN 1,850 thousand compared to BGN 836 thousand for 2022. The result is mainly influenced by the increased revenues under agent commissions on portfolio COVID-19 guarantees for legal entities, as well as by the decreased expenses for agent commissions for co-management to commercial banks in connection with the portfolio guarantees issued under the guarantee programme for guaranteeing interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic.

For the financial year 2023, a net loss on financial assets measured at fair value through other comprehensive income of BGN 11 thousand was incurred compared to a loss of BGN 851 thousand for the previous year.

In 2023, general and administrative expenses and depreciation & amortization and personnel costs amounted to BGN 27,739 thousand, a decrease by 4.3% compared to 2022 mainly due to lower regulatory fees and expenses for hired services.

In 2023 the Bank reported a negative result from accrued impairments and provisions of loans, receivables and off-balance-sheet commitments – a net expense of BGN 16,870 thousand (for 2022: BGN 1,308 thousand). The reported negative result for 2023 is determined by both (1) reintegration of provisions on off-balance-sheet commitments – portfolio guarantees issued to commercial banks under the two guarantee programmes – "Programme to guarantee interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic" and "Programme to support the liquidity of enterprises affected by the emergency situation and the COVID-19 epidemic", with which the Bank has been mandated by the Government of the Republic of Bulgaria to provide financial assistance to support the economy and to overcome the consequences of the pandemic, as well as by (2) the accrued impairment costs to cover expected credit losses in the Bank's portfolio.

The financial result of Bulgarian Development Bank EAD for 2023 is net profit of BGN 31,580 thousand (for 2022: BGN 20,219 thousand).

As of 31 December 2023, Bank's assets amounted to BGN 2,787,393 thousand (as of 31 December 2022: BGN 3,065,786 thousand), showing a decrease by 9.1% compared to the previous year, which is mainly due to:

- decrease of financial assets at amortised cost;
- decrease of financial assets at fair value through other comprehensive income;
- decrease of non-current assets;
- decrease of balances with Central Banks and deposits in commercial banks.

The decrease in the loan portfolio is due to fewer loans granted compared to the repaid ones: the interest rates on newly granted loans are currently not competitive on the market, except for the most risk customers, which leads to prepayment of loans or non-utilization of already agreed ones.

The portfolio of securities is managed within the established rules and its volume is a function of the necessary funds for the lending activity and the opportunities for realizing profitability.

The decrease of non-current assets is mainly due to the sale of a building owned by the Bank to the Constitutional Court of the Republic of Bulgaria.

Account balances are managed to meet regulatory requirements for minimum reserve requirements, as well as regulatory and operational liquidity requirements, at optimal returns.

Financial position as of 31.12.2023 and 31.12.2022:

	As of 31.12.2023	As of 31.12.2022	YoY change
Assets			
Cash in hand and balances in current accounts with Central Banks	128,662	527,836	(75.6%)
Financial assets at amortized cost - Receivables from banks	513,867	139,305	268.9%
Financial assets at amortized cost – Loans and advances to customers, Receivables from the State budget and Securities	1,398,517	1,528,142	(8.5%)
Financial assets at fair value through other comprehensive income – Debt and Equity instruments	486,458	578,647	(15.9%)
Investments in subsidiaries	166,968	166,968	-
Non-current assets	80,111	107,045	(25.2%)
Other assets	12,810	17,843	(28.2%)
Total assets	**2,787,393**	**3,065,786**	**(9.1%)**
Liabilities			
Borrowings from international institutions	581,931	779,497	(25.3%)
Deposits from customers other than credit institutions	650,167	994,068	(34.6%)
Deposits from credit institutions	209,918	2,641	(7,848.4%)
Other borrowings	16,818	16,608	1.3%
Lease liabilities	208	299	(30.4%)
Provisions	119,043	132,996	(10.5%)
Other liabilities	5,299	5,404	(1.9%)
Total liabilities	**1,583,384**	**1,931,513**	**(18.0%)**
Equity			
Share capital	1,135,500	1,441,774	(21.2%)
Accumulated loss	(179,789)	(211,369)	14.9%
Revaluation reserve on financial assets at fair value through other comprehensive income	(57,286)	(95,455)	40.0%
Reserves	305,584	(677)	45,238.0%
Total equity	**1,204,009**	**1,134,273**	**6.1%**
Total liabilities and equity	**2,787,393**	**3,065,786**	**(9.1%)**

5.2 LENDING AND GUARANTEE ACTIVITY

In 2023, the Bank continued to develop its activities, supporting the Bulgarian business by continuing to maintain diversification of the industry structure of its loan portfolio. The decrease in volumes described in the previous paragraph affects all sectors except " Tourism", with a larger decrease observed in "Industry - other manufacturing" (-31.9%), "Construction" (-16.8%) and "Transport" (-14.0%). There is significant growth only in "Other industries".

BDB's lending activity is expressed both in the direct provision of borrowed funds and in financing through programs (products) for lending to commercial banks, which with the received funds provide loans to SMEs and farmers, or the so-called "on-lending”. The high liquidity of commercial banks determines the reduced demand for funding through BDB's on-lending programs.

In addition to direct lending, the Bank offers a significant amount of financing to credit and non-bank financial institutions (on-lending), as well as guarantees to borrowers on loans from partner financial institutions under guarantee programs approved by the Bulgarian state and/or the Bank's management bodies. Specialized on-landing and warranty programs are described in section 3.2 Business Highlights.

5.3 FUNDING

The attracted funds from international institutions at the end of 2023 represent 36.7% in the liability structure and amount to BGN 581,931 thousand compared to BGN 779,497 thousand at the end of 2022. The change for 2023 at the amount of BGN 197,566 thousand compared to the end of 2022 is due to scheduled repayments under signed financial agreements, including full early repayment of BGN 97,792 thousand to China Export–Import Bank of China.

6 DEVELOPMENT STRATEGY AND GOALS OF THE BDB

The strategy of BDB EAD 2021 - 2023 was adopted by a decision of the Council of Ministers on 15 April 2021. At the beginning of 2022, an update of the BDB Strategy 2021-2023 was prepared, and the project was approved and entered into force in July 2022. The Bank expects in 2024 strategic review to be performed[2], as a result of which a new strategy will be prepared. Until the adoption of a strategy, the bank will implement a business program approved by its management bodies, in accordance with the BDB Act and the priorities described below.

According to Strategy 2021-2023 BDB follows four **strategic goals**:

1. To provide access to a variety of tools for SMEs, especially in cases of an inefficient market.

[2] It is expected that the National Assembly will adopt a law approving Agreement No. aa-011823 between the Ministry of Innovation and Growth of the Republic of Bulgaria and the European Investment Bank for advisory services to be provided by the European Investment Bank to the Ministry of Innovation and Growth, signed in Sofia on November 2, 2023.

2. To support and finance the export and internationalisation of SMEs.
3. To finance the transition of SMEs to a green, circular and sustainable economy, incl. and through projects for social infrastructure and preservation of cultural and historical heritage.
4. To facilitate access to credit and capital for company innovation, technological renewal and digitalization.

BDB's activities in 2023 are influenced by the dynamics of the business environment and the economic conjuncture, characterized by geoeconomic turbulence in global economic forces. The main focus continues to be on financing viable SMEs that have growth potential but face difficulties in accessing finance due to a higher risk profile and the need for support to cope with economic shocks.

BDB aims to create a sustainable and complete market for financial products and services for SMEs through a variety of instruments. BDB lends directly and indirectly to businesses through products with typical characteristics aimed at areas with identified market disadvantage and suboptimal market solutions.

In 2023, BDB successfully implemented most of the planned activities. Significant progress has been made in the implementation of the strategic objective "Financing the transition of SMEs to a green, circular and sustainable economy". Through the transfer of good market practices for building a comprehensive green finance management system under the 9-month Green Gateway project, the Bank's employees were trained in the field of ESG and the criteria for green projects.

In the current environment, BDB has the opportunity to continue building its role as a bank to support the green transition, given the many sources of public resources and potential investment projects (budgeted at national level for the implementation of climate change mitigation strategies, climate change adaptation and infrastructure management adaptation, as well as for financing integrated climate solutions).

During the period, the main lever for mobilizing private investments are the projects under the National Recovery and Resilience Plan (NRRP). The Bank structures programs and financial instruments to support the utilization of public resources and increase business investments.

Serious, but without significant results, were the efforts of the Bank to strengthen export credit. Increasing the share of export companies in the direct and indirect portfolio and supporting the export of Bulgarian SMEs remain as goals for the next strategic period. Substantial growth as a commercial bank is mainly hindered by the lack of a branch network.

During the period, the Bank strengthened existing partnerships and established new ones with business and academic circles. In order to improve the dialogue with the business, an Advisory Board was established to the Supervisory Board of the Bank with members of nationally representative employers' organizations, as well as Podkrepa, NAMRB and CITUB. Its main functions are related to recommendations on strategic issues of the Bank's activities, good practices in the development of financial instruments and programs and promotion of the Bank's activities by regions.

Memorandums of cooperation were signed with the UNWE and the NSI, with the Faculty of Economics at Sofia University (the Bank participates in the Academy for Sustainable Finance), the Bulgarian Stock Exchange (under a pilot investment fund with the Capital Investment Fund), the Patent Office.

7 INTERNAL CONTROL

The internal control processes in the Bank are detailed in sections 8 and 9, as well as in the Corporate Governance Statement, Appendix No1 to this Report. These 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 Statement, Control Environment section;
b) risk assessment process - a description of the assessment of the risks of the Bank may be found in Corporate Governance Statement, Risk Management section;
c) 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;
d) control activities - a description of the control activities of the Bank may be found in the Risk Management section, part of Corporate Governance Statement Structures for Risk Management and Committees to the Management Board sections;
e) ongoing monitoring of controls - a description of the ongoing monitoring and control of the Bank may be found in Corporate Governance Statement, 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. Units 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 units. 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 banking activities. 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 in a one-year horizon 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 2023, BDB did not maintain a 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 high-quality assets and stable sources of financing 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. Its latest update was adopted by a decision of the MB under Protocol No 78/02.11.2023 and by a decision of the SB under Protocol No 50/09.11.2023. The Recovery Plan complies with the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Intermediaries, adopted in the middle of 2015, Guidelines on recovery plan indicators and technical recommendations on the definition of critical functions and key business lines (Technical advice on critical functions and core business lines) of the European Banking Authority (EBA).

The Recovery Plan addresses the systemically important/critical functions of the BDB 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.

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 change in the legal management structure or economic activity, or financial position of the Bank, which may have a significant impact on the plan or require a change thereto, and also by the request of the supervisory authority.

The approved and updated Recovery Plan is submitted to the Bulgarian National Bank (BNB).

The Bank observes a system of indicators in order to identify early potential situations that could threaten its financial position. Recovery indicators form a system by which the moment at which the institution begins to consider the implementation of recovery measures (options) is determined and determines which specific recovery option to implement in response to the actual situation that has arisen.

The calculation of the indicators is carried out on a monthly basis and is provided to the Management as part of the package of management information.

The units designated as responsible for the calculation and monitoring of individual indicators are the units that have the obligation to initiate an escalation in decision-making in the event of indications of a violation of the reference values.

9 CONTROL ENVIRONMENT

BDB follows a management philosophy and operational style subordinated to the principles of conservatism in the implementation of the Bank's strategic objectives assigned under the BDB Act.

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 and risk-taking units - divisions Corporate Clients, Investment Banking and Project Financing, Financial Instruments, Problem Receivables and Treasury. Their activities are supported by the divisions Legal, Loan Administration, Security, Finance, Operations and IFI and European Funds", that evaluate and analyse the implementation of internal and regulatory constraints and support the decision-making activity 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 and Regulatory Compliance and Control perform 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. The Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Division controls the prevention of money laundering and terrorist financing. The second line of defense is organizationally independent of the first and exercises 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, 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 Bank.

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 assurance 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 informs the governing bodies of the Bank about the results of the statutory financial audit monitors the financial reporting processes, the effectiveness of the internal control environment, controls the creation and change of accounting policies by the Bank and subsidiaries of the Group in connection with the implementation of the audit of the consolidated financial statements 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); familiarizes itself with the audit strategy and audit plan of the statutory audit; monitors the implementation of the audit plan by providing recommendations to the Bank's management and auditors to remedy any difficulties; reviews the draft auditors’ reports under art. 59 and art. 60 of the IFAA and the identified key audit matters, the findings made and the auditor’s opinion expressed; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends its appointment; prepares an annual report and reports 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 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 at 31.12.2023, BDB has complied with all regulatory requirements of the BNB and the Bulgarian legislation.

The Bank implements the guidelines, recommendations and other measures adopted by EBA which relate to it and which the BNB has announced that it complies with in accordance with Article 79a, para. 1, item 2 of the Credit Institutions Act (in force from 5 December 2017).

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.

BDB's reported capital adequacy on an individual basis as at 31 December 2023 is 46.19% (31.12.2022: 42.89%). The values of asset coverage with capital buffers exceed many times the statutory levels. Respectively, the aggregated data for the capital adequacy banking system are: 21.65% as of 31.12.2023 and 20.88% as of 31.12.2022. BDB continues to maintain a good level of liquidity. As of 31.12.2023, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the Bank is 355.76% (compared to a value of 250.30% at the end of 2022). For the banking system, the aggregated liquidity coverage ratio was 246.7% (as of 31.12.2023) and 235.0% (as of 31.12.2022).

As part of the Basel III regulatory framework, effective as of 28 June 2021, a "net stable funding ratio" (NSFR) with a minimum regulatory requirement of 100% applies. The information about it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) with quarterly frequency, on an individual and consolidated basis. As of 31 December 2023, the aggregate level of NSFR for the banking system was 161.1% and for BDB EAD it was 111.6%.

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 discussing 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 has been a shareholder in the European Investment Fund (EIF) since 2003. As of 31.12.2023 BDB holds five shares in EIF.

Since 2005, BDB has been an active member of the European Association of Public Banks (EAPB). EAPB has more than 90 member financial institutions from 17 countries.

Since 2007, BDB is a member of the Network of European Financial Institutions (NEFI), which includes representatives from 21 institutions from 20 EU member states and the UK.

In 2023, BDB continued its participation in the activities of the European Association of Long-Term Investors (ELTI). BDB is a co-founder of this organization.

BDB joined the International Network for Small and Medium-sized Enterprises (INSME) in 2020. INSME is under the auspices of the Organization for Economic Co-operation and Development (OECD). The association has 61 institutions and organizations from 30 countries.

In 2023, BDB continued its participation in the Interbank Association of China and the countries of Central and Eastern Europe.

12 BANK GOVERNANCE

There were no charges in the main BDB corporate governance principles in 2023.

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

The changes in the Management Board, Audit Committee and Statute of the Bank, which have occurred in 202 and until the date of approval of this report are described in section **Error! Reference source not found.**.

As of 31 December 2023, the BDB's management and supervisory boards have the following composition:

12.1 SUPERVISORY BOARD OF BDB IN 2023, AS OF 31.12.2023 AND AS OF THE DATE OF APPROVAL OF THIS REPORT:

Rosen Andreev Karadimov – Chairman of the SB from 14 November 2022.

Ass. Prof. Rosen Karadimov is a lecturer at the Faculty of Law at Sofia University St. Kliment Ohridski since 1991. Chairman of the Management Board of the Institute for New Economic Progress, he was a Member of Parliament in the VII-th Grand National Assembly, participated in the adoption of the Constitution of the Republic of Bulgaria in 1991. As a member of the 36th National Assembly he participated in the adoption of the BNB Act (1991), the Banks and Lending Act (1992), the Commercial Code (1991), among others. Rosen Karadimov was a legal consultant and attorney of a number of credit institutions, including BDB.

Delyana Valerieva Ivanova – Deputy-Chairman – and member of the SB from 14 November 2022.

Delyana Ivanova is Deputy Minister of Regional Development in the period 2021-2022. Before entering the executive branch, she was a Member of Parliament in the 45th and 46th National Assemblies and a member of the Budget and Finance Committee. Her professional expertise is in the field of banking and finance.

Stamen Stamenov Yanev – member of the SB from 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). Mr. Yanev is a lawyer specialized in the field of mergers and acquisitions and investments. During his professional career he worked for 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.

12.2 BDB MANAGEMENT BOARD IN 2023, AS OF 31 DECEMBER 2023 AND AS OF THE DATE OF APPROVAL OF THIS REPORT:

Iliya Zapryanov Karanikolov - Chairman of the Management Board and Executive Director as of 20 January 2023

Iliya Karanikolov has over 20 years of banking and financial experience and knows BDB well, as he was a member of the Management Board and Executive Director in the period 2011-2013. From 2007 to 2011 he was part of the team of Eurobank Bulgaria (Postbank).

His professional biography goes through the Ministry of Economy and Energy and the Ministry of Labour and Social Policy. He has extensive expertise in areas such as public administration, European integration, EU strategies and programmes.

Lecturer on topics such as cost-benefit analysis of large infrastructure, municipal and private projects, control of structural funds, financial instruments, etc.

From 2016 to 2017 he was part of the management of the Fund of Funds, where he held the position of Deputy Chairman of the Management Board and Executive Director, and in 2021 he was Chairman of the Supervisory Board of the Fund. Since 2020 he has been Head of the Financial Instruments Division at BDB.

Iliya Karanikolov has a Master's degree in Business Management and Administration (MBA) from the University of National and World Economy in Sofia and has specializations in the field of artificial intelligence (University of Helsinki), management of financial instruments (London), credit risk (Prague), management of structural funds (Brussels, Maastricht, Dublin) and many others.

Ivan Valentinov Cerovski - Member of the Management Board and Executive Director as of 20 January 2023

Ivan Cerovski has 18 years of experience in the field of banking and private equity. His professional path goes through the German financial institutions Commerzbank, Deutsche Börse and Dresdner Bank. Cerovski was an associate investor in the UK private equity fund Argus Capital, where he was responsible for the Bulgarian market, as well as vice president of the Bulgarian equity fund Delta Capital.

From 2011 to 2021 he was part of the team of the European Bank for Reconstruction and Development (EBRD), where he was Head of the EBRD's Local Entrepreneurship Programme, responsible for the development of the SME sector in Bulgaria.

Ivan Cerovski holds a Master's degree in Management from Otto-von-Guericke University in Magdeburg, Germany, and a Bachelor in Macroeconomics from the University of National and World Economy.

Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director from 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 were related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies 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 in International Economic Relations at the University of National and World Economy and holds a Master's degree in Finance.

Teodora Petrova Pesheva – member of MB from 25 March 2024

By a decision of the Supervisory Board under Protocol No 11 of 19 March 2024 Teodora Petrova Pesheva was elected as a new member of the BDB Management Board. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 25 March 2024.

In 2023, the following members also participated in the composition of the Management Board:

Mariana Dimitrova Petkova – Chairman of the MB (from 13 June 2022 to 12 January 2023) and member of the MB and executive director from 13 June 2022 to 16 March 2023.

Mariana Petkova has over 28 years of international experience in the banking system. She holds a Bachelor's degree in Socio-Economic Planning from the University of National and World Economy, where she specialized in international marketing. She has outstanding expertise in the field of accounting policy and reporting, as well as in the construction and development of banking software. She has held managerial positions in the accounting departments of First Investment Bank and ProCredit Bank. From 2006 to 2021, Mariana Petkova managed ProCredit Bank. In 2008 she graduated from the Corporate Academy for Managers at Procredit Academy in Frankfurt, Germany.

She was consecutively Executive Director and Member of the Management Board at the Bulgarian branch of the Bank, and Deputy CEO and CEO of ProCredit Bank in Romania. Skilfully organized the activity of optimizing the processes and cost structure in the bank and controlled the process of implementing the business strategy and building a stable and quality customer base in the Small and Medium Enterprises segment.

Krum Georgiev Georgiev – Member of the MB from 7 July 2021 to 14 February 2023.

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 also has skills as a successful Asset Manager in the RES sector.

12.3 CONTRACTS SIGNED WITH RELATED PARTIES, INVOLVED IN THE MANAGEMENT AND PARTICPATION OF THE MEMBERS OF MB AND SB OF THE BANK 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.

In 2023, there are no concluded transactions or offers between BDB and related parties for concluding such transactions that are outside the usual activity or materially deviate from the market conditions to which BDB or its subsidiary is a party.

There are no substantial contracts that take effect, are amended or terminated due to a change in the control of or over the Bank, or as a result of a mandatory tender offer. To the extent that there is a legal restriction on BDB's shareholder structure, such contracts are not expected to occur.

There is no practice of concluding agreements between BDB and its management bodies and/or employees for the payment of compensation upon exit or dismissal without legal basis, or upon termination of employment for reasons related to tender offering.

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 31.12.2022 and the date of approval this report):

12.3.1 Supervisory Board

With regard to members of the SB of the Bank, who participated in its composition in 2023 and as of the date of approval of this report:

Rosen Andreev Karadimov, Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 14 November 2022.

Participation in the management of other companies: none

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

Delyana Valerieva Ivanova, Deputy-Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 14 November 2022.

Participation in the management of other companies: none

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

Stamen Stamenov Yanev – member of the Supervisory Board of Bulgarian Development Bank EAD from 26 August 2020.

Participation in the management of trade companies: none.

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

12.3.2 Management Board

With regard to members of the MB of the Bank, who participated in its composition in 2023 and as of the date of approval of this report:

Iliya Zapryanov Karanikolov – Chairman of the Management Board and Executive Director of the Bulgarian Development Bank EAD from 20 January 2023.

Participation in the management of other companies: none

Participation in the capital of commercial companies or cooperatives:

- IntelArt EOD, UIC: 205318749 – sole owner of capital.

Ivan Valentinov Cerovski – member of the Management Board and Executive Director of Bulgarian Development Bank EAD from 20 January 2023.

Participation in the management of other companies:

- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 17 March 2023;
- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 17 March 2023.

Participation in the capital of commercial companies or cooperatives:

- High Tower Capital EOOD, UIC: 206864466 – sole owner of capital.

Tsanko Rumenov Arabadzhiev – Executive Director and member of the Management Board of Bulgarian Development Bank EAD from 7 July 2021.

Participation in the management of other companies:

- Capital Investments Fund AD, UIC: 205322014 – member of the Board of Directors – from 5 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – from 22 March 2023;

On 22 September 2021 Tsanko Arabadzhiev was elected as member of the Supervisory Board of Three Seas Investment Fund.

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

Teodora Petrova Pesheva – member of the Management Board of Bulgarian Development Bank EAD from 25 March 2024

Participation in the management of other companies: none

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

Mariana Dimitrova Petkova – Chairman of the Management Board (from 13 June 2022 to 12 January 2023) and Executive Director of Bulgarian Development Bank EAD from 13 June 2022 to 16 March 2023.

Participation in the management of other companies:

- BDB Microfinancing EAD, UIC: 201390740 – member of the Board of Directors – from 23 June 2022 and Executive Director from 26 July 2023.

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

Krum Georgiev Georgiev – member of the Management Board of the Bulgarian Development Bank EAD from 7 July 2021 to 14 February 2023.

Participation in the management of other companies:

- BDB Leasing EAD, UIC: 205565411 – member of the Board of Directors - from 23 August 2021 to 17 March 2023;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 6 July 2022 to 17 March 2023;

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

The financial statements disclose information about the full amount of the remuneration, awards and/or benefits of the members of the Bank's management and supervisory bodies for the reporting financial year.

12.4 AUDIT COMMITTEE IN 2023, AS OF 31 DECEMBER 2023 AND AT THE DATE OF APPROVAL OF THIS REPORT:

At the date of approval of this report, the Audit Committee comprises:

Svetlana Hristova Kourteva – Chairperson of the Audit Committee since 1 January 2023.

Svetlana Kourteva has higher economic education in Internal Trade and postgraduate Studies from Karl Marx Higher Institute of Economics. The professional expertise of Svetlana Kurteva is in the field of financial audit. She is a certified public accountant and a registered auditor. She has carried out financial audits of projects funded by the European Union under the Operational Program "Development of the Competitiveness of the Bulgarian Economy', Operational Program "Innovation and Competitiveness", Tempus project "Training in the field of Nanotechnologies", Erasmus+ "Capacity Building in the Field of Higher Education".

Svetlodara Encheva Petrova - Member of the Audit Committee since 1 January 2023.

Svetlodara Petrova has a Master's degree in Law. She is a lawyer with extensive experience in the field of civil, contractual and commercial law. She provides consulting services under the Public Procurement Act, on commercial insolvency and corporate transformations.

Delyana Valerieva Ivanova - Member of the Audit Committee since 1 January 2023.

Delyana Ivanova has a Master's degree in Organizational Development and a Bachelor's degree in Business Management from St. Kliment Ohridski University of Sofia. Delyana Ivanova's professional expertise is in the field of banking and finance. She was Deputy Minister of Regional Development in the period 2021-2022. Before entering the executive power, she was a Member of Parliament in the 45th and 46th National Assembly and a member of the Budget and Finance Committee.

13 TRANSACTIONS WITH COMPANIES UNDER COMMON CONTROL OF THE STATE

The owner of BDB is the Bulgarian state. Transactions with related parties and companies under the common control of the state are disclosed in Note 39 to the separate financial statements of BDB for 2023.

14 EVENTS AFTER THE REPORTING PERIOD FOR THE YEAR ENDING ON 31 DECEMBER 2023

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, except for the following non-adjusting events:

Changes in the Management Board the Bulgarian Development Bank EAD

By decision of the Supervisory Board with Protocol No 11 dated 19.03.2024, Teodora Petrova Pesheva was elected as new member of the Management Board of BDB. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 25.03.2024.

Changes in the capital of *BDB Microfinancing EAD*

With Protocol No 88 dated 21.12.2023, supplemented by Protocol No 7 dated 01.02.2024 and Protocol No 14 dated 12.03.2024, the Management Board of BDB, exercising the Bank's rights as the sole owner of the capital of BDB Microfinancing EAD decided to reduce the capital of the company from BGN 14,643,000 (fourteen million six hundred and forty-three thousand) to BGN 14,035,000 (fourteen million and thirty-five thousand) through acquisition and invalidation of 6,080 (six thousand and eighty) ordinary registered dematerialized voting shares, with a nominal value of BGN 100 each, in order to cover losses and to comply with the provisions of Art. 252, Para. 1, item 5 in conjunction with Art. 247a, para. 2 of the Commerce Act. The decision was filed in the Commercial Register and the Register of Non-Profit Legal Entities on 12 April 2024.

BULGARIAN DEVELOPMENT BANK

15 MANAGEMENT STATEMENT

The management of BDB declares that the attached separate annual financial statements accurately reflect the financial position and the operating results of the Bank including the financial result for the year ending 31 December 2023, in accordance with the legislation in force. An appropriate accounting policy has been applied consistently. When preparing the annual financial statements, the necessary estimates have been made, in accordance with the conservatism principle. 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 is committed to maintaining an appropriate accounting system that meets the accounting standards in force. The annual separate financial statements disclose the financial position of the Bank to 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 of 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 No. 29 of 20 May 2024 and with Protocol No. 19 of the Supervisory Board of the Bank of 21 May 2024, and was signed by:

ILIYA KARANIKOLOV	IVAN CEROVSKI	TSANKO ARABADZHIEV
CHAIRMAN OF THE MB AND EXECUTIVE DIRECTOR	**MEMBER OF THE MB AND EXECUTIVE DIRECTOR**	**MEMBER OF THE MB AND EXECUTIVE DIRECTOR**

APPENDIX 1: BDB CORPORATE GOVERNANCE STATEMENT AS OF 20 MAY 2024

1 PRINCIPLES OF CORPORATE GOVERNANCE OF BULGARIAN DEVELOPMENT BANK EAD

This Corporate Governance Statement 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.

As a credit institution established pursuant to a special act - the Bulgarian Development Bank Act („BDBA"), 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 laws and regulatory requirements in the Republic of Bulgaria, European legislation, Corporate Governance Code, The Code of Ethics and the Code of Ethics of the Internal Audit of BDB adopted by the Bank, 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. 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 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 was adopted. It arranges the scope of activity of the Bank and its subsidiaries that may be established.

The seat and registered address of Bulgarian Development Bank EAD is Sofia 1000, Sredets area, 1, Dyakon Ignatij Str.

As of 31 December 2023, Bulgarian Development Bank EAD has no branches.

As of 31 December 2023, the number of the Bank's employees is 201.

The Bank complies with the requirements of the BNB for minimum required share capital for the exercise of banking activity. 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 AD and on 4 June 2021 Bulgarian Development Bank was entered in the Commercial Register and Register of Non-profit Legal Entities as a sole joint stock company.

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

As of 31 December 2023, 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 Innovation and Growth.

By decision of 21 July 2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease.

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute are entered in the Commercial Register and the register of non-profit legal entities on 30 May 2023. The change affects neither the value of Bank's net assets as of 31 December 2023 or as of subsequent periods nor the amount of Bank's regulatory equity.

As of 31 December 2023, the capital of the Bank amounts to BGN 1,135,500,000. composed of 11,355,000 ordinary registered, dematerialized shares with voting rights, with a nominal value of BGN 100 each. 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 BDB is carried out in accordance with Art. 5 of the BDB Act, according to which the Bank has a two-tier management system, and the rights of the state as sole shareholder are exercised by the Minister of Innovations and Growth – as of the date of preparation of this declaration.

At the end of 2023, BDB has no obligations under existing or new securities issues.

As of 31 December 2023, there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of BDB at the amount 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-sized 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, other than 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 and in certain cases to existing exposures.

The Bank does not lend funds to:

- Activities not compliant with the National legislation, 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, copyright and use of intellectual property, as well as from the sale and distribution of printed, audio and audio-visual materials with propaganda 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 view of its specific function of conducting a state promotion policy, BDB prioritizes in its activities programs and products for the promotion of SMEs, on-landing programs, export financing and funding under assigned mandates.

As of 31 December 2023, and 31 December 2022, there is no exposure to a client or group of related clients that is greater than 25% of the Bank's regulatory equity.

The largest credit exposure of the Bank provided to a group of related parties (other than banking institutions) amounts to BGN 161,416 thousand (including BGN 126,460 thousand gross carrying amount of debt, BGN 34,956 thousand for utilization) (for 2022: BGN 172,452 thousand) at amortised cost, representing 15.38% (2021: 16.76%) of the Group's equity / the Group's eligible capital, calculated in accordance with Regulation 575/2013/EU. An analysis of the structure of the loan portfolio by segment is provided in the separate financial statements of the Bank.

Given the specific activity of the Bank, as of 31 December 2023, the funds attracted from 20 largest non-bank depositors represent 84.16% of the total amount of liabilities to other clients (31 December 2022: 72.58%). The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 21.57% (as at 31 December 2022: 29.90%).

In 2020, the Council of Ministers assigned to the Bulgarian Development Bank EAD 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 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 from 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). The deadline for inclusion of loans in the guarantee programme of BDB was last extended until 30 June 2022. At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio has expired.

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

On 7 August 2023 the international rating agency Fitch Ratings confirmed the credit rating of Bulgarian Development Bank EAD – BBB, with positive outlook. The Bank's rating is equal to the Bulgarian State rating and practically it is the highest possible credit rating for BDB. The assessment is based on the good capital position of BDB, the return to profit and the fact that the Bank is 100% owned by the Bulgarian state, which can support it if necessary. Its financing is stable, with a significant part of it being either sourced from the public sector or guaranteed by the state. The rest of the attracted resource is mainly from international development institutions.

The assessment is based on the good capital position of BDB, high probability and the availability of fiscal space for support from the owner - the Bulgarian State, stable financing from international financial institutions, deposits from the State, government structures and companies, as well as the high liquidity maintained.

2 BUSINESS FOCUS IN 2023

2.1 BULGARIAN DEVELOPMENT BANK

In July 2023, BDB and EIB signed a financial agreement for 175 million euros to support SMEs. The loan is backed by a state guarantee, approved by the Council of Ministers and ratified by the National Assembly of the Republic of Bulgaria. With the provided funds BDB will support companies with operations affected by disrupted supply chains, high electricity prices and the consequences of the war in Ukraine. Financing can be provided both directly and through the country's commercial banks, with at least 20% of the financing going to support the green transition, with an emphasis on renewable energy and energy efficiency projects.

Also in July 2023, an agreement regarding the InvestEU Guarantee Scheme of up to EUR 45.5 million provided through the European Investment Fund (EIF) to BDB and BDB Leasing was signed. InvestEU Programme guarantees granted through the EIF will support investments in climate resilience, innovation and digitalisation. It facilitates access to financing for riskier small and medium-sized companies, as well as for those who do not have sufficient collateral. The agreement between the financial institutions is expected to lead to the granting of loans with a total amount of EUR 77 million over a period of 2 years. The loans will be provided at preferential interest rates, and companies in the field of innovation and digitization will also be able to apply for them.

In November 2023, a guarantee agreement between the EU and Bulgarian Development Bank was signed, making the **Bank a EU Implementing Partner EU under the InvestEU Programme**. The total amount of funds that BDB will have at its disposal is EUR 125 million, with the source being the member state. An agreement for another EUR 40 million is expected to be signed in 2024, with the source being the European budget. With this guarantee of a total of 165 million euros, BDB expects to guarantee loans for SMEs and the development of sustainable infrastructure at the amount of more than EUR 1 billion.

BDB's credit activity is realized through both direct provision of loan funds and financing through programmes (products) for lending to commercial banks, which provide loans to SMEs and agricultural producers with the received funds, the so-called on-landing.

In 2023, the Bank created specialized programmes to support SMEs in the changing economic conditions. During the year, BDB developed and announced several products aimed at sectors and companies that face difficulties in financing from commercial banks:

- Green Energy Financing Programme;
- Rose Processing Programme – continued;
- SME financing programme with project proposals under European and national programmes
- Working Capital Financing for Construction Companies Programme;
- Direct financing with a guarantee under InvestEU;
- Programme to support households applying to replace their solid fuel energy sources (stove, boiler, fireplace or other) with renewable ones under the National Recovery and Sustainability Plan;

The Bulgarian Development Bank facilitates access to financing for small and medium-sized enterprises that have a riskier profile, contribute to the ecological transformation or the implementation of digital technologies. In partnership with the European Investment Fund and the European Commission under the InvestEU guarantee program BDB will have the opportunity to offer lending with reduced collateral requirements and a preferential interest rate. Enterprises can receive financing in three areas:

- Competitiveness of SMEs - aiming to facilitate the access and availability of debt financing for SMEs that have a higher risk profile or that lack sufficient collateral;
- Sustainability - to increase access to debt financing for SMEs and mid-cap companies which:
    - contribute to the ecological and sustainable transformation of the European economy

- are aimed at improving the accessibility of services, products and infrastructure, as well as at developing supporting technologies and providing access to the organization and its premises for customers and employees with disabilities and/or impaired functioning;

- Innovation and digitalisation - to improve access to financing for SMEs
  - with intensive research and development activity;
  - implementing digital technologies and the digital transformation of enterprises.
- The Bank provides:
  - Investment credit - for financing tangible and intangible assets, business transfers;
  - Working capital loan, including a revolving credit line;
  - Performance Guarantees - line for issuing guarantees or one-time guarantee;
  - The maximum amount is up to EUR 2,000,000 euros or BGN 3,911,599, including;
  - Minimum term of the loan: 12 months from the date of the loan agreement (BLA);
  - Maximum term of the loan: up to 12 years (144 months), but no later than 17 July 2037.

Program for direct financing of SMEs with project proposals under European and national programmes. Bulgarian Development Bank supports companies with projects under the National Recovery and Sustainability Plan (NRSP) and the European Structural and Investment Funds (ESIF). The new programme is in fulfilment of the Bank's strategic goals of supporting the implementation of government policies and contributing to increasing investment activity among small and medium-sized businesses. It replaces the Energy Efficiency of SMEs Programme and the Technological Modernization of SMEs Programme and provides a tool for accelerated utilization of EU funds, which will also support the green transition of the Bulgarian economy.

This is the Bank’s first credit programme developed entirely in sync with the business. Through this programme BDB provides access to resources for implementation of projects under European and national programmes, facilitating companies facing difficulties in starting their activities due to the lack of bridge or supplementary financing.

The Bank provides investment loans of up to BGN 5 million with a total term of up to 8 years and a grace period of up to 2 years included for companies applying for grants under national and European programmes. Companies approved for financing over BGN 2 million can additionally benefit from an unsecured working capital of up to BGN 200 thousand in addition to investment funds. The terms of both loans are preferential. BDB provides funding for the full cost of projects (100%) to already approved applicants, as well as up to 85% of costs for those who have not yet signed their grant contracts.

Direct Working Capital Financing for Construction Companies Programme. The Bank offers working capital financing for construction companies with contracts for construction and assembly works (CAW) with contractors, parties to grant contracts under national and European programmes. The scope is divided as follows:

- SCOPE 1 – projects under the National Recovery and Sustainability Plan *(NRSP) and the European Structural and Investment Funds (ESIF)*;
- SCOPE 2 – projects under Measure 7.6 Studies and investments related to the maintenance and restoration of the cultural and natural heritage of villages of the European Agricultural Fund for Rural Development (EAFRD).

Work under the Rose Processing Programme continued as it became a permanent programme of the Bank aiming to support a traditional export industry. Bulgarian rose oil is known as one of the most wanted and expensive on the international market, but in recent years the industry faces problems that lead to the accumulation of large stocks of the valuable product. The volume of the programme is BGN 20 million.

At the end of September 2023, BDB launched a new **Programme to support households** applying to replace their solid fuel energy sources (stove, boiler, fireplace or other) with renewable ones under the National Recovery and Sustainability Plan (on-lending). With the Bank's new measure, citizens will be able to receive targeted bridge financing of up to BGN 22 thousand for the installation of photovoltaic systems with a capacity of up to 10 kWp, as well as for the necessary electricity storage systems (batteries). Loans of up to BGN 3 thousand for delivery and installation of solar installations for domestic hot water supply will be granted under the programme. Loans will be for a term of up to 5 years, with a possibility of up to a 12-month grace period. No co-participation or physical collateral is required in favor of the BDB's partner banks. The loans will be granted by the commercial banks in the country which have signed guarantee agreements with BDB. They had to express their interest in participating in the programme by 26 October 2023.

3 RISK MANAGEMENT OF BDB

In the ordinary course of business, the BDB is exposed to various risks, the occurrence of which may lead to loss formation and a deterioration in the financial stability of the Bank. These risks are 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 Bank's profitability. The main risks to which the Bank is exposed are credit, market, liquidity and operational.

In managing the different types of risk arising from the activity, the Bank 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 Bank maintains significantly higher levels of liquidity buffers and capital adequacy than those regulatorily determined.

The “Risk Management and Control Policy of BDB EAD” and “Risk Strategy and Risk Appetite of BDB Group” set 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.

3.1 MAIN RISKS /AS OF 31 DECEMBER 2023/

3.1.1 Credit risks of BDB

The credit risk is the main risk, to which BDB is 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, reporting 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 are in line with 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 Bank'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, 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. 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 with internal rules set by the Bank, with a system of limits set by internal regulations of the Bank by economic sectors, by regions, 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 BDB.

3.1.2 Market risks of BDB

In managing currency risk, the BDB 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 Bank. In the management of assets and liabilities, due to its specific financing, the BDB 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 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 rates on the assets and liabilities of the Bank. Management and control of interest rate risk is 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 Bank'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.

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 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 for the purpose of investing available funds is characterized by relatively low interest rate risk and relatively liquid government securities and securities issued by reliable institutions. In 2023, the BDB did not maintain a trading portfolio 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 Bank 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 Bank'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. Compliance with liquidity ratio limits is monitored and reported regularly to the competent authorities.

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

3.1.3 Operational risk of BDB

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 financial performance of BDB are subject to strict 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 Bank.

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.

The operational risk assessment is supplemented by regular stress tests which evaluate the impact of highly negative shocks on the financial result and capital adequacy of BDB.

3.2 STRUCTURE OF RISK MANAGEMENT

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

- **Supervisory Board** - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is supported by specialized committees as follows:
  - Audit Committee (AC)
  - Risk Management Committee (RMC)
  - Remuneration committee
  - Recruitment committee

  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)
  - Committee on Impairments and Provisions (CIP)
  - Credit Committee for classified exposures (former name Legacy Credit Committee)

- Operational Risk Committee (RICO)
- Change Management Committee (CMC)
- Sustainability Committee

Detailed description of the functions of the committees at the SB and MB is presented in Part 7 Management of the Bulgarian Development Bank EAD.

- **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;
- **Regulatory Compliance and Control Division –** Regulatory Compliance and Control 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 current and future changes. Money Laundering and Fraud Prevention Division supervises the prevention of money laundering and terrorist financing;
- In accordance with the Rules and Procedures for Compliance Regulation at Bulgarian Development Bank the Regulatory Compliance and Control Department 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 regulatory documents at Group level are agreed by the Regulatory Compliance and Control Department, 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, Finances, Operations and MFI and European Funds.

4 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 2023, BDB has complied with all regulatory requirements of BNB and the Bulgarian legislation.

The Bank applies the guidelines, recommendations and other measures adopted by EBA which refer to it and for which BNB has announced that it complies with according to art. 79a, para 1, item 2 of Law on Credit Institutions (effective as of 5 December 2017).

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 European Central Bank.

Pursuant to those acts, the Single Resolution Board took over the supervision of planning of restructuring process with respect to the Bank. The Single Restructuring Mechanism as well as the European Bank Supervision are the main pillars of the banking union in the EU.

5 CONTROL ENVIRONMENT

BDB follows a management philosophy and operational style subordinated to the principles of conservatism in the implementation of the Bank's strategic objectives assigned under the BDB Act.

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 and risk-taking units - divisions "Corporate Clients", "Investment Banking and Project Financing", "Financial Instruments", "Problem Receivables" and "Treasury". Their activities are supported by the divisions "Legal", "Credit Administration", "Security", "Finance", "Operations" and "MFI and European Funds", which evaluate and analyze the implementation of internal and regulatory constraints and support the decision-making activity 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 and Regulatory Compliance and Control. 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.

Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Department controls the prevention of money laundering and terrorist financing. The second line of defense is organizationally independent of the first and exercises 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 assurance 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 informs the governing bodies of the Bank about the results of the statutory financial audit monitors the financial reporting processes, the effectiveness of the internal control environment, controls the creation and change of accounting policies by the Bank and subsidiaries of the Group in connection with the implementation of the audit of the consolidated financial statements 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); familiarizes itself with the audit strategy and audit plan of the statutory audit; monitors the implementation of the audit plan by providing recommendations to the Bank's management and auditors to remedy any difficulties; reviews the draft auditors' reports under art. 59 and art. 60 of the IFAA and the identified key audit matters, the findings made and the auditor's opinion expressed; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends its appointment; prepares an annual report and reports 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 corporate governance structure, which consists of Supervisory Board (SB) and Management Board (MB).

6.1 SUPERVISORY BOARD OF BDB IN 2023, AS OF 31 DECEMBER 2023 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

As of the date of approval of this declaration the Supervisory Board consists of:

Rosen Andreev Karadimov – chairman of the SB from 14 November 2022.

Ass. Dr. Rosen Karadimov is a lecturer at the Law Faculty of Sofia University "St. Kliment Ohridski" since 1991. Chairman of the Management Board of the Institute for New Economic Progress. He was a Member of Parliament in the VII Grand National Assembly, participated in the adoption of the Constitution of the Republic of Bulgaria in 1991.

As a member of the 36th National Assembly he participated in the adoption of the BNB Act (1991), the Banks and Credit Act (1992), the Commerce Act (1991). Rosen Karadimov was a legal consultant and legal representative of a number of credit institutions, including BDB.

Delyana Valerieva Ivanova – Deputy- chairman – and member of the SB from 14 November 2022.

Delyana Ivanova is Deputy Minister of Regional Development in the period 2021-2022. Before entering the executive branch, she was a Member of Parliament in the 45th and 46th National Assembly and a member of the Budget and Finance Committee. Her professional expertise is in the field of banking and finance.

Stamen Stamenov Yanev – member of the SB from 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.

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

- Risk Management Committee – comprising three members, the chairman and the members of the Committee are 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; 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; 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;

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; assesses 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, elected by the sole owner of the Bank's capital. The Audit Committee notifies the management bodies of the Bank of the results from the statutory audit, oversees the financial reporting process, oversees the effectiveness of internal control environment, oversees the establishment and change of accounting policies by the Bank and the Group's subsidiaries in relation to the audit of the consolidated financial statements 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 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 and auditors for elimination of difficulties; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act and identified key audit matters, findings and expressed audit opinion; 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 three members, the chairman and the members of the Committee are 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 Regulatory 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 Regulatory Compliance Division.

- Recruitment Committee – comprising three members, the chairman and the members of the Committee are 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 Recruitment 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 2023 and as of the date of approval of this declaration is as follows:

	Risk Management Committee	**Recruitment Committee**	**Remuneration Committee**
Rosen Andreev Karadimov	Member	Member	Chairperson*
Delyana Valerieva Ivanova	Member	Chairperson	Member
Stamen Stamenov Yanev	Chairperson	Member	Member

* Rosen Karadimov has been elected for a Chairperson of the Remuneration Committee on 25 January 2023

On 9 April 2024 Mr. Rosen Karadimov was sworn in as Minister of Innovation and Growth.

6.2 AUDIT COMMITTEE IN 2023, AS OF 31.12.2023 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

Svetlana Hristova Kourteva – Chairperson of the Audit Committee since 1 January 2023.

Svetlana Kourteva has higher economic education in Internal Trade and postgraduate Studies from Karl Marx Higher Institute of Economics. The professional expertise of Svetlana Kurteva is in the field of financial audit. She is a certified public accountant and a registered auditor. She has carried out financial audits of projects funded by the European Union under the Operational Program "Development of the Competitiveness of the Bulgarian Economy', Operational Program "Innovation and Competitiveness", Tempus project "Training in the field of Nanotechnologies", Erasmus+ "Capacity Building in the Field of Higher Education".

Svetlodara Encheva Petrova - Member of the Audit Committee since 1 January 2023.

Svetlodara Petrova has a Master's degree in Law. She is a lawyer with extensive experience in the field of civil, contractual and commercial law. She provides consulting services under the Public Procurement Act, on commercial insolvency and corporate transformations.

Delyana Valerieva Ivanova - Member of the Audit Committee since 1 January 2023.

Delyana Ivanova has a Master's degree in Organizational Development and a Bachelor's degree in Business Management from St. Kliment Ohridski University of Sofia. Delyana Ivanova's professional expertise is in the field of banking and finance. She was Deputy Minister of Regional Development in the period 2021-2022. Before entering the executive power, she was a Member of Parliament in the 45th and 46th National Assembly and a member of the Budget and Finance Committee.

6.3 MANAGEMENT BOARD OF BDB IN 2023, AS OF 31 DECEMBER 2023 AND AS OF THE DATE OF THIS DECLARATION:

At the date of approval of this declaration, the Management Board is composed as follows:

Iliya Zapryanov Karanikolov - Chairman of the Management Board and Executive Director as of 20 January 2023

Iliya Karanikolov has over 20 years of banking and financial experience and knows BDB well, as he was a member of the Management Board and Executive Director in the period 2011-2013. From 2007 to 2011 he was part of the team of Eurobank Bulgaria (Postbank). His professional biography goes through the Ministry of Economy and Energy and the Ministry of Labour and Social Policy. He has extensive expertise in areas such as public administration, European integration, EU strategies and programmes. Lecturer on topics such as cost-benefit analysis of large infrastructure, municipal and private projects, control of structural funds, financial instruments, etc.
From 2016 to 2017 he was part of the management of the Fund of Funds, where he held the position of Deputy Chairman of the Management Board and Executive Director, and in 2021 he was Chairman of the Supervisory Board of the Fund. Since 2020 he has been Head of the Financial Instruments Division at BDB.

Iliya Karanikolov has a Master's degree in Business Management and Administration (MBA) from the University of National and World Economy in Sofia and has specializations in the field of artificial intelligence (University of Helsinki), management of financial instruments (London), credit risk (Prague), management of structural funds (Brussels, Maastricht, Dublin) and many others.

Ivan Valentinov Cserovski - Member of the Management Board and Executive Director as of 20 January 2023

Ivan Cerovski has 18 years of experience in the field of banking and private equity. His professional path goes through the German financial institutions Commerzbank, Deutsche Börse and Dresdner Bank. Cerovski was an associate investor in the UK private equity fund Argus Capital, where he was responsible for the Bulgarian market, as well as vice president of the Bulgarian equity fund Delta Capital.

From 2011 to 2021 he was part of the team of the European Bank for Reconstruction and Development (EBRD), where he was Head of the EBRD's Local Entrepreneurship Programme, responsible for the development of the SME sector in Bulgaria.

Ivan Cerovski holds a Master's degree in Management from Otto-von-Guericke University in Magdeburg, Germany, and a Bachelor in Macroeconomics from the University of National and World Economy.

Tsanko Rumenov Arabadzhiev – Member of the MB and executive director from 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.

Teodora Petrova Pesheva – By decision of the Supervisory Board under Protocol No.11 dated 19 March 2024 Teodora Petrova Pesheva was elected as a new member of the Management Board of BDB. This circumstance was entered into the Commercial Register and the register of non-profit legal entities on 25 March 2024.

In 2023 the following members participated in the composition of the Management Board:

Mariana Dimitrova Petkova – Chairman of the MB (from 13 June 2022 to 12 January 2023) and executive director from 13 June 2022 to 16 March 2023.

Mariana Petkova has over 28 years of international experience in the banking system. She holds a Bachelor's degree in Socio-Economic Planning from the University of National and World Economy, where she specialized in international marketing. She has outstanding expertise in the field of accounting policy and reporting, as well as in the construction and development of banking software. She has held managerial positions in the accounting departments of First Investment Bank and ProCredit Bank. From 2006 to 2021, Mariana Petkova managed ProCredit Bank. In 2008 she graduated from the Corporate Academy for Managers at Procredit Academy in Frankfurt, Germany.

She was consecutively Executive Director and Member of the Management Board at the Bulgarian branch of the Bank, and Deputy CEO and CEO of ProCredit Bank in Romania. Skilfully organizes the activity of optimizing the processes and cost structure in the bank, and controls the process of implementing the business strategy and building a stable and quality customer base in the "Small and Medium Enterprises" segment.

Krum Georgiev Georgiev – Member of the MB from 7 July 2021 to 14 February 2023.

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.

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

In 2023, there were no changes in the basic principles of governance in BDB.

6.4 COMMITTEES OF THE MANAGEMENT BOARD

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

- **Assets and Liabilities Management Committee (ALCO) –** it is responsible for the management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations; determines strategy for attracting funds, and the loan pricing approach respectively, in order to ensure adequate margin above the cost of the resource; makes decisions regarding the Bank's strategic liquidity in order to ensure regular and timely meeting of current and future obligations both in normal conditions and in a liquidity crisis; determines the structure of liquidity buffers and sources of additional financing;
- **Committee on Impairments and Provisions (CIP)** controls the process of monitoring, evaluating, and classifying financial instruments, determining expected credit losses and forming impairment in accordance with the applicable financial reporting standards and internal regulations;
- **Credit Committee for classified exposures** – is a collective body that has functions and powers in relation to exposures in the amount of over BGN 5 million to one party or a group of related parties to the BDB Group, advises the Bank's Management Board by proposing draft decisions on issues within its competences, takes decisions on operational issues, outside the competences of the Management Board and the Supervisory Board;
- **Operational Risk Committee (ORC)** – the committee has been functioning since 23.04.2023. The purpose of ORC is to ensure an adequate operational level of risk monitoring and management by MB, to carry out effective identification, measurement, assessment and control of risks by MB and to create a sustainable organizational structure, in accordance with the principle of proportionality and the risk management framework in the BDB Group (the Bank and its subsidiaries).

- **Change Management Committee (CMC)** – The committee approves and/or rejects the launch of each application/initiated change request and defines the strategic framework and guiding principles for each project, as well as its main priorities. Designates a Manager for each project, as well as the roles and responsibilities of all participants in the implementation of the change/project, approves project plans and monitors the progress of implementation until their final approval.
- **Sustainability Committee** – The Sustainability Committee provides strategic guidance on the Bank's sustainable development issues, implementation of the ESG framework (principles and characteristics) and related reporting and reporting activities. Monitors the implementation of the Bank's goals and policies in the field of sustainable development and advises the Bank's Management Board on issues in the field of sustainable development, including the introduction of "green" lending practices and monitoring the implementation of goals in relation to sustainable development.

As of 31 December 2023, and the date of preparation of the Declaration the MB Committees consist of the following members:

MB Committees	**Operational Risk Committee (ORC)**	**Assets and Liabilities Management Committee**	**Credit Committee for classified exposures ***	**Committee on Impairments and Provisions**	**Change Management Committee**	**Sustainability Committee**
Iliya Karanikolov	Chairman	Member	Chairman	-	-	-
Ivan Cerovski	-	Member	Member	-	-	-
Tsanko Arabadzhiev	-	Chairman	Member	-	-	-
Head of Finance Department	Member	Member	-	Chairman	Member	Member
Head of Reporting, Finance Division	Member	-	-	-	-	-
Head of Corporate Clients Division	-	-	Member	Member	-	Member
Head of Monitoring Department, Corporate Clients Division	-	-	Member	-	-	-
Head of Investment Banking and Project Financing Division	Member	-	-	Member	-	-
Head of Risk Division	Member	Member	Member	Member	-	Member
Head of Risk Control	Member	-	-	-	-	-

MB Committees	**Operational Risk Committee (ORC)**	**Assets and Liabilities Management Committee**	**Credit Committee for classified exposures ***	**Committee on Impairments and Provisions**	**Change Management Committee**	**Sustainability Committee**
Department/ Risk Division						
Head of Market, liquidity and operational risk department, Risk Division	Member	Member	-	-	-	-
Head of Problem Receivables Division	Member	-	Member	Member	-	-
Head of Treasury Department	Member	Member	-	-	-	-
Head of International Financial Institutions and European Funds Division	-	Member	-	-	-	-
Head of Legal Division	-	-	Member	-	-	Member
Head of Financial Instruments Division	Member	Member	-	Member	-	-
Head of Regulatory Compliance and Control Division	Member	-	-	-	-	-
Head of Security Division	Member	-	-	-	-	-
HHead of Operations Division	Member	-	-	-	-	-
Head of IT Division	-	-	-	-	Member	-
Head of Methodology and Management Division	-	-	-	-	Chairman	-
Head of Strategic Development and Green Policies Division	-	-	-	-	-	Chairman

* The Chairperson is elected by the members for a period of one year.

6.5 CONTRACTS WITH RELATED PARTIES, PARTICIPATING IN THE MANAGEMENT AND PARTICIPATION OF MEMBERS OF THE MB AND SB OF THE BANK IN OTHER COMPANIES

There are no concluded contracts within the meaning of Art. 240b of the Commercial Law between the members of the SB, the MB or parties related to them, on the one hand, and the Bank - on the other, which go beyond the usual activity or significantly deviate from the market conditions.

In 2023, there are no concluded transactions or proposals to conclude such transactions between BDB and related parties that are outside the usual business or materially deviate from the market conditions to which BDB or its subsidiary is a party.

There are no concluded material contracts that take effect, are amended or terminated due to a change in control of - or over the Bank, or as a result of a mandatory tender offer. To the extent that there is a statutory limitation on BDB's shareholding structure, no such contracts are expected to arise.

There is no practice of concluding agreements between BDB and its management bodies and/or employees for the payment of compensation upon leaving or dismissal without legal grounds, or upon termination of employment for reasons related to a tender offer.

Participation within the meaning of Art. 247, para. 2, item 4 of the Commercial Law of members of the SB and the MB in commercial companies as general partners, owning more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers or members of boards is as follows (as of 31 December 2023 and as of the date of approval of this declaration):

6.5.1 Supervisory Board

With regard to the members of the SB of the Bank who have participated in its composition as members in 2023 and as of the date of approval of this declaration:

Rosen Andreev Karadimov, Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 14 November 2022.

Participation in the management of other companies: none

Participation with over 25 % of the capital in trade companies or cooperations, including as general partner: none.

Delyana Valerieva Ivanova, Deputy-Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 14 November 2022.

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

Stamen Stamenov Yanev – Member of the Supervisory Board of Bulgarian Development Bank EAD from 26 August 2020.

Participation in the management of trade companies: none

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

6.5.2 Management Board

With regard to the members of the MB of the Bank who have participated in its composition as members in 2023 and as of the date of approval of this declaration:

Iliya Zapryanov Karanikolov – Chairman of the Management Board and Executive Director of the Bulgarian Development Bank EAD from 20 January 2023.

Participation in the management of other companies: none

Participation in the capital of commercial companies or cooperatives:

- IntelArt EOD, UIC: 205318749 – sole owner of capital.

Ivan Valentinov Cserovski – Member of the Management Board and Executive Director of Bulgarian Development Bank EAD from 20 January 2023.

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 17 March 2023.
- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 17 March 2023;

Participation in the capital of commercial companies or cooperatives:

- High Tower Capital EOOD, UIC: 206864466 – sole owner of capital.

Tsanko Rumenov Arabadzhiev – Executive Director and member of the Management Board of Bulgarian Development Bank EAD from 7 July 2021.

Participation in the management of other companies:

- Capital Investments Fund AD, UIC: 205322014 – member of the Board of Directors – from 5 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – from 22 March 2023;

On 22 September 2021 Tsanko Arabadzhiev was elected as member of the Supervisory Board of Investment Fund "Three Seas".

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

Teodora Petrova Pesheva – member of the Management Board of Bulgarian Development Bank EAD from 25 March 2024.

Participation in the management of other companies: none

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

Mariana Dimitrova Petkova – Chairman of the Management Board (from 13 June 2022 to 12 January 2023) and Executive Director of Bulgarian Development Bank EAD from 13 June 2022 to 16 March 2023.

Participation in the management of other companies:

BDB Microfinancing EAD, UIC: 201390740 – member of the Board of Directors – from 23 June 2022 until 26 July 2023.

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

Krum Georgiev Georgiev – member of the Management Board of the Bulgarian Development Bank EAD from 7 July 2021 to 14 February 2023.

Participation in the management of other companies:

- BDB Leasing EAD, UIC: 205565411 – member of the Board of Directors - from 23 August 2021 to 17 March 2023;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 6 July 2022 to 17 March 2023;

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

The financial statements disclose information on the full amount of remuneration, awards and/or benefits of the members of the Bank's management and control bodies for the reporting financial year.

7 TRANSACTIONS WITH COMPANIES UNDER JOINT CONTROL OF THE STATE

The owner of BDB is the Bulgarian state. Transactions with companies under the common control with the state are disclosed in detail in the separate financial statements of BDB.

In 2023, BDB has no material contracts that are effective, amended or terminated due to a change in control or as a result of a mandatory tender offer, and no such contracts are expected to occur.

8 STRATEGY OF DEVELOPMENT OF BDB AND BUSINESS GOALS

The activities of the BDB Group aim to create a sustainable and complete market for financial products and services for SMEs through: project financing, loans for micro and SMEs (working capital and investments), individual guarantees and portfolio guarantees of commercial banks from loans to SMEs, operating leasing, share capital, etc.

The strategy of BDB EAD 2021 - 2023 was adopted by a decision of the Council of Ministers on 15 April 2021. In the early spring of 2021, a decision was taken for the Bank to return to its priorities set out in the BDBA and to focus its activities on the main target group - SMEs.

In 2023, the Strategy 2021-2023, adopted by a decision of the Council of Ministers of 29 July 2022, continues to be in effect. By decision of the Supervisory Board of BDB of 20 December 2023, it is proposed to the principal to extend its period of application by another 12 months. According to the document, BDB follows the following **strategic goals**:

1. Provide access to a variety of tools for SMEs, especially in cases of inefficient markets.
2. To support and finance the export and internationalisation of SMEs.
3. To finance the transition of SMEs to a green, circular and sustainable economy, incl. and through projects for social infrastructure and preservation of cultural and historical heritage.
4. To facilitate access to loans and capital for company innovation, technological innovation and digitalization.

BDB's activities in 2023 are influenced by the dynamics of the business environment and the economic trends, characterized by turbulence in global economic forces. The main focus continues to be on financing viable SMEs that have growth potential but face difficulties in accessing finance due to a higher risk profile and the need for support to cope with economic shocks.

BDB aims to create a sustainable and complete market for financial products and services for SMEs through a variety of instruments. The Bank lends to businesses directly and indirectly through products with typical characteristics aimed at areas with identified market disadvantage and suboptimal market solutions.

In 2023, BDB successfully implemented most of the planned activities. Significant progress has been made in the implementation of the strategic objective "Financing the transition of SMEs to a green, circular and sustainable economy". Through the transfer of good market practices for building a comprehensive green finance management system under the 9-month Green Gateway project, the Bank's employees were trained in the field of ESG and the criteria for green projects.

During the period, the main lever for mobilizing private investments are the projects under the National Recovery and Resilience Plan (NRRP). The Bank structures programs and financial instruments to support the utilization of public resources and increase business investments.

For each of the selected Sustainable Development Goals (SDGs), the Bank has started to report its contribution. The most significant one is with regard to Goal 7 "Affordable and clean energy", and through a green energy financing program, the Bank finances the construction of 34.4 MW of solar parks. The green energy infrastructure is supported by 72 new implemented projects for the amount of BGN 40.2 million.

During the period, the Bank strengthened existing partnerships and established new ones with business and academia. In order to improve the dialogue with the business, an Advisory Board was established at the Supervisory Board of the Bank with members of nationally representative employers' organizations, as well as Podkrepa, National Association of Municipalities of the Republic of Bulgaria and Confederation of Independent Trae Unions in Bulgaria. Its main functions are related to recommendations on strategic issues of the Bank's activities, good practices in the development of financial instruments and programs and promotion of the Bank's activities by regions.

Memorandums of cooperation were signed with the UNWE and the NSI, with the Faculty of Economics at Sofia University (the Bank participates in the Academy for Sustainable Finance), the Bulgarian Stock Exchange (under a pilot investment fund with the Capital Investment Fund), the Patent Office.

9 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 ecology, education, culture, entrepreneurship and healthcare.

9.1 ENTREPRENEURSHIP

In the context of supporting innovative start-ups, BDB was a partner of the **Beam UP lab** accelerator program on the Bulgarian Stock Exchange for the third year in a row. Its goal is to distinguish innovative Bulgarian companies with sustainable business models, to give them visibility to potential investors, as well as to increase their knowledge of financing opportunities.

In 2023, BDB continued its active participation in events and forums aimed at developing the entrepreneurial ecosystem. The Bank **hosted a meeting with associations and venture capital funds**, as well as a **meeting on the protection of business intellectual property**, with the participation of the Executive Director of the European Union Intellectual Property Office (EUIPO) Andrea Di Carlo.

9.2 CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

In 2023, BDB became a partner of the world-famous **LUNAR Festival of Lights**. On May 11, a 3D mapping show "The Infinite Universe" was projected on the impressive building, designed by the Czech Antonín Kolar after the Liberation. The façade of BDB was also chosen as a screen of art by the legendary Bulgarian illustrator Tekla Alexieva, known from the covers of Library Galactica.

BDB also supported the year-round **mentoring program "Bulgaria's Hidden Talents",** which gives a chance for university application or professional realization to talented young people deprived of parental care or socially disadvantaged families. The program provides access to private lessons, seminars, work with an individual mentor, scholarships, textbooks and everything necessary for the success of each talented young person in the program.

9.3 VULNERABLE GROUPS

As part of its corporate social responsibility, BDB has helped a number of foundations and causes, created partnerships with organizations, prospects and chances for a better future, and has built a reputation over the years for its commitment to issues important to our society. As a continuation of this practice, in 2023 it supported **For Our Children** Foundation, which for three decades brings together early childhood development professionals, psychologists, physiotherapists, speech therapists, rehabilitators, special educators and people dedicated to the mission of supporting children's development.

National Foundation "St. Nicholas" is one of the oldest humanitarian non-governmental organizations that supports homes for abandoned children, the elderly and people with disabilities, and BDB traditionally supports the Christmas and Easter campaigns of the foundation.

The Bulgarian Development Bank has always responded to sudden and severe events causing health and humanitarian crises, such as the **flood in Tsarevo** last year, which caused serious material damage and led to the loss of human lives. The Bank assisted the Municipality of Tsarevo in its efforts to provide timely assistance to people affected by the disaster.

9.4 HEALTH CARE

The Bank continues to be a partner of the Presidential Initiative **"Bulgarian Christmas",** which aims to provide a solution to problems related to hospital care and children's healthcare. It supports the treatment of hundreds of children, their recovery after serious illnesses and surgeries, provides funds for diagnostics and modern equipment for hospitals in the country.

Treatment and healing depend equally on the conditions and quality of treatment, but also on the emotional state of children, for whom medical manipulations increase the risk of permanent emotional trauma. **The "Firefly" campaign of the "For the Good" Foundation** is looking for a solution to this problem. Within the framework of the initiative, hospital rooms are being repaired and painted, separate spaces are being built where children can have fun with reading books, drawing materials, "home theater", walls for drawing, etc. The campaign includes good practices and training for working with children by the staff. The continuation of support of the BDB for "Firefly" in 2023 provides an opportunity for the foundation to implement projects in more hospitals in the country.

About 200 children from all over Bulgaria are waiting for admission to **the Ear, Nose and Throat Clinic of ISUL.** It is the only one in Western Bulgaria where cochlear implants are placed for children with hearing impairments, but it has only 11 beds. BDB supported the expansion and renovation of the children's ENT department at the University Hospital.

BDB also joined with the support of **the Danae Foundation**, established in memory of 15-year-old Danaya, who lost the battle for her life, but saved 4 other lives through donation and continued to be an engine of good. The goals of the foundation are the integration of modern standards in children's healthcare and the construction of a functional and well-functioning children's hospital in Bulgaria.

9.5 ECOLOGY

Environmental protection and the fight against climate change are fundamental for corporate values and an emphasis in the work of the Bulgarian Development Bank. During the year, it was an active participant in events dedicated to green transformation and sustainable investments such as **The Green Transition, Be Renewable, Green Smart Growth and other conferences.**

In line with its "green" vision, BDB strives to reduce its own impact on the environment. Over the past year, the Bank has managed to reduce its carbon emissions by 105 tons compared to the previous year and to organize a **series of green initiatives** that contribute to a clean environment. In two consecutive actions, the Bank's employees worked on the renewal and renovation of recreation areas in the Forest Park "Zapaden Park" and in the "Golden Bridges" area in Vitosha Park. The eco-action in the autumn was aimed at increasing the "green lungs" of Sofia by planting a grove of Japanese sour cherries, cedars and ash trees in the South Park.

This Corporate Governance Statement is current as of 20.05.2024 and is signed by:

ILIYA KARANIKOLOV	**IVAN CEROVSKI**	**TSANKO ARABADZHIEV**
MEMBER OF THE MB AND EXECUTIVE DIRECTOR	**MEMBER OF THE MB AND EXECUTIVE DIRECTOR**	**MEMBER OF THE MB AND EXECUTIVE DIRECTOR**

BULGARIAN DEVELOPMENT BANK EAD

INDEPENDENT AUDITORS' REPORT AND

ANNUAL SEPARATE FINANCIAL STATEMENTS

31 December 2023

Unofficial translation from Bulgarian

Deloitte. GrantThornton

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian original 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, 2023, 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 material accounting policy information 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, 2023, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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*
Expected credit loss on 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, 2023 loans and advances to customers at the gross amount of BGN 1,620,386 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 237,753 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. The determination of expected credit losses for loans and advances assessed on individual basis is	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 applied by the Bank. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the

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.	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 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, 2023 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 future cash flows under the programs and taking into account their specifics.	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. 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.

As disclosed in note 32 to the separate financial statements, the calculated provisions as of December 31, 2023 amount to BGN 111,845 thousand for guarantees on loans to companies and loans to individuals. 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 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 separate management report on the 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 IFRSs as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 separate management report on the activities and the corporate governance statement, we have also performed the procedures, together with the required under ISAs, 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 separate management report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual separate management 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 December 31, 2023 by a decision of the sole shareholder taken on December 15, 2023 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2023 represents fifth 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 separate management 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 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 separate management report on activities or separate financial statements:

  - Professional services on the application of BNB Ordinance 10 for the period January 1 – December 31, 2023, in accordance with the requirements of the Law on Credit Institutions.

Deloitte Audit OOD	Grant Thornton OOD
Deloitte Audit OOD	
Rositsa Boteva Statutory Manager Registered Auditor, in charge of the audit	Silvia Dinova Registered Auditor, in charge of the audit
ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД	ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД
	Mariy Apostolov Statutory Manager
4, Mihail Tenev Str. 1784 Sofia, Bulgaria	26, Cherni Vrah Blvd. 1421 Sofia, Bulgaria

May 21, 2024

BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2023

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2023	As of 31.12.2022
Assets			
Cash in hand and balances in current accounts with Central Banks	17	128,662	527,836
Financial assets at amortized cost - Receivables from banks	18	513,867	139,305
Financial assets at amortized cost – Loans and advances to customers	19	1,382,633	1,502,860
Financial assets at amortized cost - Receivables from the State budget	20	14,262	23,537
Financial assets at amortized cost – Securities	21	1,622	1,745
Financial assets at fair value through other comprehensive income – Debt instruments	22	365,458	494,919
Financial assets at fair value through other comprehensive income – Equity instruments	22	121,000	83,728
Investments in subsidiaries	23	166,968	166,968
Property, plant and equipment and intangible assets	24	36,034	58,829
Investment property	25	5,351	8,221
Assets held for sale	26	-	2,561
Assets, acquired from collateral foreclosure	27	38,726	37,434
Other assets	27	4,812	5,522
Deferred tax assets	15	7,998	12,321
Total assets		**2,787,393**	**3,065,786**
Liabilities			
Borrowings from international institutions	30	581,931	779,497
Deposits from customers other than credit institutions	29	650,167	994,068
Deposits from credit institutions	28	209,918	2,641
Other borrowings	31	16,818	16,608
Provisions	32	119,043	132,996
Lease liabilities	33	208	299
Other liabilities	34	5,299	5,404
Total liabilities		**1,583,384**	**1,931,513**
Equity			
Share capital	35	1,135,500	1,441,774
Accumulated loss		(179,789)	(211,369)
Revaluation reserve on financial assets at fair value through other comprehensive income	22, 36	(57,286)	(95,455)
Reserves	36	305,584	(677)
Total equity		**1,204,009**	**1,134,273**
Total liabilities and equity		**2,787,393**	**3,065,786**

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 20 May 2024.

Iliya Karanikolov	**Ivan Cerovski**	**Tsanko Arabadzhiev**	**Dimitar Mitev**	**Ivan Lichev**
Executive Director	*Executive Director*	*Executive Director*	*Head of Finance*	*Chief Accountant Preparer*

Auditors' report on the separate financial statements issued on 21 May 2024.

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**, Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2023	2022
Interest income	6	117,940	77,227
Interest expense	6	(51,032)	(18,817)
Net interest income	6	**66,908**	**58,410**
Fee and commission income	7	4,719	4,496
Fee and commission expense	7	(2,869)	(3,660)
Net fee and commission income	7	**1,850**	**836**
Net gain from foreign exchange transactions	8	258	524
Net loss from financial assets at fair value through other comprehensive income	9	(11)	(851)
Other operating income	10	29,561	2,952
Other operating expenses	11	(21,915)	(1,062)
Operating profit before impairment, personnel expenses, administrative expenses, depreciation and amortization		**76,651**	**60,809**
Expenses for impairment and provisions on financial instruments	12A	(16,870)	(1,308)
Expenses for impairment and provisions on non-financial assets	12B	(448)	(6,589)
Provisions for lawsuits	12C	67	(4,017)
Operating profit before personnel expenses, administrative expenses, depreciation and amortization		**59,400**	**48,895**
Employee benefits expenses	13	(16,157)	(16,442)
General and administrative expenses	14	(8,850)	(9,533)
Depreciation and amortization expenses	24	(2,732)	(3,006)
Profit before income tax		**31,661**	**19,914**
Income tax (expense)/benefit	15	(81)	305
Net profit for the year		**31,580**	**20,219**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial (loss)/gain on defined benefit plans, net of taxes	34	(12)	172
Net change in fair value of equity instruments at fair value through other comprehensive income	16, 22	24,448	10,610
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value of debt instruments at fair value through other comprehensive income	16, 22	13,721	(31,457)
Total other comprehensive income for the year, net of tax		**38,157**	**(20,675)**
Total comprehensive income for the year		**69,737**	**(456)**

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 20 May 2024.

Iliya Karanikolov	**Ivan Cerovski**	**Tsanko Arabadzhiev**	**Dimitar Mitev**	**Ivan Lichev**
Executive Director	*Executive Director*	*Executive Director*	*Head of Finance*	*Chief Accountant Preparer*

Auditors' report on the separate financial statements issued on 21 May 2024.

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**, Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

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	Accumulated loss	Total
As of 1 January 2022	**1,441,774**	**74,939**	**80,148**	**(74,608)**	**(386,706)**	**1,135,547**
Net profit for the year	-	-	-	-	20,219	**20,219**
Other comprehensive income, net of taxes	-	-	172	(20,847)	-	**(20,675)**
Total comprehensive income for the year	**-**	**-**	**172**	**(20,847)**	**20,219**	**(456)**
Acquisition of BDB Factoring	-	-	(818)	-	-	**(818)**
Total transactions with the sole owner	**-**	**-**	**(818)**	**-**	**-**	**(818)**
Transfer to accumulated loss	**-**	**(74,939)**	**(80,179)**	**-**	**155,118**	**-**
As of 31 December 2022	**1,441,774**	**-**	**(677)**	**(95,455)**	**(211,369)**	**1,134,273**
Net profit for the year	-	-	-	-	31,580	**31,580**
Other comprehensive income, net of taxes	-	-	(12)	38,169	-	**38,157**
Total comprehensive income for the year	**-**	**-**	**(12)**	**38,169**	**31,580**	**69,737**
Decrease of share capital	(306,274)	-	306,274	-	-	**-**
Total transactions with the sole owner	**(306,274)**	**-**	**306,274**	**-**	**-**	**-**
Other changes in equity	-	-	(1)	-	-	**(1)**
As of 31 December 2023	**1,135,500**	**-**	**305,584**	**(57,286)**	**(179,789)**	**1,204,009**

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 20 May 2024.

Iliya Karanikolov
Executive Director

Ivan Cerovski
Executive Director

Tsanko Arabadzhiev
Executive Director

Dimitar Mitev
Head of Finance

Ivan Lichev
Chief Accountant
Preparer

Auditors' report on the separate financial statements issued on 21 May 2024.

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**, Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2023	2022
Cash flows from operating activities			
Profit for the year before taxes		31,661	19,914
Adjustments for:			
Dividend income	10	(2,588)	(127)
Impairment loss on loans	12	21,884	44,451
Expenses for guarantee provisions and unutilized credit commitments	12	(4,544)	(46,330)
Impairment (gains)/losses on financial assets at fair value through other comprehensive income	12	(445)	3,170
Impairment loss on investments in subsidiaries	12	-	5,290
Impairment (gains)/losses on financial assets at amortized cost	12	(25)	16
Losses/(gains) on revaluation of investment properties	10, 11	16	(869)
Gain on sale of properties, acquired from collateral foreclosure	10	(3,116)	(817)
Impairment loss and sale of other assets	12	448	149
Net loss on revaluation of foreign currency assets and liabilities	8	3	22
Depreciation and amortization expenses	24	2,732	3,006
Carrying amount of written-off assets		21,136	11
		67,162	**27,886**
Changes in:			
Financial assets at amortized cost - Receivables from banks		12,209	246,726
Financial assets at amortized cost - Loans and advances to customers		98,613	22,520
Financial assets at amortized cost - Receivables from the State budget		9,167	(4,742)
Financial assets at fair value through other comprehensive income		135,118	48,589
Assets held for sale		(1,613)	(4,333)
Other assets		710	(1,190)
Deposits from credit institutions		207,277	922
Deposits from customers other than credit institutions		(343,901)	112,395
Provisions		(9,409)	1,579
Other liabilities		(208)	1,357
Cash flows from operating activities		**175,125**	**451,709**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2023	2022
Cash flows from investing activities			
Cash payments for purchase of property, plant and equipment, and intangible assets		(1,104)	(1,049)
Proceeds from sale of investment properties		4,570	-
Proceeds from sale and improvements of collateral assets		3,865	3,981
Dividends received form subsidiaries	10	2,515	-
Net cash flows from investing activities		**9,846**	**2,932**
Cash flows from financing activities			
Cash received from other borrowings	38	330	160
Cash repayment of borrowings from international institutions	38	(197,566)	(331,243)
Cash repayment of other borrowings	38	(120)	(298)
Net cash flows used in financing activities		**(197,356)**	**(331,381)**
Net change in cash and cash equivalents for the period		**(12,385)**	**123,260**
Cash and cash equivalents at the beginning of the year	38	609,141	485,881
Cash and cash equivalents at the end of the year	**38**	**596,756**	**609,141**
Operating cash flows related to interest			
Interest received		101,287	75,518
Interest paid		(49,287)	(17,823)

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 20 May 2024.

Iliya Karanikolov *Executive Director*	**Ivan Cerovski** *Executive Director*	**Tsanko Arabadzhiev** *Executive Director*	**Dimitar Mitev** *Head of Finance*	**Ivan Lichev** *Chief Accountant* *Preparer*

Auditors' report on the separate financial statements issued on 21 May 2024.

Deloitte Audit OOD, auditing company

Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

Grant Thornton OOD, auditing company

***Silvia Dinova**, Registered Auditor, in charge of the audit*

***Mariy Apostolov**, Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТЪН ООД

1. ORGANISATION AND OPERATING POLICY

The separate financial statements of Bulgarian Development Bank EAD ("BDB", "the Bank") for the year ending 31 December 2023 are approved for issue according to a decision under Protocol No 29 of the Management Board of 20 May 2024 and Protocol No 19 of the Supervisory Board of 21 May 2024.

Bulgarian Development Bank EAD is a solely owned joint-stock company registered with the Commercial register and register of non-profit legal entities 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 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;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad;
- participation in public and public-private projects or partnerships of strategic, national and/or regional importance.

1. ORGANISATION AND OPERATING POLICY (CONTINUED)

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 misbalances 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;
- 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.

Bulgarian Development Bank EAD has a two-tier system of governance, which comprises Supervisory Board (SB) and Management Board (MB).

As of 31 December 2023, the members of the Supervisory Board of BDB are: Rosen Andreev Karadimov – Chairman of SB, Delyana Valerieva Ivanova – Deputy Chairman of SB, Stamen Stamenov Yanev – Deputy Chairman of SB.

As of 31 December 2023, the Management Board of BDB comprises: Iliya Zapryanov Karanikolov– member of the MB and Executive Director; Tsanko Rumenov Arabadzhiev - member of MB and Executive Director and Ivan Valentinov Cerovski - 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 2023, the Bank does not have a procurator.

As of 31 December 2023, the Bank’s employees were 201 (31.12.2022: 233).

As of 31 December 2023, Bulgarian Development Bank EAD has no branches.

1. ORGANISATION AND OPERATING POLICY (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 7 August 2023 the International rating agency Fitch Ratings confirmed the credit rating of Bulgarian Development Bank EAD – BBB, with positive outlook. The Bank's rating is equal to the Bulgarian State rating and practically it is the highest possible credit rating for BDB.

The assessment is based on the good capital position of BDB, high probability and the availability of fiscal space for support from the owner - the Bulgarian State, stable financing from international financial institutions, deposits from the State, government structures and companies, as well as the high liquidity maintained.

Significant changes in the management bodies and structure of the Bank in 2023 and 2024

In 2023 and 2024 the following changes in the management and structure of the Bank were made:

Changes related to the capital and Statute of the Bulgarian Development Bank EAD

By decision of 21 July 2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease.

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute are entered in the Commercial Register and the register of non-profit legal entities on 30 May 2023. The change affects neither the value of Bank's net assets as of 31 December 2023 or for subsequent periods nor the amount of Bank's regulatory equity.

Changes in the Audit Committee of Bulgarian Development Bank EAD in 2023

On 1 January 2023 the Audit Committee of Bulgarian Development Bank EAD has the following members – Svetlana Hristova Kourteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova.

1. ORGINISATION AND OPERATING POLICY (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2023 and 2024 (continued)

Changes in the Management Board of Bulgarian Development Bank EAD in 2023 and 2024

By decision of the Supervisory Board under Protocol No 2 of 12 January 2023 Iliya Zapryanov Karanikolov and Ivan Valentinov Cerovski were elected as new members of the Management Board of BDB. This circumstance was recorded in the Commercial register on 20 January 2023. By decision of the Management Board under Protocol No 5/13.01.2023 Mr. Iliya Zapryanov Karanikolov and Mr. Ivan Valentinov Cerovski are authorized to represent and manage the Bank as Executive Directors. This circumstance was recorded in the Commercial register and register of non-profit legal entities on 20 January 2023. Mr. Iliya Zapryanov Karanikolov was elected as Chairman of the Management Board.

By decision of the Supervisory Board under Protocol No 9 dated 8 February 2023 Krum Georgiev was dismissed as member of the Management Board of BDB. This circumstance was recorded in the Commercial register and register of non-profit legal entities on 14 February 2023.

By decision of the Supervisory Board under Protocol No 14 dated 9 March 2023 Mrs. Mariana Dimitrova Petkova was dismissed as member of the Management Board of BDB and Executive Director. The decision was recorded in the Commercial register and register of non-profit legal entities on 16 March 2023.

By decision of the Supervisory Board under Protocol No 11 dated 19 March 2024 Teodora Petrova Pesheva was elected as new member of the Management Board of the BDB. This circumstance was recorded in the Commercial register and register of non-profit legal entities on 25 March 2024.

Changes in the Bank’s structure

In 2023 and until the approval of these separate financial statements the following changes have occurred in the organizational structure of the Bank:

In order to increase the efficiency of activities by optimizing the structure of the units and personnel, as of 20.04.2023, the Bank's management body has adopted a change in the Bank's organizational structure, as follows:

- Compliance Division was transformed in two new functional units - Regulatory Compliance and Control, which will be responsible for the adequate identification, measurement and management of the risk related to regulatory compliance and is part of the internal control environment in the Bank, and the Prevention of Money Laundering and Fraud management, whose functions will be related to the implementation of anti-money laundering measures and terrorist financing in the BDB group, protection of classified information and protection of individuals during processing of their personal data.
- The name of the Small and Medium-Sized Enterprises Division was changed to Corporate Clients.

1. ORGANISATION AND OPERATING POLICY (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2023 and 2024 (continued)

Changes in the Bank's structure (continued)

- In order to ensure consistency between the name of the Project Finance Division and the functions it actually performs, the same is changed to the Investment Banking and Project Finance Division, and the Corporate Communications Department is transformed into a division.
- Given the similarity in the functions and objectives of the External Programs and Financial Instruments divisions and in order to achieve synergy at the expert level, they are merged into the Financial Instruments Division, structured in two departments.
- Creation of Methodology and Project Management Division, which will carry out activities related to ensuring an up-to-date and working regulatory environment and will allow the units for which this activity is uncharacteristic to focus on the performance of their main functions, and the Project and Process Management Division is closed. In 2023, in connection with an approved organizational structure of the Bank, adopted by protocol decisions of the Management Board according to protocols No. 35/06.04.2023 and 36/13.04.2023 and approved by a decision of the Supervisory Board according to protocol No. 19/12.04.2023, the Regulatory Compliance and Control Department under the Regulatory Compliance Division was transformed into an independent Regulatory Compliance and Control Division, with essentially the management's functions as an internal control unit remaining unchanged.

There are no significant changes in the distribution of responsibilities among the members of the MB in 2023, except:

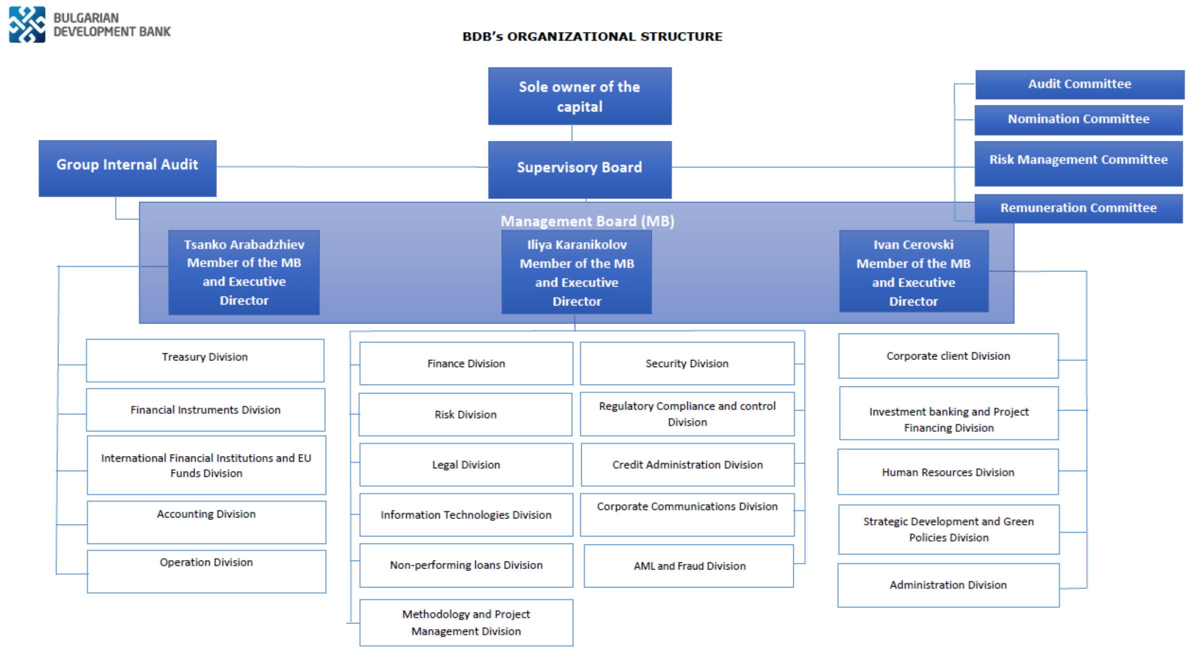
- With decision under protocol No. 35/06.04.2023 of the MB for approval of the Business Plan of BDB EAD, approved by the SB with decision No. 19/12.04.2023, the Project and Process Management Department is transferred from Mr. Tsanko Arabadzhiev's responsibilities to Mr. Iliya Karanikolov's responsibilities and is transformed into the Methodology and Project Management Division
- As of 1 December 2023, the Management Board performs its activities without a chairman.

The organizational structure effective as of 31 December 2023 is presented in the diagram on the following page.

1. ORGANISATION AND OPERATING POLICY (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2023 and 2024 (continued)

Changes in the Bank's structure (continued)



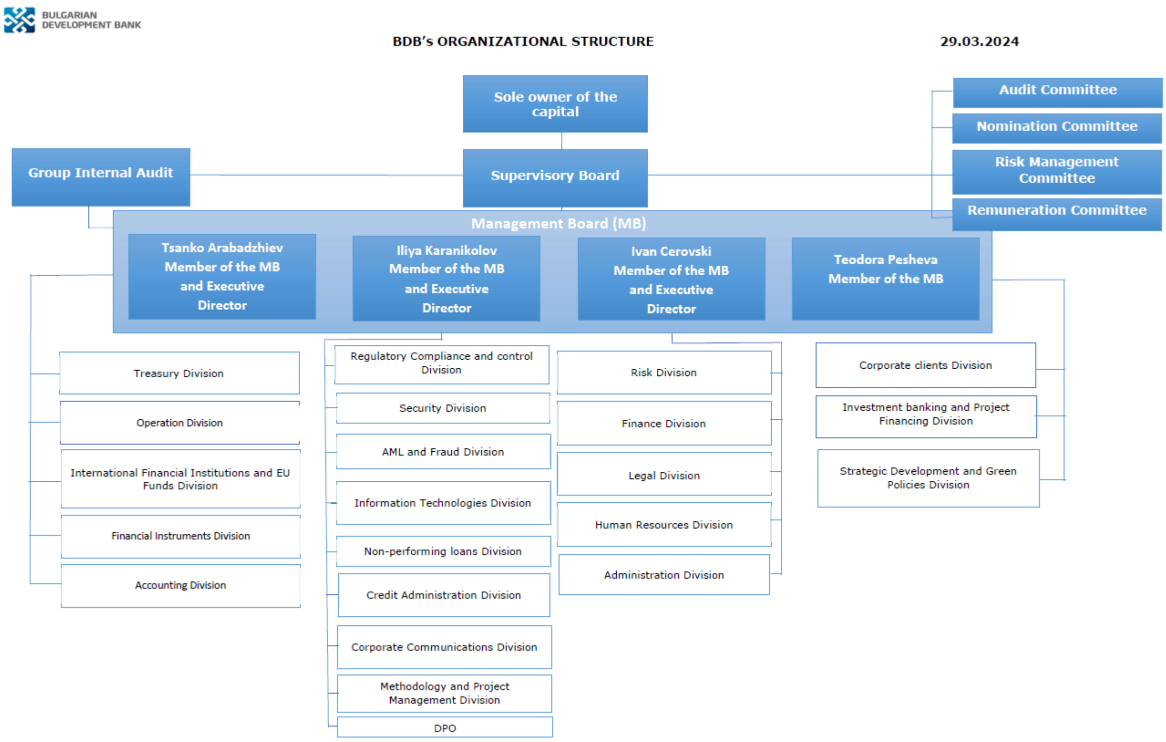
- Management Board supporting committees – ALCO, Classified Credit Committee and Impairment, Provisions Committee, Operational Risk Committee, Change Management Committee and Sustainability Committee.
- BDB subsidiaries – National Guarantee Fund, BDB Microfinancing, Capital Investment Fund and BDB Leasing.

In connection with the changes in the composition of the management board in March 2024, a change was made in the organizational structure and the distribution of responsibilities among the members of the board. The new organizational structure effective at the date of issue of this report is presented in the diagram below:

1. ORGANISATION AND OPERATING POLICY (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2023 and 2024 (continued)

Changes in the Bank's structure (continued)



❖ Management Board supporting committees – ALCO, Classified Credit Committee and Impairment, Provisions Committee, Operational Risk Committee, Change Management Committee and Sustainability Committee.
❖ BDB subsidiaries – National Guarantee Fund, BDB Microfinancing, Capital Investment Fund and BDB Leasing.

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

Statement of compliance

The separate financial statements of the Bank 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 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

These separate financial statements have been prepared on the basis of the going concern principle. The Bank has no need or intention to cease or significantly reduce its activities, to liquidate or transfer a significant part of its assets or to transfer a significant part of its activities to other parties. The Bank is well capitalized and can easily meet its current and long-term liabilities with its available assets.

Level of liquidity and maturity structure

The Bank presents the separate statement of financial position by level of liquidity. An analysis of the recovery of assets or the settlement of liabilities is presented in Note 4.3.

Presentation currency

The Bulgarian lev is the reporting and functional currency. These separate financial statements are presented in thousand Bulgarian leva (BGN’000).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions and sources of high estimation 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 receivables and 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 statements 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 separate financial statements, are disclosed in the notes below.

a) Expected credit losses on assets 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 position 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).

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. A similar approach is used for assessments of individual credit exposures, 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).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions and sources of high estimation uncertainty (continued)

b) Measurement of financial instruments at fair value through other comprehensive income

Equity 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 2023, 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.

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).

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 for 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).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions and sources of high estimation uncertainty (continued)

c) Provisions for bank and loan guarantees issued (continued)

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 original or modified 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.

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 (Notes 26 and 27).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions and sources of high estimation uncertainty (continued)

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 (Note 5).

New amendments to existing standards effective for the reporting period

The following new standard and 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:

- **IFRS 17 Insurance Contracts** including amendments to IFRS 17 adopted by the EU in June 2020 and December 2021 (effective for annual periods beginning on or after January 1, 2023);
- **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 12 Income Taxes -** Deferred Tax related to Assets and Liabilities arising from a Single Transaction adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after January 1, 2023).
- **Amendments to IAS 12 International Tax Reform — Pillar Two Model Rules** (IASB effective date: 1 January 2023).

The adoption of the new standard and amendments to the existing standards has not led to any material changes in the financial statements of Bulgarian Development Bank EAD.

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 separate financial statements are listed below.

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

New 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 revised IFRS Accounting Standard has not been applied that has been issued by IASB and adopted by EU but are not yet effective:

- **Amendments to IFRS 16 Leases** - Lease Liability in a Sale and Leaseback issued by IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024);

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

- **IFRS 18 - Presentation and Disclosures in Financial Statements:** This standard will have effect on the financial statements presentation (effective for annual periods beginning on or after 1 January 2027)
- **Amendments to IAS 1 Presentation of Financial Statements**: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (effective for annual periods beginning on or after January 1, 2024);
- **Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements** (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IAS 21: The Effects of Changes in Foreign Exchange Rates -** Lack of Exchangeability (IASB effective date: 1 January 2025);
- **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 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 by IASB indefinitely but earlier application permitted). Endorsement process postponed indefinitely until the research project on the equity method has been concluded.

BDB anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the separate financial statements of the Bank in the period of initial application, except for IFRS 18 which is expected to have material impact on the presentation and disclosure of information in the financial statements. The Bank is in process of analysing the specific impact of IFRS 18 on its separate financial statements.

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. MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Financial instruments: classification and measurement (IFRS 9)

Financial assets

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.

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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Financial assets (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.

Measurement 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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Financial assets (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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Financial assets (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, 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 other comprehensive income;
- financial assets at amortised cost;

Financial assets at amortized cost

Financial assets measured at amortized cost include cash and cash equivalents, receivables from banks, customer loans and advances, receivables from the State budget, securities and trade and other receivables.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Financial assets (continued)

Financial assets at amortized cost (continued)

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.

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.

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.

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.

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Financial assets (continued)

Financial assets at fair value through other comprehensive income (continued)

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.

Assets under trust management

The Bank provides trust management services that include 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Derecognition of financial instruments (continued)

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.

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-sequestrable, 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);

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

Derecognition of financial instruments (continued)

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.

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 fulfilment 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (continued)

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. Every year, the Bank analyzes the impact of various measurable macroeconomic factors on the behavior of loans in the portfolio and integrates into the models for calculating expected credit losses those that historically show statistically significant correlations - positive or negative - with cases of default and loss volumes. For the year ended 31 December 2022 the Banks uses only GDP growth (Bulgaria). For the year ended 31 December 2023, based on the analysis of correlations between various macro factors and the level of non-performing loans, the Bank updated its impairment models, including the unemployment rate and oil prices. The weights of the last two factors are optimized for maximum correlation.

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 Impairment and Provisions Committee, which reports to the competent bodies in the Bank 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

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 – On 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;
- 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

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 favourable 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.

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, impairment on a collective (portfolio) basis is carried out in accordance with the methodology adopted by the Bank, on portfolios or sub-portfolios of exposures with similar risk characteristics and depending on the established level of credit risk, remaining term to maturity, and other characteristics affecting potential default at the portfolio level.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at amortised cost (continued)

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 the Bank applies:
    a. a tool 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 parameter, 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 "gone concern" scenario with a weight equal to the probability of default.

For exposures above BGN 5,000 thousand these reviews are individual and for amounts below this threshold – on portfolio basis.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at fair value through other comprehensive income

For debt instruments measured at FVTOCI a loss allowance is recognised in the statement of financial position. Since the carrying amount equals the fair value, the impairment loss is included as part of the revaluation reserve in the investment revaluation reserve.

For equity instruments no loss allowance is recognised and every movement in the fair value is recognised in other comprehensive income until final sale or derecognition of the security.

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 2023 are 27.6% under the loan guarantee program for legal entities and 34% under the loan guarantee program for individuals and freelance (as of 31.12.2022: 27.6% and 36%, respectively).

As of the end of 2023 the provisions amount to BGN 111,845 thousand (as of 31.12.2022: BGN 127,215 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. MATERIAL ACCOUNTING POLICY INFORMATION (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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

Fair value of financial assets and liabilities (IFRS 13) (continued)

Definitions (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

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 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).

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).

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2 Other assets (continued)

Taxes (IAS 12) (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2 Other assets (continued)

Property, plant and equipment (IAS 16) (continued)

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 – 7 years

The useful life by groups was not changed compared to 2022.

The useful life of the individual groups of assets is determined by the management considering: their physical wear and tear, features of the equipment, intentions for future use and expected obsolescence. The useful life of equipment is reviewed at each year-end and adjusted prospectively in case that any material deviations from future expectations concerning the terms of use are found.

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.

Impairment of property, plant and equipment and intangible assets

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2 Other assets (continued)

Derecognition of property, plant and equipment and intangible assets

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. MATERIAL ACCOUNTING POLICY INFORMATION (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 and initially classified as assets held for sale for which the requirements of IFRS 5 are not 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. 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2 Other assets (continued)

Impairment of non-financial assets (IAS 36) (continued)

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

Leases (IFRS 16)

The Bank as lessor

Leases where the Company is the lessor are classified as financial or operating leases. When the lease agreement transfers substantially all the risks and rewards of the use of the asset to the lessee, the agreement is classified as a finance lease. All other leases are classified as operating leases.

As of 31 December 2023, the Bank does not have contracts as lessor under financial lease.

The Bank recognizes lease payments under operating lease contracts as revenue on a straight-line basis. The Banks adds the initial direct expenses, incurred for the operating lease to the carrying amount of the underlying asset and recognizes them as an expense over the term of the lease contract on the same basis as lease revenue.

The Bank charges depreciation on the assets, which are operating leases in accordance with IAS 16 and IAS 38.

3. MATERIAL ACCOUNTING POLICY INFORMATION (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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.3. Liabilities (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (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 (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.3. Liabilities (continued)

Provisions and contingent liabilities (IAS 37) (continued)

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.

3.4 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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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.

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 if 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.5 Income and expenses (continued)

Revenue from contracts with customers (IFRS 15) (continued)

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.

Servicing of bond issue 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 and current accounts is BGN 8,068 thousand (as of 31 December 2022: BGN 6,754 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.5 Income and expenses (continued)

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:

Foreign currency	31 December 2023	31 December 2022
USD	1.76998	1.83663
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.

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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.

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", Stage 2 "Watch" or "Forborne" and Stage 3 „Problematic/Non-preforming". 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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.

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. 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.

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.

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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.

Maximum exposure to credit risk

Exposure to credit risk attributable to financial assets recognised in the separate statement of financial position is as follows:

	2023		2022	
Financial asset	**maximum**	**net**	**maximum**	**net**
Cash in hand and balances in current account with the Central Bank	128,662	128,662	527,836	527,836
Financial assets at amortized cost – Receivables from banks	514,568	513,867	140,689	139,305
Financial assets at amortized cost – Loans and advances to customers	1,620,386	1,382,633	1,746,625	1,502,860
Financial assets at amortized cost - Receivables from the State budget	14,431	14,262	23,598	23,537
Financial assets at fair value through other comprehensive income – Debt instruments	365,458	365,458	494,919	494,919
Financial assets at fair value through other comprehensive income – Equity instruments	121,000	121,000	83,728	83,728
Financial assets at amortized cost – Debt instruments	1,704	1,622	1,851	1,745
Other financial assets	2,645	2,645	3,128	3,128
	2,768,854	**2,530,149**	**3,022,374**	**2,777,058**

Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounting to BGN 14,431 thousand (2022: BGN 23,598 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The exposure to credit risk arising out of off-balance sheet commitments is as follows:

	2023		2022	
	maximum	**net**	**maximum**	**net**
Anti-COVID guarantees	373,894	262,049	403,208	275,993
Unutilised amount of authorized loans	184,384	184,378	184,715	184,696
Bank guarantees and letters of credit	98,455	92,471	126,772	115,946
Unpaid portion of shares in Three Seas Initiative	7,788	7,788	17,970	17,970
Participation in the SIA investment program	479	479	652	652
	665,000	**547,165**	**733,317**	**595,257**
Maximum exposure to credit risk	**3,433,854**	**3,077,314**	**3,755,691**	**3,372,315**

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, financial assets at amortized cost -loans and advances to customers, receivables from the State budget and securities at amortized cost and other financial assets), classified by industry sectors (at gross amount before impairment), are presented in the table below:

	2023	%	2022	%
Sectors				
Financial services	970,494	35.05%	960,117	31.77%
Government	460,412	16.63%	611,404	20.23%
Trade	430,092	15.53%	450,592	14.91%
Industry, total	296,624	10.94%	346,217	11.46%
Industry – manufacture of plant and equipment	*83,035*	*3.00%*	*92,598*	*3.06%*
Industry – energy generation and distribution	*86,715*	*3.14%*	*67,973*	*2.25%*
Industry – food and beverage	*45,968*	*1.66%*	*46,965*	*1.55%*
Industry – other industries	*80,906*	*3.14%*	*138,681*	*4.60%*
Tourist services	262,532	9.48%	262,346	8.68%
Construction	129,984	4.69%	152,131	5.03%
Transport	111,883	3.82%	130,094	4.30%
Real estate transactions	51,564	1.86%	55,657	1.84%
Agriculture	29,357	1.06%	32,061	1.06%
Other industries	25,912	0.94%	21,755	0.72%
	2,768,854	**100%**	**3,022,374**	**100%**

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:

	2023		2022	
	Net exposure**	***% of Equity***	**Net exposure ***	***% of Equity***
The biggest total exposure to a customer group	161,416	15.36%	170,118	16.54%
Total amount of the ten biggest exposures	921,160	87.64%	999,955	97.23%
Total amount of the twenty biggest exposures	1,150,045	109.42%	1,316,301	127.99%

* Net exposure – the amount of the exposure net of provisions and highly liquid collateral.

The Bank owns government securities of the Republic of Bulgaria, denominated in euros, which are not included in the ratios.

The largest credit exposure of the Bank, granted to a group of related parties /other than bank institutions/ amounts to BGN 161,416 thousand (including BGN 126,460 thousand balance sheet debt, BGN 34,956 thousand amount for utilization) at amortized cost (31.12.2022: BGN 172,452 thousand[1]), which represents 15.38% of share capital (SC)/eligible capital (EC) capital of Group according to Regulation 575/2013/EC (31.12.2022: 16.76%).

As of 31.12.2023 and 31.12.2022 there is no exposure to client or group of related clients, which is greater than 25% of the equity of the Bank.

The structure of the financial assets of the Bank by risk classification groups is as follows (at gross amount before impairment):

[1] From which, for the purposes of the net exposure, the recognized highly liquid collateral - blocked deposits in the bank, guaranteeing letters of credit in the same amount - have been subtracted.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

As of 31 December 2023	**Standard (Stage 1)**	**Watch (Stage 2)**	**Non-performing (Stage 3)**	**Total**
Cash in hand and balances in current account with Central Banks	128,662	-	-	128,662
Financial assets at amortized cost – Receivables from banks	514,568	-	-	514,568
Financial assets at amortized cost - Receivables from the State Budget	14,431	-	-	14,431
Financial assets at amortized cost – Loans for commercial property and construction	255,563	280,409	124,582	660,554
Financial assets at amortized cost – Trade loans	329,999	115,840	284,180	730,019
Financial assets at amortized cost – Consumer loans	2,097	2	57	2,156
Financial assets at amortized cost – Residential mortgage loans to individuals	1,660	-	-	1,660
Financial assets at amortized cost – Loans to other financial institutions	131,788	1,779	2,056	135,623
Financial assets at amortized cost – Debt instruments	1,704	-	-	1,704
Financial assets at amortized cost – Other loans and receivables	21,132	44,867	24,375	90,374
Financial assets at fair value through other comprehensive income – Debt instruments	349,816	-	15,642	365,458
Financial assets at fair value through other comprehensive income – Equity instruments	121,000	-	-	121,000
Other financial assets	2,645	-	-	2,645
Total financial assets	**1,875,065**	**442,897**	**450,892**	**2,768,854**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

As of 31 December 2022	Standard (Stage 1)	Watch (Stage 2)	Non-performing (Stage 3)	Total
Cash in hand and balances in current account with Central Banks	527,836	-	-	527,836
Financial assets at amortized cost – Receivables from banks	140,689	-	-	140,689
Financial assets at amortized cost - Receivables from the State Budget	23,598	-	-	23,598
Financial assets at amortized cost – Loans for commercial property and construction	374,848	185,634	125,595	686,077
Financial assets at amortized cost – Trade loans	388,295	228,029	195,037	811,361
Financial assets at amortized cost – Consumer loans	1,948	74	-	2,022
Financial assets at amortized cost – Residential mortgage loans to individuals	1,990	-	-	1,990
Financial assets at amortized cost – Loans to other financial institutions	131,325	-	6,849	138,174
Financial assets at amortized cost – Debt instruments	1,851	-	-	1,851
Financial assets at amortized cost – Other loans and receivables	25,524	63,761	17,717	107,001
Financial assets at fair value through other comprehensive income – Debt instruments	480,234	-	14,685	494,919
Financial assets at fair value through other comprehensive income – Equity instruments	83,728	-	-	83,728
Other financial assets	3,128	-	-	3,128
Total financial assets	**2,184,994**	**477,498**	**359,882**	**3,022,374**

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:

	2023		**2022**	
Type of collateral	**Fair value**	%	**Fair value**	**%**
Mortgages	834,987	74.32	729,287	65.91
Pledge of plant, machinery, equipment, and inventories	217,662	19.38	294,599	26.63
Restricted deposits	42,965	3.82	44,613	4.03
Credit risk insurance	23,299	2.07	36,999	3.34
Bank guarantees	4,559	0.41	960	0.09
Total collateral	**1,123,472**	**100**	**1,106,458**	**100**

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 favour 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 can be both market - a change in interest rates, spreads or other market movements, or changes in the regulatory environment - and specific - a change in the value of the collateral, a change in the company's development forecasts, expenses not foreseen in the business plan, the occurrence of incidents leading to a significant reduction in the capacity of the borrower.

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 2023 and 2022, the Bank analysed the effect of modifications on its portfolio exposures 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:

	Financial assets at amortised cost														**Financial assets at fair value through other comprehensive income**	
	Non-financial enterprises and non-banking financial institutions		**State budget**		**Banks**		**Individuals**		**Cash in hand and balances in current account with the Central Bank**		**Securities at amortized cost**		**Other financial assets**		**Debt instruments**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Impaired on an individual basis																
------standard (Stage 1)	358,745	577,245	-	-	-	-	-	-	-	-	1,704	1,851	2,645	3,128	349,816	480,234
------watch (Stage 2)	420,341	456,756	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	415,101	321,075	-	-	-	-	57	-	-	-	-	-	-	-	15,642	14,685
Gross amount	**1,194,187**	**1,355,076**	**-**	**-**	**-**	**-**	**57**	**-**	**-**	**-**	**1,704**	**1,851**	**2,645**	**3,128**	**365,458**	**494,919**
Incl. renegotiated	1,166,502	1,288,648	-	-	-	-	6	-	-	-	-	-	-	-	-	-
Past due but not impaired																
------standard (Stage 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------watch (Stage 2)	1,456	1,177	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	5,442	24,122	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**6,898**	**25,299**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	6,898	25,299	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Within 30 days	*1,456*	*4,955*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
From 30- 90 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 90 days	*5,442*	*20,344*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impaired on portfolio basis																
------standard (Stage 1)	233,914	193,661	14,431	23,598	31,391	52,387	3,757	3,937	-	-	-	-	-	-	-	-
------watch (Stage 2)	17,860	6,817	-	-	-	-	2	75	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**251,774**	**200,478**	**14,431**	**23,598**	**31,391**	**52,387**	**3,759**	**4,012**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	143,480	121,596	-	23,598	18,359	31,939	227	225	-	-	-	-	-	-	-	-
Past due but not impaired																
------standard (Stage 1)	145,822	149,086	-	-	483,177	88,302	-	-	128,662	527,836	-	-	-	-	-	-
------watch (Stage 2)	3,238	12,674	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	14,651	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**163,711**	**161,760**	**-**	**-**	**483,177**	**88,302**	-	**-**	**128,662**	**527,836**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	163,007	160,702	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**1,616,570**	**1,742,613**	**14,431**	**23,598**	**514,568**	**140,689**	**3,816**	**4,012**	**128,662**	**527,836**	**1,704**	**1,851**	**2,645**	**3,128**	**365,458**	**494,919**
Incl. renegotiated	1,479,887	1,596,245	-	23,598	18,359	31,939	233	225	-	-	-	-	-	-	-	-

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 – including for non-banking financial institutions, from 1A to 4C including SME clients; from AAA to BB- including for project financing – Stage 1;
- standard class – credit rating from 4 to 5 including for non-banking financial institutions, from 5A to 6C including SME clients and from B+ to B including project financing – Stage 1;
- low class – credit rating 6 for non-banking financial institutions, from 7A to 7B including SME clients and from B- to CCC+ for project financing – Stage 1 (rating 6), not past due or past due up to 30 days or Stage 2 (rating 7 for non-banking financial institutions, from 7C to 8C including for SME and CCC for project financing) and past due between 30 and 90 days;
- non-performing – Stage 3 (rating 8, 9 and 10 for non-banking financial institutions, 9 and 10 including SME clients and from CCC- to D for project financing) and past due over 90 days.

Watch loans and receivables (Stage 2), presented at amortised cost, are as follows:

	2023	2022
Loans for commercial property and construction	280,409	185,635
Trade loans	115,840	228,029
Consumer loans	2	75
Loans of other financial institutions	1,779	-
Other loans and receivables	44,867	63,760
	442,897	**477,499**

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).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The restructured loans and receivables, presented at amortised cost, are as follows:

	2023	2022
Loans for commercial property and construction	**240,416**	**249,449**
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*158,925*	*163,397*
Non-performing (Stage 3)	*81,491*	*86,052*
Trade loans	**326,116**	**339,105**
incl. Standard (Stage 1)	*9,549*	-
Watch (Stage 2)	*97,349*	*179,535*
Non-performing (Stage 3)	*219,218*	*159,570*
Loans of other FI	**777**	**1,238**
incl. Standard (Stage 1)	-	*1,238*
Watch (Stage 2)	*777*	-
Non-performing (Stage 3)	-	-
Other loans and receivables	**60,925**	**69,244**
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*36,550*	*63,760*
Non-performing (Stage 3)	*24,375*	*5,484*
	628,234	**659,036**

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 outflow from the Bank.

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.).

As of 31.12.2023 the Bank identified commitments under guarantees (apart from those, under the anti-Covid programs) amounting to BGN 98,455 thousand (2022: BGN 126,772 thousand), which are provided for in the amount of BGN 3,242 thousand (2022: BGN 1,745 thousand) (see 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).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

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 and in compliance with the agreed terms in the guarantee agreements (for loans admitted in the program).
- The guarantees are 80% 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% at the end of 2020.
- 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 and in 2021 large enterprises were also included by the amendments made up to small mid-caps (Recovery Program).
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral of exposures is required initially), subsequently it was increased to 50 % - i.e. from 0% to 50%, and with the amendments under the Recovery Program the requirement for collateral was dropped, leaving only guarantees from beneficial owners and related parties, as well as pledges of accounts receivable permissible). Also, until the changes in the "Recovery Program" it was permissible to include a certain percentage of already formed exposures. The banks' self-participation was determined to be at least 20%. The terms predetermine a significantly higher risk than usual business guarantee programs.

As of 31 December 2023, BDB has assumed a commitment to commercial banks for guarantees (as a limit to payments or CAP) in the amount of 50% of the formed under the Program guaranteed portfolios. According to the final reports presented by the commercial banks, at the end of the year under the program were guaranteed 2,184 loans in the total in the total amount of BGN 427.0 million, for which guarantees amounting BGN 238.7 million have been provided.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

Programme for companies – SME and intermediate enterprises (continued)

The provision of guarantees under the program was completed at the end of June 2022. The maximum result of the program was reached (as aggregate data) with 2,892 guaranteed loans in the amount of BGN 630.3 million.

In the initial calculations of expected credit losses related to the program for companies, the estimated parameters for the expected developments were:

- 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.

At the beginning of 2024 the Bank performed an analysis of the behaviour of the portfolio of guarantees related to loans granted under this program. As a result of the analysis, the Bank decided to maintain the provisioning rate for these exposures at 27.6%.

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.

Programme for individuals

- Payments under guarantees are virtually unconditional and in compliance with the agreed terms in the guarantee agreements (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;
- For loans 5 years, including a possible grace period up to 24 months;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

Programme for individuals (continued)

- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guaranteed commitment at maximum term of the loan. 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".

By Decision of the Council of Ministers 448/07.07.2022 an opportunity was given to extend the loans up to 7 years, and when annexes are concluded to the guarantee agreements the compensation from the BDB is changed: upon extension of the guarantee after the fifth year the compensation for commercial banks was reduced to 1%.

The provision of guarantees under the program was completed in August 2021. The maximum result under the program was reached (as aggregate data) and 52,915 loans were guaranteed in the amount of BGN 254.6 million.

The initial calculations for the expected credit losses related to the program for individuals under the set parameters, the estimates for the expected developments were:

- 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 31.12.2023 the BDB has guaranteed under the program 42,840 active loans, for which it has provided guarantee in the amount of BGN 135.2 million.

In the beginning of 2024, the Bank performed an analysis of the behaviour of the portfolio of guarantees related to the loans granted under the program. As a result of the analysis, the Bank decided to change the percentage of provisioning of these exposures as of 31.12.2023 from 36% to 34%.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

Programme for individuals (continued)

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 on amounts already paid is 1.05% for every 1% change.

As of 31.12.2023 BDB has issued guarantees in total of BGN 373,894 thousand (31.12.2022: BGN 403,208 thousand) and has guaranteed exposures under the two programs in the total amount of BGN 554,763 thousand (31.12.2022: BGN 715,979 thousand), and has set aside provisions in the amount of BGN 111,845 thousand (31.12.2022: BGN 127,215 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 12- month probability of default (12-M 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.

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), as well as the historical data on Bank's exposures.

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 01.01-31.12.2023 and 01.01-31.12.2022:

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)

Assets measured at amortised cost (except for Government and Receivables from Banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 1 January 2022	**1,070,136**	**707,456**	**292,700**	**2,070,292**
Transfers:				
Transfers from Stage 1 to Stage 2	(36,829)	36,829	-	**-**
Transfers from Stage 1 to Stage 3	(5,868)	-	5,868	**-**
Transfers from Stage 2 to Stage 3	-	(94,686)	94,686	**-**
Newly occurred and newly acquired exposures	55,490	3,697	4,560	**63,747**
Paid or transferred	(214,720)	(180,208)	(54,172)	**(449,100)**
Increased	57,572	4,410	1,555	**63,537**
Balance as of 31 December 2022	**925,781**	**477,498**	**345,197**	**1,748,476**
Transfers:				
Transfers from Stage 1 to Stage 2	(134,113)	134,113	-	**-**
Transfers from Stage 1 to Stage 3	(5,293)	-	5,293	**-**
Transfers from Stage 2 to Stage 3	-	(183,725)	183,725	**-**
Transfers from Stage 2 to Stage 1	9,549	(9,549)	-	**-**
Transfers from Stage 3 to Stage 2	-	45,871	(45,871)	**-**
Newly occurred and newly acquired exposures	77,684	3,850	2,233	**83,767**
Paid or transferred	(162,366)	(34,075)	(57,980)	**(254,421)**
Increased	32,701	8,914	2,653	**44,268**
Balance as 31 December 2023	**743,943**	**442,897**	**435,250**	**1,622,090**

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.

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)

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance as 1 January 2022	**18,866**	**-**	**-**	**18,866**
Newly occurred and newly acquired exposures	9	-	-	**9**
Paid or transferred	(2,612)	-	-	**(2,612)**
Increased	7,335	-	-	**7,335**
Balance as 31 December 2022	**23,598**	**-**	**-**	**23,598**
Paid or transferred	(13,234)	-	-	**(13,234)**
Increased	4,067	-	-	**4,067**
Balance as 31 December 2023	**14,431**	**-**	**-**	**14,431**

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).

Assets measured at amortised cost – Receivables from banks	Stage 1	Stage 2	Stage 3	Total
Balance as 1 January 2022	**387,437**	**-**	**-**	**387,437**
Newly originated and newly acquired exposures	77,221	-	-	**77,221**
Paid or transferred	(325,864)	-	-	**(325,864)**
Increased	1,895	-	-	**1,895**
Balance as 31 December 2022	**140,689**	**-**	**-**	**140,689**
Newly originated and newly acquired exposures	459,443	-	-	**459,443**
Paid or transferred	(94,600)	-	-	**(94,600)**
Increased	9,036	-	-	**9,036**
Balance as 31 December 2023	**514,568**	**-**	**-**	**514,568**

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, presented in the previous table, include both transactions on an interbank market and deposits of different maturity.

Assets measured at fair value through other comprehensive income – debt instruments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 1 January 2022	**591,943**	**-**	**-**	**591,943**
Transfers from Stage 1 to Stage 3	(14,685)	-	14,685	**-**
Newly originated and newly acquired exposures	52,545	-	-	**52,545**
Paid or transferred	(186,392)	-	-	**(186,392)**
Increased	36,823	-	-	**36,823**
Balance as of 31 December 2022	**480,234**	**-**	**14,685**	**494,919**
Paid or transferred	(144,188)	-	(24)	**(144,212)**
Increased	13,770	-	981	**14,751**
Balance as of 31 December 2023	**349,816**	**-**	**15,642**	**365,458**

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 2023 and 2022

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 2023 and 2022 (continued)

The movements of the impairments in 2023 and 2022 are presented below:

Assets measured at amortised cost (except for Government and receivables from banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairments as of 1 January 2022	**22,513**	**220,560**	**97,463**	**340,536**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,351)	1,351	-	**-**
Transfer from Stage 1 to Stage 3	(103)	-	103	**-**
Transfer from Stage 2 to Stage 3	-	(148,448)	148,448	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Newly originated and newly acquired exposures	2,196	4,901	94,942	**102,039**
Paid or transferred	(2,889)	(16,622)	(189,139)	**(208,650)**
Increase in impairment on existing exposures	2,602	4,278	3,066	**9,946**
Balance of impairment as of 31 December 2022	**22,968**	**66,020**	**154,883**	**243,871**
Transfer from Stage 1 to Stage 2	(3,111)	3,111	-	**-**
Transfer from Stage 1 to Stage 3	(346)	-	346	**-**
Transfer from Stage 2 to Stage 3	-	(23,398)	23,398	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 3 to Stage 2	-	9,815	(9,815)	**-**
Newly originated and newly acquired exposures	1,045	2,681	48,269	**51,995**
Paid or transferred	(6,938)	(14,002)	(54,936)	**(75,876)**
Increased	480	13,646	3,719	**17,845**
Balance of impairment as of 31 December 2023	**14,098**	**57,873**	**165,864**	**237,835**

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 2023 and 2022 (continued)

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 2022	**49**	**-**	**-**	**49**
Net movement in impairment on EEMFRBNP	12	-	-	**12**
Balance of impairment as of 31 December 2022	**61**	**-**	**-**	**61**
Net movement in impairment on EEMFRBNP	108	-	-	**108**
Balance of impairment as of 31 December 2023	**169**	**-**	**-**	**169**

Assets measured at amortised cost– Receivables from banks	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 2022	**2,090**	**-**	**-**	**2,090**
Increase/(decrease)	(706)	-	-	**(706)**
Balance of impairment as of 31 December 2022	**1,384**	**-**	**-**	**1,384**
Increase/(decrease)	(683)	-	-	**(683)**
Balance of impairment as of 31 December 2023	**701**	**-**	**-**	**701**

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 2023 and 2022 (continued)

Assets measured at fair value through other comprehensive income – debt instruments	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 2022	**3,858**	**-**	**-**	**3,858**
Transfer from Stage 1 to Stage 3	(1,243)		1,243	**-**
New exposures	179	-	2,867	**3,046**
Paid or transferred	(168)	-	-	**(168)**
Other movements	292	-	-	**292**
Balance of impairment as of 31 December 2022	**2,918**	**-**	**4,110**	**7,028**
Paid or transferred	(1,035)	-	-	**(1,035)**
Other movements	-	-	589	**589**
Balance of impairment as of 31 December 2023	**1,883**	**-**	**4,699**	**6,582**

Value of collaterals as of 31 December 2023

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	387,330	834,987
Pledge of plant, equipment and inventories	79,947	217,662
Restricted deposits	102,645	42,965
Credit risk insurance	9,962	23,299
Bank guarantees	2,144	4,559
Other collaterals	786,265	2,719,888
Non-secured	14,340	-
Total	**1,382,633**	**3,843,360**

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 2022

Type of collateral	Carrying amount of the loan	Value of the collateral
Mortgages	574,414	729,287
Pledge of plant, equipment and inventories	188,459	294,599
Restricted deposits	501,169	44,613
Credit risk insurance	41,975	36,999
Bank guarantees	634	960
Other collaterals	188,145	2,979,377
Non-secured	8,064	-
Total	**1,502,860**	**4,085,835**

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 debt is BGN 319,521 thousand as of 31 December 2023 and BGN 451,935 thousand as of 31 December 2022.

Standard & Poor's credit rating for the securities of Republic of Bulgaria stands at BBB/A-2 with positive outlook (24 November 2023). Fitch's credit rating is BBB with positive outlook (27 October 2023) and Moody's rating is Baa1 with stable outlook (3 February 2023). The securities issued by the governments of other countries have rating not lower than BBB- by Fitch's 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.

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 maintains 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 summarizes 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.

31 December 2023	***With floating interest rate***	***With fixed interest rate***	***Interest free***	***Total***
Financial assets				
Financial assets at amortized cost – Receivables from banks	43,267	459,517	11,083	513,867
Financial assets at amortized cost – Loans and advances to customers	1,372,528	9,952	153	1,382,633
Financial assets at amortized cost – Receivables from the State budget	14,262	-	-	14,262
Financial assets at amortized cost – Debt instruments	1622	-	-	1,622
Financial assets at fair value through other comprehensive income – Debt instruments	31,602	333,856	-	365,458
Other financial assets	-	-	2,645	2,645
	1,463,281	**803,325**	**13,881**	**2,280,487**
Financial liabilities				
Borrowings from international institutions	581,931	-	-	581,931
Deposits from customers other than credit institutions	373,177	263,078	13,912	650,167
Deposits from credit institutions	20,615	189,303	-	209,918
Other borrowings	11,687	5,131	-	16,818
Liabilities under lease contracts	208	-	-	208
Other financial liabilities	-	-	4,521	4,521
	987,618	**457,512**	**18,433**	**1,463,563**
Total balance sheet interest exposure	**475,663**	**345,813**	**(4,552)**	**816,924**
Contingencies and commitments	**153,147**	**31,237**	**362,787**	**547,171**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

31 December 2022	***With floating interest rate***	***With fixed interest rate***	***Interest free***	***Total***
Financial assets				
Financial assets at amortized cost – Receivables from banks	56,339	75,969	6,997	**139,305**
Financial assets at amortized cost – Loans and advances to customers	1,491,244	11,223	393	**1,502,860**
Financial assets at amortized cost – Receivables from the State budget	23,537	-	-	**23,537**
Financial assets at amortized cost – Debt instruments	1,745	-	-	**1,745**
Financial assets at fair value through other comprehensive income – Debt instruments	30,497	464,422	-	**494,919**
Other financial assets	-	-	3,128	**3,128**
	1,603,362	**551,614**	**10,518**	**2,165,494**
Financial liabilities				
Borrowings from international institutions	779,497	-	-	**779,497**
Deposits from customers other than credit institutions	862,327	115,581	16,160	**994,068**
Deposits from credit institutions	2,641	-	-	**2,641**
Other borrowings	11,286	5,322	-	**16,608**
Liabilities under lease contracts	299	-	-	**299**
Other financial liabilities	-	-	4,077	**4,077**
	1,656,050	**120,903**	**20,237**	**1,797,190**
Total balance sheet interest exposure	**(52,688)**	**430,711**	**(9,719)**	**368,304**
Contingencies and commitments	**165,797**	**18,918**	**410,561**	**595,276**

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)

31 December 2023	***Up to 1 m.***	***1-3 m.***	***3-6 m.***	***6-12 m.***	***1-5 years***	***over 5 years***	***With fixed rate***	***Interest free***	***Total***
Financial assets									
Financial assets at amortized cost – Receivables from banks	8,741	34,526	-	-	-	-	459,517	11,083	**513,867**
Financial assets at amortized cost – Loans and advances to customers	90,676	1,281,699	-	-	-	-	10,105	153	**1,382,633**
Financial assets at amortized cost – Receivables from the State budget	14,262	-	-	-	-	-	-	-	**14,262**
Financial assets at amortized cost – Debt instruments	-	-	1,622	-	-	-	-	-	**1,622**
Financial assets at fair value through other comprehensive income – Debt instruments	4,019	-	19,947	71,710	227,481	42,301	-	-	**365,458**
Other financial assets	-	-	-	-	-	-	-	2,645	**2,645**
Total financial assets	**117,698**	**1,316,225**	**21,569**	**71,710**	**227,481**	**42,301**	**469,622**	**13,881**	**2,280,487**
Financial liabilities									
Borrowings from international institutions	-	103,945	477,986	-	-	-	-	-	**581,931**
Deposits from customers other than credit institutions	407,059	30,763	16,720	118,248	63,465	-	-	13,912	**650,167**
Deposits from credit institutions	20,615	-	-	-	-	-	189,303	-	**209,918**
Other borrowings	-	11,687	-	-	-	5,131	-	-	**16,818**
Liabilities under lease contracts	-	208	-	-	-	-	-	-	**208**
Other financial liabilities	4,458	26	-	-	37	-	-	-	**4,521**
Total financial liabilities	**432,132**	**146,629**	**494,706**	**118,248**	**63,502**	**5,131**	**189,303**	**13,912**	**1,463,563**
Total exposure to interest rate sensitivity	**(314,434)**	**1,169,596**	**(473,137)**	**(46,538)**	**163,979**	**37,170**	**280,319**	**(31)**	**816,924**
Contingencies and commitments	**-**	**13,519**	**137,241**	**2,387**	**-**	**-**	**31,237**	**362,787**	**547,171**

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)

31 December 2022	*Up to 1 m.*	*1-3 m.*	*3-6 m.*	*6-12 m.*	*1-5 years*	*over 5 years*	*With fixed rate*	*Interest free*	*Total*
Financial assets									
Financial assets at amortized cost – Receivables from banks	5,413	50,926	-	-	-	-	75,969	6,997	**139,305**
Financial assets at amortized cost – Loans and advances to customers	99,029	1,392,215	-	-	-	-	11,223	393	**1,502,860**
Financial assets at amortized cost – Receivables from the State budget	23,537	-	-	-	-	-	-	-	**23,537**
Financial assets at amortized cost – Debt instruments	-	-	1,745	-	-	-	-	-	**1,745**
Financial assets at fair value through other comprehensive income – Debt instruments	22,864	31,107	10,939	73,131	312,111	44,767	-	-	**494,919**
Other financial assets	-	-	-	-	-	-	-	3,128	**3,128**
Total financial assets	**150,843**	**1,474,248**	**12,684**	**73,131**	**312,111**	**44,767**	**87,192**	**10,518**	**2,165,494**
Financial liabilities									
Borrowings from international institutions	24,967	32,947	2,088	41,354	553,234	124,907	-	-	**779,497**
Deposits from customers other than credit institutions	855,272	15,010	14,885	89,136	3,605	-	-	16,160	**994,068**
Deposits from credit institutions	2,641	-	-	-	-	-	-	-	**2,641**
Other borrowings	-	11,286	-	-	-	5,322	-	-	**16,608**
Liabilities under lease contracts	-	299	-	-	-	-	-	-	**299**
Other financial liabilities	3,415	12	-	-	650	-	-	-	**4,077**
Total financial liabilities	**886,295**	**59,554**	**16,973**	**130,490**	**557,489**	**130,229**	**-**	**16,160**	**1,797,190**
Total exposure to interest rate sensitivity	**(735,452)**	**1,414,694**	**(4,289)**	**(57,359)**	**(245,378)**	**(85,462)**	**87,192**	**(5,642)**	**368,304**
Contingencies and commitments	**-**	**150,881**	**7,743**	**7,173**	**-**	**-**	**18,918**	**410,561**	**595,276**

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.

	2023			**2022**		
Currency	***Increase/decrease in percentage points***	***Sensitivity of the financial result***	***Sensitivity of the equity***	***Increase/decrease in percentage points***	***Sensitivity of the financial result***	***Sensitivity of the equity***
BGN	0.50%	1,460	(1,078)	0.50%	1,564	(1,642)
EUR	0.50%	873	(1,642)	0.50%	(2,199)	(2,747)
USD	0.50%	(192)	-	0.50%	(381)	(25)
BGN	-0.50%	(1,460)	1,078	-0.50%	(1,564)	1,642
EUR	-0.50%	(873)	1,642	-0.50%	2,199	2,747
USD	-0.50%	192	-	-0.50%	381	25

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 net interest margin as of 31 December 2023 is 2.60% (as of 31.12.2022: 1.93%)

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

The policy of 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)

As of 31 December 2023	**B USD**	**In EUR**	**In other foreign currency**	**In BGN**	**Total**
Financial assets					
Cash in hand and balances in current account with the Central Bank	77	35,646	-	92,939	**128,662**
Financial assets at amortized cost – Receivables from banks	53,563	446,356	41	13,907	**513,867**
Financial assets at amortized cost – Loans and advances to customers	-	854,243	-	528,390	**1,382,633**
Financial assets at amortized cost – Receivables from the State budget	-	-	-	14,262	**14,262**
Financial assets at amortized cost – Debt securities	-	-	-	1,622	**1,622**
Financial assets at fair value through other comprehensive income – Debt securities	-	233,143	-	132,315	**365,458**
Financial assets at fair value through other comprehensive income – Equity securities	-	41,502	-	79,498	**121,000**
Other financial assets	16	1,734	-	895	**2,645**
Total financial assets	**53,656**	**1,612,624**	**41**	**863,828**	**2,530,149**
Financial liabilities					
Borrowings from international institutions	-	581,931	-	-	**581,931**
Deposits from customers other than credit institutions	53,614	143,829	-	452,724	**650,167**
Deposits from credit institutions	-	186,521	-	23,397	**209,918**
Other borrowings	-	16,818	-	-	**16,818**
Guarantee provisions	-	-	-	115,087	**115,087**
Lease liabilities	-	208	-	-	**208**
Other financial liabilities	3	453	-	4,065	**4,521**
Total financial liabilities	**53,617**	**929,760**	**-**	**595,273**	**1,578,650**
Net balance sheet currency position	**39**	**682,864**	**41**	**268,555**	**951,499**
Contingencies and commitments	**6,147**	**85,016**	**-**	**573,837**	**665,000**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued

As of 31 December 2022	**In USD**	**In EUR**	**In other foreign currency**	**In BGN**	**Total**
Financial assets					
Cash in hand and balances in current account with the Central Bank	61	327,009	-	200,766	**527,836**
Financial assets at amortized cost – Receivables from banks	75,632	37,788	62	25,823	**139,305**
Financial assets at amortized cost – Loans and advances to customers	-	910,079	-	592,781	**1,502,860**
Financial assets at amortized cost – Receivables from the State budget	-	-	-	23,537	**23,537**
Financial assets at amortized cost – Debt securities	-	-	-	1,745	**1,745**
Financial assets at fair value through other comprehensive income – Debt securities	18,344	341,191	-	135,384	**494,919**
Financial assets at fair value through other comprehensive income – Equity securities	-	29,271	-	54,457	**83,728**
Other financial assets	232	3	-	2,893	**3,128**
Total financial assets	**94,269**	**1,645,341**	**62**	**1,037,386**	**2,777,058**
Financial liabilities					
Borrowings from international institutions	-	779,497	-	-	**779,497**
Deposits from customers other than credit institutions	94,172	497,033	-	402,863	**994,068**
Deposits from credit institutions	-	2,174	-	467	**2,641**
Other borrowings	-	16,608	-	-	**16,608**
Guarantee provisions	1	883	-	128,076	**128,960**
Lease liabilities	-	299	-	-	**299**
Other financial liabilities	-	746	-	3,331	**4,077**
Total financial liabilities	**94,173**	**1,297,240**	**-**	**534,737**	**1,926,150**
Net balance sheet currency position	**96**	**348,101**	**62**	**502,649**	**850,908**
Contingencies and commitments	**4,705**	**131,256**	**-**	**597,356**	**733,317**

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 2023.

	2023					
Currency		**Change in exchange rates***		**Effect on the pre-tax profit in case of change in exchange rates***		**Effect on equity**
	Exchange rate	**Decrease (BPS)****	**Increase (BPS)**	**Decrease**	**Increase**	
EUR	1.95583	-	-	-	-	-
USD	1.76998	(1,687)	1,491	(1)	1	-
JPY	0.01251	(12)	5	-	-	-
GBP	2.25054	(827)	1,272	(2)	2	-
Total effect				**(3)**	**3**	**-**

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 2022.

	2022					
Currency		**Change in exchange rates***		**Effect on the pre-tax profit in case of change in exchange rates***		**Effect on equity**
	Exchange rate	**Decrease (BPS)****	**Increase (BPS)**	**Decrease**	**Increase**	
EUR	1.95583	-	-	-	-	-
USD	1.83371	(1,552)	1,545	(5)	5	-
JPY	0.01390	6	(12)	-	-	-
GBP	2.20517	(1,522)	1,243	(4)	4	-
Total effect				**(9)**	**9**	**-**

* 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 2023 and 2022 would have an immaterial effect on the Bank's financial result assessed as equal to minus BGN 3 thousand (2022: minus BGN 9 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).

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 monitoring and control of the overall liquidity are performed by Assets and Liabilities Committee (ALCO) and are based on normatively determined coefficients and ratios set by the BNB and EBA, as well as internal analysis 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. Additionally, varieties of correlations are monitored to indicate the liquid position by periods.

Liquidity risk is also measured through application of 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 could lead to a decrease of the rating 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:

	2023	**2022**
As of December 31	355.76%	250.30%
Average for the period	293.13%	462.14%
Highest for the period	405.48%	685.14%
Lowest for the period	206.31%	250.30%

	2023	**2022**
Cash and cash balances with Central Banks	128,662	527,836
Balances in current accounts with other banks and international deposits of up to 90 days	468,094	81,305
Government securities	319,521	451,935
Liquid assets	**916,277**	**1,061,076**
Financial liabilities measured at amortised cost	1,459,042	1,793,113
Provisions	119,043	132,996
Employee retirement benefits	705	610
Liabilities	**1,578,790**	**1,926,719**
Liquidity assets ratio (LAR)	**58.04%**	**55.07%**

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:

As of 31 December 2023	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets						
Cash in hand and balances in current account at Central Banks	128,662	-	-	-	-	**128,662**
Financial assets at amortized cost – Receivables from banks	468,094	1,541	4,074	40,158	-	**513,867**
Financial assets at amortized cost – Loans and advances to customers	284,394	20,996	142,265	518,909	416,069	**1,382,633**
Financial assets at amortized cost - Receivables from the State budget	-	4,139	10,123	-	-	**14,262**
Financial assets at amortized cost – Debt securities	-	-	184	1,438	-	**1,622**
Financial assets at fair value through other comprehensive income – Debt instruments	4,676	1,304	92,894	225,542	41,042	**365,458**
Financial assets at fair value through other comprehensive income – Equity instruments	121,000	-	-	-	-	**121,000**
Other financial assets	2,645	-	-	-	-	**2,645**
Total financial assets	**1,009,471**	**27,980**	**249,540**	**786,047**	**457,111**	**2,530,149**
Financial liabilities						
Borrowings from international institutions	-	15,933	112,956	440,773	12,269	**581,931**
Deposits from customers other than credit institutions	403,792	34,129	143,093	69,152	1	**650,167**
Deposits from credit institutions	209,918	-	-	-	-	**209,918**
Other borrowings	-	-	213	12,540	4,065	**16,818**
Provisions	300	600	2,700	111,487	-	**115,087**
Lease liabilities	8	16	72	112	-	**208**
Other financial liabilities	4,458	26	-	37	-	**4,521**
Total financial liabilities	**618,476**	**50,704**	**259,034**	**634,101**	**16,335**	**1,578,650**
Gap in maturity thresholds of assets and liabilities	**390,995**	**(22,724)**	**(9,494)**	**151,946**	**440,776**	**951,499**
Contingencies and commitments	**5,518**	**10,382**	**141,834**	**380,563**	**8,868**	**547,165**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash in hand and balances in current account at Central Banks	527,836	-	-	-	-	**527,836**
Financial assets at amortized cost – Receivables from banks	56,007	26,719	5,450	36,915	14,214	**139,305**
Financial assets at amortized cost – Loans and advances to customers	174,491	30,757	218,800	477,672	601,140	**1,502,860**
Financial assets at amortized cost - Receivables from the State budget	1,145	1,506	20,886	-	-	**23,537**
Financial assets at amortized cost – Debt securities	-	-	11	-	1,734	**1,745**
Financial assets at fair value through other comprehensive income – Debt instruments	23,764	32,233	85,559	309,010	44,353	**494,919**
Financial assets at fair value through other comprehensive income – Equity instruments	83,728	-	-	-	-	**83,728**
Other financial assets	3,128	-	-	-	-	**3,128**
Total financial assets	**870,099**	**91,215**	**330,706**	**823,597**	**661,441**	**2,777,058**
Financial liabilities						
Borrowings from international institutions	546	39,766	2,281	611,997	124,907	**779,497**
Deposits from customers other than credit institutions	856,018	15,853	110,051	12,146	-	**994,068**
Deposits from credit institutions	2,641	-	-	-	-	**2,641**
Other borrowings	-	-	213	12,140	4,255	**16,608**
Provisions	300	600	2,700	125,360	-	**128,960**
Lease liabilities	7	15	69	208	-	**299**
Other financial liabilities	3,427	-	-	650	-	**4,077**
Total financial liabilities	**862,939**	**56,234**	**115,314**	**762,501**	**129,162**	**1,926,150**
Gap in maturity thresholds of assets and liabilities	**7,160**	**34,981**	**215,392**	**61,096**	**532,279**	**850,908**
Contingencies and commitments	**46,348**	**4,546**	**94,293**	**443,585**	**6,485**	**595,257**

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:

As of 31 December 2023	Carrying amount	Gross flow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Financial liabilities							
Borrowings from international institutions	581,931	656,672	-	16,275	118,956	505,108	16,333
Deposits from customers other than credit institutions	650,167	650,188	403,800	34,131	143,101	69,155	1
Deposits from credit institutions	209,918	209,997	209,997	-	-	-	-
Other borrowings	16,818	19,594	-	-	217	14,281	5,096
Other financial liabilities	4,521	4,521	4,458	26	-	37	-
Lease liabilities	208	220	9	18	79	114	-
	1,463,563	**1,541,192**	**618,264**	**50,450**	**262,353**	**588,695**	**21,430**
Bank and credit guarantee provisions	**115,087**	**115,087**	300	600	2,700	111,487	-
Unutilised amount of approved loans	**184,384**	**184,384**	17,095	2,322	69,963	91,835	3,169

As of 31 December 2022	Carrying amount	Gross flow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Financial liabilities							
Borrowings from international institutions	**779,497**	**885,437**	545	40,260	62,542	625,596	156,494
Deposits from customers other than credit institutions	**994,068**	**1,055,691**	856,053	30,943	150,948	17,747	-
Deposits from credit institutions	**2,641**	**2,641**	2,641	-	-	-	-
Other borrowings	**16,608**	**18,978**	-	-	217	13,374	5,387
Other financial liabilities	**4,077**	**4,077**	3,427	-	-	650	-
Lease liabilities	**299**	**309**	8	16	72	213	-
	1,797,190	**1,967,133**	**862,674**	**71,219**	**213,779**	**657,580**	**161,881**
Bank and credit guarantee provisions	**128,960**	**128,960**	300	600	2,700	125,360	-
Unutilised amount of approved loans	**184,715**	**184,715**	17,095	2,322	69,963	91,835	3,500

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 2023 represent 84.16% of the total amount of payables to other customers (31 December 2022: 72.58%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 21.57% (31 December 2022: 29.90%).

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 2023

Financial assets	**Pledged as collateral***	**Available for collateral**	**Other****	**Total**
Cash in hand and balances in current account with the Central Bank	-	36,146	92,516	128,662
Financial assets at amortized cost – Receivables from banks	11,083	502,784	-	513,867
Financial assets at amortized cost – Loans and advances to customers	-	733,550	649,083	1,382,633
Financial assets at amortized cost – Receivables from the State budget	-	14,262	-	14,262
Financial assets at amortized cost – Securities	-	1,622	-	1,622
Financial assets at fair value through other comprehensive income – Debt instruments	6,260	359,198	-	365,458
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	121,000	121,000
Other financial assets **	-	-	2,645	2,645
Total financial assets	**17,343**	**1,647,562**	**865,244**	**2,530,149**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2022

Financial assets	Pledged as collateral*	Available for collateral	Other**	Total
Cash in hand and balances in current account with the Central Bank	-	390,788	137,048	**527,836**
Financial assets at amortized cost – Receivables from banks	6,997	132,308	-	**139,305**
Financial assets at amortized cost – Loans and advances to customers	-	923,929	578,931	**1,502,860**
Financial assets at amortized cost – Receivables from the State budget	-	23,537	-	**23,537**
Financial assets at amortized cost – Securities	-	1,745	-	**1,745**
Financial assets at fair value through other comprehensive income – Debt instruments	6,038	488,881	-	**494,919**
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	83,728	**83,728**
Other financial assets **	-	-	3,128	**3,128**
Total financial assets	**13,035**	**1,961,188**	**802,835**	**2,777,058**

* As of 31 December 2023, funds amounting to BGN 11,083 thousand (2022: BGN 6,997 thousand) were blocked on counter-guarantees of two corporate customers, maturing as follows:

Maturity interval	Receivables from banks pledged as collateral	
	2023	**2022**
From 0 to 90 days	1,541	1,267
From 91 to 180 days	51	519
From 181 to one year	4,022	4,931
Over one year	5,469	280
	11,083	**6,997**

As of 31 December 2023, restricted securities on a legal requirement to provide for funds of the State budget amount to BGN 6,260 thousand (2022: BGN 6,038 thousand).

** Other financial assets 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.

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:

	2023	**2022**
OWN FUNDS	1,049,652	1,032,009
TIER I CAPITAL	1,049,652	1,032,009
COMMON EQUITY TIER I (CET1) CAPITAL	1,049,652	1,032,009
Share capital	1,135,500	1,441,774
Loss	(231,588)	(231,588)
Statutory reserves	-	(818)
Additional reserves	305,455	-
Accumulated other comprehensive income	(57,157)	(95,314)
Intangible assets	(7,394)	(7,617)
Investments in subsidiaries	(3,023)	(3,023)
(-)CET 1 Capital instruments of companies from the financial sector when the institution has material investments	(79,315)	(54,268)
Adjustments due to prudential assessment requirements	(486)	(579)
Transitional adjustments to CET1 Capital	-	-
Deductible deferred tax assets based on future profit and arising from temporary differences	(7,998)	(12,320)
Components of or deductions from CET1 Capital – other	(4,342)	(4,237)
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)

	2023	**2022**
TOTAL RISK EXPOSURES	2,272,388	2,406,081
Credit risk – Standardised approach	2,151,038	2,291,781
Central governments or central banks	15,617	6,947
Regional governments or local authorities	1,607	1,745
Public sector entities	-	-
Multilateral development banks	-	-
Institutions	113,099	70,521
Corporates	915,958	1,003,220
Retail	252,023	264,584
Secured by mortgages on immovable property	159,175	346,793
Exposures in default	361,341	241,300
Items associated with particular high risk	139,853	136,883
Equity exposures	114,826	114,887
Other items	77,539	104,951
Currency and commodity risk	0	-
Operational risk – Basic indicator approach	121,350	114,300
CET 1 Capital Ratio	**46.19%**	**42.89%**
Total Capital Ratio	**46.19%**	**42.89%**
Capital conservation buffer	*56,810*	*60,152*
Systemic risk buffer	*68,172*	*72,182*
Institution-specific countercyclical capital buffer	*45,448*	*24,061*
Buffer of other institutions of systemic importance	*11,362*	*12,030*
Regulatory required levels		
CET 1 Capital Ratio	*6.60%*	*6.75%*
Tier 1 Capital ratio	*8.10%*	*8.25%*
Total Capital ratio	*10.10%*	*10.25%*
Capital conservation buffer	*2.50%*	*2.50%*
Systemic risk buffer	*3.00%*	*3.00%*
Institution-specific countercyclical capital buffer	*2.00%*	*1.00%*
Buffer of other institutions of systemic importance	*0.50%*	*0.50%*

By decision of BNB No 93 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 No84 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%.

By decision of MB of the BNB №292 of 15 June 2023 this requirement is reduced to 2.10%, or a minimum total capital adequacy of 10.10%, while also introducing a recommendation for additional equity of 0.30%.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.b External risks

War in Ukraine

In the early hours of February 24, 2022, Russia launched a full-scale military invasion of its southwestern neighbour, Ukraine. The attack on Ukraine has been defined as the most serious military conflict in Europe since the end of the Second World War. Large-scale economic sanctions have been imposed on Russia by the European Union, the United States, Great Britain, Canada and other countries, including traditionally neutral ones such as Switzerland, some of which also extend to Belarus. The scope of these sanctions continues to expand.

These developments had a significant impact on a number of sectors of the economy, which were partially or fully compensated by governments. Due to the unpredictable dynamics of the conflict and its medium and long-term economic consequences, the scope and effect on the Bank's business in the medium term is difficult to assess.

It is possible that, depending on the duration and scale of the conflict, and the political and economic measures taken by both Russia, the US and the EU, the Bank may revise its assumptions and judgments, which in turn could lead to significant adjustments in the book value of assets and liabilities in the next financial year.

Potential direct effects on the Bank

As of 31 December 2023, and as of the date of issue of the separate financial statements, the Bank has no exposures to institutions, whose main shareholder is a party from Russia or Ukraine, or clients whose main business is in Russia or Ukraine.

Potential effects on clients of the Bank

The business of some important customers for the Bank was affected by the disrupted supply chains, travel restrictions, increased prices, etc. As of the date of issue of the separate financial statements, clients do not yet have a detailed quantitative assessment of the effects of the war, but:

- Clients operating in the **Tourism and Hospitality** sector recorded a decrease in visits from Russia and Ukraine, which were partially offset by both domestic tourists and tourists from other destinations. Expectations for 2024 and in the medium term are mixed;
- Clients operating in the **Transport** sector registered a significant increase in energy costs, to which the war in Ukraine contributed. These additional costs were partially offset through various government programs. In 2023 a retention of the rates of increase of prices and partial reversal of the trend were observed. These customers are uncertain about developments in 2024 and the effect on operating results and financial position;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.6 External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Bank (continued)

- Clients in the **Construction and Real Estate sector** expect the high prices of materials to persist in the medium term, as the main suppliers of these raw materials - iron, cement, etc. - are Russia and Ukraine. After the increase in 2022-2023 it is expected that the prices will remain steady and in the event of a favorable development of the conflict – to move towards a decline with the corresponding effects on the cost of the end product;
- Customers in the **Trade and Services sector** recorded an increase in costs due to increased energy prices, as well as general inflationary pressures, to which the war contributed. The inflation trends are in the direction of price stability with the corresponding favorable effects on the sector;
- Customers in the **Manufacturing Industry** sector are directly affected by the increased prices of energy carriers and materials, as well as by disrupted supply chains, which continue to create difficulties. With the reorientation of supply and the normalization of energy prices, customers in the sector are expected to recover their normal margins and efficiency;
- The Bank's clients in the **Production, transmission, distribution and supply of natural gas and thermal energy** sector were directly affected by the increased prices of energy carriers, with the relevant government programs partially or fully compensating these increases. The finding of alternative natural gas supplies in Europe, combined with warmer winter weather, has resulted in relative stability for these enterprises, with the exception of enterprises with regulatory disbalance. The normalization of supplies, prices and market relations will play a positive role in the activity of these enterprises.

It is unlikely as a result of these developments, as well as the developments in 2024, and further that the customers will be become permanently unable to repay their liabilities to the Bank as a result of the conflict.

As of 30 April 2024, the Bank has the following significant exposures[2] to the potentially affected sectors:

[2] Top 25 clients, including balance sheet debt, off-balance sheet exposures and unutilized credit lines.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.b External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Bank (continued)

	As of 30 April 2024
Construction and real estate	277,922
Industry	419,377
Trade and services	149,416
Transport	168,932
Production, transmission, distribution and supply of natural gas and thermal energy	113,635
Tourism and hospitality	242,409
	1,371,691

The Bank closely monitors the developments concerning its clients and is ready to take appropriate measures to protect its interest and the interests of its clients.

The conflict in the Middle East

On October 7, 2023, the Hamas movement that administers the Palestinian territory of Gaza attacked the State of Israel, killing over 1,200 people and taking 240 hostages. In response, Israel launched a massive military operation against Hamas that continues to this day. In addition, some provocative actions by Israel and Iran create an opportunity for tensions to rise. The mood in both the Middle East and the United Nations is mixed, creating political and economic uncertainty, volatility in energy prices and a diversion of resources to the defence industry.

The Bank carefully monitors the developments and their likely impact on the Bulgarian economy and on the customers-borrowers. Currently, including due to the insignificant direct exposure to the State of Israel or other countries of the Middle East, the Bank does not expect a significant impact of the crisis on the ability of customers to service their loans.

The effect of general economic consequences of the crises described above may lead to the need to revise certain assumptions and accounting judgments, which may lead to changes in the carrying amount of the exposures described above within the next financial year.

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 a book value of BGN 1,312 thousand as of 31 December 2023 (2022: BGN 1,487 thousand), held at cost of acquisition, is not disclosed as the Bank believes that they cannot be reliably estimated.

As of 31 December 2023		**Carrying amount**				**Fair value**			
	Note	**Financial assets at amortized cost**	**Financial assets at fair value through OCI**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	365,458	-	365,458	350,691	-	14,767	365,458
Equity instruments at fair value through other comprehensive income	22	-	121,000	-	121,000	119,688	-	-	119,688
Assets acquired from collateral foreclosure	27	-	-	38,726	38,726	-	-	38,726	38,726
Investment property	25	-	-	5,351	5,351	-	-	5,351	5,351
		-	**486,458**	**44,077**	**530,535**	**470,379**	**-**	**58,844**	**529,223**
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	128,662	-	-	128,662	-	128,662	-	128,662
Loans to banks	18	34,690	-	-	34,690	-	36,483	-	36,483
Current accounts and term deposits of banks	18	479,177	-	-	479,177	-	479,177	-	479,177
Loans and advances to customers	19	1,382,633	-	-	1,382,633	-	1,436,579	-	1,436,579
Receivables from the State budget	20	14,262	-	-	14,262	-	14,385	-	14,385
Securities at amortized cost	21	1,622	-	-	1,622	-	1,704	-	1,704
		2,041,046	**-**	**-**	**2,041,046**	**-**	**2,096,990**	**-**	**2,096,990**
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	581,931	581,931	-	633,351	-	633,351
Deposits from customers other than credit institutions	29	-	-	650,167	650,167	-	649,163	-	649,163
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	209,918	209,918	-	209,918	-	209,918
Other borrowings	31	-	-	16,818	16,818	-	15,784	-	15,784
		-	**-**	**1,458,834**	**1,458,834**	**-**	**1,508,216**	**-**	**1,508,216**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

As of 31 December 2022		**Carrying amount**				**Fair value**			
	Note	**Financial assets at amortized cost**	**Financial assets at fair value through OCI**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	494,919	-	494,919	480,234	-	14,685	494,919
Equity instruments at fair value through other comprehensive income	22	-	83,728	-	83,728	82,241	-	-	82,241
Assets acquired from collateral foreclosure	27	-	-	37,434	37,434	-	-	37,434	37,434
Investment property	25	-	-	8,221	8,221	-	-	8,221	8,221
		-	**578,647**	**45,655**	**624,302**	**562,475**	**-**	**60,340**	**622,815**
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	527,836	-	-	527,836	-	527,836	-	527,836
Loans to banks	18	51,003	-	-	51,003	-	52,536	-	52,536
Current accounts and term deposits of banks	18	88,302	-	-	88,302	-	88,302	-	88,302
Loans and advances to customers	19	1,502,860	-	-	1,502,860	-	1,538,377	-	1,538,377
Receivables from the State budget	20	23,537	-	-	23,537	-	26,846	-	26,846
Securities at amortized cost	21	1,745	-	-	1,745	-	1,659	-	1,659
		2,195,283	**-**	**-**	**2,195,283**	**-**	**2,235,556**	**-**	**2,235,556**
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	779,497	779,497	-	824,130	-	824,130
Deposits from customers other than credit institutions	29	-	-	994,068	994,068	-	993,996	-	993,996
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	2,641	2,641	-	2,641	-	2,641
Other borrowings	31	-	-	16,608	16,608	-	17,573	-	17,573
		-	**-**	**1,792,814**	**1,792,814**	**-**	**1,838,340**	**-**	**1,838,340**

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:

Types of assets and liabilities at fair value	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2023	31.12.2022				
Financial assets at fair value through other comprehensive income Debt instruments (quoted)	350,691	480,234	Level 1	Quoted market price without adjustment	N/A	N/A
Financial assets at fair value through other comprehensive income Debt instruments (unquoted)	14,767	14,685	Level 3	Discounted cash flows	Effective interest rate of the security	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	119,688	82,241	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)

Types of assets and liabilities at fair value	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2023	31.12.2022				
Investment property	5,351	8,221	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 121 and BGN 2,382/sq. m, and their adjoining land – between 1 and 463 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 per sq. m. 2. price growth assumptions – 0-10% 3. levels of vacant unoccupied space – 3-60% 4. discount rate – 5-9%	The higher (lower) fair value if: - 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)
Assets, acquired from collateral foreclosure	38,726	37,434	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 0.7-8.7 sq. m /monthly.		

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.

Types of assets and liabilities at fair value	Fair value as of 31.12.2023	Fair value as of 31.12.2022	Fair value hierarchy	Measurement technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans to banks	36,483	52,536	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	1,436,579	1,538,377	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 2023.	N/A	N/A
Receivables from the State budget	14,385	26,846	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2023.	N/A	N/A
Securities at amortized cost	1,704	1,659	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) and interest rates for December 2023.	N/A	N/A
Other borrowings	15,784	17,573	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2023.	N/A	N/A
Borrowings from international institutions	633,351	824,130	Level 2		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

	2023	2022
Interest income		
Financial assets measured at amortised cost		
Loans and advances to customers	88,639	67,203
Loans to banks	2,095	1,120
Receivables from the State budget	825	355
Deposits placed with other banks	22,323	2,971
Securities	79	45
Financial assets at fair value through other comprehensive income	3,949	3,228
Other liabilities (effect of negative interest)	30	2,305
	117,940	**77,227**
Incl. Interest income on loans and receivables in Phase 2 and 3	**10,566**	**20,778**
Interest expenses		
Borrowings from international institutions	(32,054)	(15,996)
Deposits from customers other than credit institutions	(7,369)	(1,263)
Other borrowings	(506)	(159)
Deposits from credit institutions	(11,091)	(127)
Finance lease	(12)	(14)
Other assets (effect of negative interest)	-	(1,258)
	(51,032)	**(18,817)**
Net interest income	**66,908**	**58,410**

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 INCOME

	2023	2022
Fee and commission income under IFRS 15		
Transaction-related services	344	652
Issuance of guarantees and letters of credit	4,045	3,434
Account maintenance	257	214
Factoring transactions	41	179
Total fee and commission income from contract with customers	**4,687**	**4,479**
Other charges	32	17
Total fees and commissions income	**4,719**	**4,496**
Fee and commission expenses		
Co-management fee COVID guarantees	(2,819)	(3,504)
Agent’s commissions	(2)	(1)
Factoring transactions	(4)	(129)
Servicing of accounts with other banks	(37)	(22)
Transfers and treasury operations in other banks	(7)	(4)
Total fee and commission expenses	**(2,869)**	**(3,660)**
Net fee and commission income	**1,850**	**836**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. NET FEE AND COMMISION INCOME (CONTINUED)

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.

8. NET GAIN ON FOREIGN EXCHANGE DEALS

	2023	2022
Net gain on dealing in foreign currencies	261	546
Net loss on foreign currency translation of assets and liabilities	(3)	(22)
	258	**524**

9. NET LOSS ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	2022
Net loss on dealing in securities measured at fair value through OCI, incl. realised revaluation reserve	(11)	(851)
	(11)	**(851)**

10. OTHER OPERATING INCOME

	2023	2022
Income from rent of investment property	495	605
Refunded litigation expenses	205	82
Proceeds from disposal of fixed tangible assets	22,668	1
Dividends received	2,588	127
Gain on revaluation of investment properties	-	869
Gain on sale of properties for resale	3,116	817
Other income	489	451
	29,561	**2,952**

In 2023 the Bank sold the building purchased in 2020 located at 2, Tsar Osvoboditel Blvd. to the Constitutional Court of the Republic of Bulgaria. This sale represents over 90% of item Proceeds from disposal of fixed tangible assets above.

In 2023 the Bank received a dividend from the subsidiary National Guarantee Fund EAD for 2022 amounting to BGN 2,515 thousand.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

11. OTHER OPERATING EXPENSES

	2023	2022
Loss on revaluation of investment property	(16)	-
Expenses on assets held for sale	(506)	(540)
Direct operating expenses relating to investment property	(238)	(306)
Expenses on disposal of fixed tangible assets	(21,136)	(13)
Litigation expenses	(12)	(19)
Expenses for past periods, accounted for in the current (lost lawsuits)	-	(180)
VAT of BDB Factoring EAD	-	(4)
Withholding tax	(1)	-
Other	(6)	-
	(21,915)	**(1,062)**

Over 90% of item Expenses on disposal of fixed tangible assets represent the carrying amount of the building sold at 2, Tsar Osvoboditel Blvd. (see previous note).

12A. EXPENSES FOR IMPAIRMENT AND PROVISIONS OF FINANCIAL INSTRUMENTS

	2023	2022
Expenses for impairment on loans, net	(21,884)	(44,451)
Income from provisions on credit guarantees anti-COVID programs, net	3,230	44,134
Income from reversed provisions on bank guarantees, net	1,302	2,177
Income from/(expenses for) impairment on assets at fair value through other comprehensive income, net	445	(3,170)
Income from/(expenses for) impairment of securities at amortized cost, net	25	(16)
Income from reversed impairment on unutilised loans	12	18
	(16,870)	**(1,308)**

12B. EXPENSES FOR IMPAIRMENT OF PROVISIONS OF NON-FINANCIAL ASSETS

	2023	2022
Expenses for impairment of assets acquired from collateral foreclosure	(448)	(149)
Impairment of subsidiaries	-	(5,290)
Impairment of other assets	-	(1,150)
	(448)	**(6,589)**

The impairment of other assets is an impairment of an advance paid to a supplier of an information system, for which the Bank's management has decided that it will not be implemented, regardless of the activities carried out in this direction.

12C. PROVISIONS FOR LAWSUITS

In 2022, provisions were accrued for a lawsuits, which the Bank expects to lose. The total cost of potential loss related to the lawsuits is BGN 4,017 thousand. In 2023 provisions for these lawsuits have been reversed amounting to BGN 73 thousand and provisions were accrued amounting to BGN 6 thousand.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. EMPLOYEE BENEFITS EXPENSES

	2023	2022
Staff remuneration and social security	(15,012)	(15,189)
Remuneration to members of the Management and Supervisory Boards	(1,145)	(1,253)
	(16,157)	**(16,442)**

Staff remuneration and social security	2023	2022
Salaries	(13,000)	(13,195)
Social security	(1,819)	(1,870)
Social benefits	(53)	(52)
Amounts accrued on retirement benefits	(140)	(72)
	(15,012)	**(15,189)**

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Communications and IT services	(1,975)	(1,744)
Office and office equipment maintenance	(1,527)	(1,494)
Legal and consulting services	(1,917)	(1,793)
Bank supervision fees	(869)	(1,749)
Advertising and entertainment expenses	(793)	(669)
Audit services by the registered auditors	(615)	(586)
Hired services	(590)	(783)
Taxes and government charges	(362)	(395)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(87)	(91)
Business trips	(58)	(55)
Rents	(57)	(56)
Other services provided by the registered auditors	-	(118)
	(8,850)	**(9,533)**

The amounts charges for the year for services provided by the registered audit firms of the Bank include: independent financial audit BGN 615 thousand (2022: BGN 586 thousand), as well as agreed-upon procedures for BGN 0 thousand (2022: BGN 118 thousand).

The services used in 2022 are mainly related to regulating requirements and Pillar assessment for the purposes of funds assignment by the European Commission and business review of the subsidiary. The Bank did not receive tax advisory services or other services not related to audit by the statutory auditors, except the above.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. TAXATION

	2023	2022
Income from/(expense for) current tax	7,136	(358)
Income from/(expense for) deferred taxes as a result of occurrence of temporary differences	(81)	305
Deferred tax asset on losses not recognized	-	358
Tax loss carried forward from previous years	(7,136)	-
Total current tax (expense)/benefit	**(81)**	**305**

	2023	2022
Accounting profit	**31,661**	**19,914**
Income tax expense calculated at the effective tax rate (10% for 2023, 10% for 2022)	(3,166)	(1,991)
Tax expense for unrecognized expenses for tax purposes	(4,357)	(1,212)
Income from recognized expenses for tax purposes	306	3,866
Deferred tax asset on losses not recognized	-	(358)
Tax loss carried forward from previous years	7,136	-
Total income tax (expense)/benefit	**(81)**	**305**
Effective tax rate	**0.26%**	**N/A**

In 2023 and 2022, the Bank did not pay advance corporate income taxes.

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:

	Assets		Liabilities		
	2023	**2022**	**2023**	**2022**	**Changes in the statement of comprehensive income**
Property and equipment	(25)	(3)	-	-	(22)
Other assets	(325)	(489)	-	-	164
Investment properties	-	-	70	130	(60)
Securities at fair value through other comprehensive income	(7,718)	(11,959)	-	-	4,240
	(8,068)	**(12,451)**	**70**	**130**	**4,323**

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

16. NET CHANGE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	2022
Gains/(losses), during the year	42,410	(23,163)
10% tax	(4,241)	2,316
Incl. debt instruments	*15,246*	*(34,952)*
10% tax	*(1,525)*	*3,495*
Incl. equity instruments	*27,164*	*11,789*
10% tax	*(2,716)*	*(1,179)*
Other comprehensive income for the year, net of tax	**38,169**	**(20,847)**

17. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH CENTRAL BANKS

	2023	2022
Cash in hand	920	442
Current account with central banks	127,742	527,394
Of which with Deutsche Bundesbank	*30,129*	*313,747*
Of which with BNB	*97,613*	*213,647*
Incl. Minimum statutory reserves	*92,516*	*137,048*
Total cash with central banks	**127,742**	**527,394**
Total cash in hand and in accounts with central banks	**128,662**	**527,836**

In 2023 the current accounts with the Central Bank bear interest rate of between 0.0% and 4.0% on the excess over 105% of the minimum statutory reserves (in 2022: minus 0.70%-2.0%).

18. RECEIVABLES FROM BANKS

	2023	2022
Current accounts and demand deposits with local banks	36	118
Current accounts and demand deposits with foreign banks	19,788	12,292
Total current accounts and demand deposits	**19,824**	**12,410**
incl. Current accounts with an original maturity of less than 90 days	*8,741*	*5,413*
Term deposits with local banks (incl. repo deals)	97,813	33,048
Term deposits with foreign banks (incl. repo deals)	361,540	42,844
Total term deposits	**459,353**	**75,892**
incl. Term deposits with an original maturity of less than 90 days	*459,353*	*75,892*
Loans to local banks	35,391	52,387
Total loans granted	**35,391**	**52,387**
Allowance for impairment and uncollectability of receivables from banks	(701)	(1,384)
	513,867	**139,305**

As of 31 December 2023, special-purpose loans, denominated and BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 4.93%% to 13.12% (2022: 3.85% to 6.25%), were extended with the aim to develop small and medium-sized enterprises.

Funds amounting to BGN 11,083 thousand were blocked in current accounts with foreign banks to cover letters of credit (2022: BGN 6,997 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. RECEIVABLES FROM BANKS (CONTINUED)

As of 31 December 2023, a loan was provided to a local bank denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand (31 December 2022: BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loans in four instalments. This is a special-purpose loan extended to a bank 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.

19. LOANS AND ADVANCES TO CUSTOMERS

	2023	2022
Loans (gross amount)	1,620,386	1,746,625
Impairment on loans	(237,753)	(243,765)
	1,382,633	**1,502,860**

	2023	2022
A. Analysis by customer type (gross amount)		
Corporate and sole traders	1,616,570	1,742,275
Municipalities	-	338
Individuals	3,816	4,012
	1,620,386	**1,746,625**

	2023	2022
B. Analysis by industry sector (gross amount)		
Trade	430,092	450,592
Manufacturing Industry, total	275,423	326,337
Manufacturing Industry – manufacturing of plant and equipment	*83,035*	*92,598*
Manufacturing Industry – energy generation and distribution	*65,514*	*67,973*
Manufacturing Industry – manufacturing of foodstuffs	*45,968*	*46,965*
Manufacturing Industry – other industries	*80,906*	*118,801*
Tourist services	262,532	262,346
Financial services	194,707	197,186
Government sector	126,460	135,871
Construction	114,342	137,445
Transport	111,883	130,094
Real estate transactions	51,564	55,657
Agriculture	29,357	32,061
Other industries	24,026	19,036
	1,620,386	**1,746,625**

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

	2023	2022
As of 1 January	**243,765**	**340,445**
Impairment costs	63,371	105,790
Reversed impairment	(41,487)	(61,339)
Written-off against impairment	(27,896)	(141,131)
As of 31 December	**237,753**	**243,765**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. RECEIVABLES FROM THE STATE BUDGET

	2023	2022
Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	14,431	23,598
Allowance for impairment and uncollectability of loans (collective impairment)	(169)	(61)
	14,262	**23,537**

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).

21. SECURITIES MEASURED AT AMORTIZED COST

The available securities, financial assets measured at amortized cost as of 31 December 2023 and 2022 are as follows:

2023	**Nominal value** ***In original currency***	**Gross amount**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	1,680	1,704	(82)	1,622
	1,680	**1,704**	**(82)**	**1,622**

2022	**Nominal value** ***In original currency***	**Gross amount**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	1,840	1,851	(106)	1,745
	1,840	**1,851**	**(106)**	**1,745**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	**2022**
Government securities	319,521	451,935
Corporate bonds	45,937	42,984
Total debt instruments	**365,458**	**494,919**
Non-publicly traded companies' shares	40,557	28,150
Participation in investment program SIA (Note 37)	1,128	1,304
Public companies' shares	79,315	54,274
Of which shares of First Investment Bank AD	*79,315*	*54,268*
Total equity instruments	**121,000**	**83,728**
Total financial assets measured at fair value through OCI	**486,458**	**578,647**

Debt instruments

The movement in debt financial assets measured at fair value through other comprehensive income in the current and prior periods are as follows:

	2023	**2022**
As of 1 January	494,919	591,943
Increase (purchases)	166,483	159,712
Disposals (sale and/or maturity)	(311,635)	(221,784)
Net (decrease)/increase due to revaluation of financial assets measured at fair value through other comprehensive income	15,691	(34,952)
As of 31 December	**365,458**	**494,919**

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:

	2023	**2022**
As of 1 January	83,728	64,669
Additions (purchases)	10,115	7,270
Disposals (sale and/or maturity)	(7)	-
Net increase due to revaluation of financial assets measured at fair value through other comprehensive income	27,164	11,789
As of 31 December	**121,000**	**83,728**

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.

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 2023, 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 2023: BGN 2.9000 (as of 31 December 2022: BGN 1.9842) per share.

Chimimport AD

In 2023 the Bank sold its 9,632 shares of the Chimimport AD conglomerate and as of the end of 2023 the Bank does not owns shares of the company.

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 Three Seas Investment. 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

Three Seas Initiative (continued)

As of 31 December 2023 the Bulgarian Development Bank EAD has two representatives in the management of the Investment Fund "Three Seas": as member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director and Mrs. Sofia Kasidova – Head of Department "Strategic Development and Green Policies" in BDB as member of the Management Board.

As of 31 December 2023, the amount of the investment of BDB in the Three Seas Fund is BGN 34,538 thousand (as of 31.12.2022: BGN 22,030 thousand) and in 2023 the Bank subscribed additional shares in the amount of EUR 4,665 thousand (BGN 9,124 072 thousand). 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 5,835 thousand (2022: BGN 5,937 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 2023, thirty-one (2022: twenty-nine) equity contributions were made under the initiative amounting to EUR 755 thousand equivalent to BGN 1,477 thousand (2022: EUR 666 thousand equivalent to BGN 1,304 thousand). The carrying amount of the investment as of 31 December 2023 amounts to BGN 1,128 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.

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 36:

	2023	2022
Revaluation reserve as of 1 January	**(95,455)**	**(74,608)**
Impairment	(445)	3,170
Revaluation	42,855	(26,333)
Tax	(4,241)	2,316
Revaluation reserve as of 31 December	**(57,286)**	**(95,455)**

23. INVESTMENTS IN SUBSIDIARIES

As of 31 December 2023, 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 2023 consists of 800,000 shares of BGN 100 each (31 December 2022: 800,000 shares of BGN 100 per share). The registered capital as of 31 December 2023 amounts to BGN 80,000 thousand (31 December 2022: BGN 80,000 thousand). The investment in the subsidiary as of 31 December 2023 amounts to BGN 80,000 thousand (31 December 2022: BGN 80,000 thousand), measured at historical cost of acquisition.

BDB Micro Financing EAD

The Bank is a sole owner of the capital of BDB Micro Financing EAD, registered on 14 January 2011. The total registered share capital as of 31 December 2023 amounts to BGN 14,643 thousand, split into 146,430 shares of BGN 100 each (as of 31.12.2022: BGN 14,643 thousand, split into 146,430 shares of BGN 100 each). The investment in the subsidiary as of 31 December 2023 amounts to BGN 14,643 thousand (31 December 2022: BGN 14,643 thousand), measured at historical cost of acquisition.

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, its capital amounting to BGN 65,000 thousand. On incorporation 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.

The General Meeting of Shareholders of Capital Investment Fund AD, at its extraordinary session from 09.09.2022, decided to reduce its capital from BGN 65,000,000 (sixty-five million) to BGN 57,814,000 (fifty-seven million eight hundred and fourteen thousand) by acquiring and withdrawal of 71,860 (seventy-one thousand eight hundred and sixty) ordinary registered voting and non-divisible shares, with a nominal value of BGN 100 each, in order to cover losses and in order to comply with the provision of art. 252, para. 1, item 5 of the Commerce Act in connection with art. 247a, para. 2 of the Commerce Act. The decision was entered in the Commercial Register on 16.09.2022.

As of 31 December 2023, the capital of the Fund has been fully paid-in. The book value of BDB's investment in the capital of the Fund as of 31.12.2023 amounts to BGN 49,302 thousand (as of 31 December 2022: BGN 49,302 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.

23. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

BDB Leasing EAD (continued)

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. On 23.08.2022 the Management Board of Bulgarian Development Bank EAD in order to cover the losses of the company decided to reduce the capital of BDB Leasing EAD from BGN 20,000,000 to BGN 18,630,000 by withdrawing 13,700 shares, as well as to change the company's statutes related to the capital decrease. The decisions for capital decrease and changes in the company's statutes were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 15.09.2022.

The carrying amount of the investment as of 31 December 2023 is BGN 20,000 thousand (as of 31 December 2022: BGN 20,000 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. As of 31 December 2023 the carrying amount of the Bank’s shares in the company is BGN 3,023 thousand (as of 31 December 2022: BGN 3,023 thousand).

As at 31 December 2023, management conducted a review for impairment of the investments in subsidiaries and found that there were no indications for their impairment.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Cost						
As of 1 January 2022	**54,863**	**3,778**	**780**	**1,017**	**11,373**	**71,811**
Additions	-	130	2	6	882	1,020
Disposals	-	(9)	-	-	(1,641)	(1,650)
As of 31 December 2022	**54,863**	**3,899**	**782**	**1,023**	**10,614**	**71,181**
Additions	-	162	4	-	906	1,072
Disposals	(22,310)	-	-	(29)	(236)	(22,575)
As of 31 December 2023	**32,553**	**4,061**	**786**	**994**	**11,284**	**49,678**
Accumulated depreciation/amortization						
As of 1 January 2022	**4,018**	**2,658**	**554**	**475**	**3,309**	**11,014**
Charge for the year	961	433	94	198	1,320	3,006
Disposals	-	(38)	-	-	(1,630)	(1,668)
As of 31 December 2022	**4,979**	**3,053**	**648**	**673**	**2,999**	**12,352**
Charge for the year	950	418	69	163	1,132	2,732
Disposals	(1,174)	-	-	(29)	(237)	(1,440)
As of 31 December 2023	**4,755**	**3,471**	**717**	**807**	**3,894**	**13,644**
Net book value						
As of 1 January 2022	**50,845**	**1,120**	**226**	**542**	**8,064**	**60,797**
As of 31 December 2022	**49,884**	**846**	**134**	**350**	**7,615**	**58,829**
As of 31 December 2023	**27,798**	**590**	**69**	**187**	**7,390**	**36,034**

As of 31 December 2023, the book value of fully depreciated property, plant and equipment used in the activities of the Bank amount to BGN 2,772 thousand (31 December 2022: BGN 1,990 thousand), and the fully depreciated intangible assets - BGN 1,281 thousand (2022: BGN 1,405 thousand).

25. INVESTMENT PROPERTY

	2023	2022
Carrying amount at the beginning of period	8,221	7,352
Acquired from collateral foreclosure	32	-
Sold	(2,886)	-
(Loss)/Gain on change in fair value	(16)	869
	5,351	**8,221**

The Bank holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2023 amounts to BGN 495 thousand (2022: BGN 605 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

26. ASSETS HELD FOR SALE

As of 31 December 2023 and 31 December 2022, assets held for sale realized the following movements and balances:

Movement in assets held for sale during the year:	**2023**	**2022**
Carrying amount at the beginning of period	2,561	4,107
Acquired from collateral foreclosure	280	2,561
Reclassified to assets acquired from collateral foreclosure	(2,841)	(4,107)
	-	**2,561**

These assets have not been used and it is not planned to be used in the Bank's activity. Management actively seeks buyers and plans to sell them by the end of 2024.

Assets that are not sold within one year of their acquisition are reclassified as Assets acquired from collateral foreclosure. The Bank manages these assets and continues looking for a buyer.

27. ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE AND OTHER ASSETS

	2023	**2022**
Carrying amount at the beginning of year	**37,434**	**34,719**
Reclassified from held for sale	2,841	4,107
Additional capitalised costs	1,332	1,921
Sold	(2,433)	(3,164)
Impairment (Note 12)	(448)	(149)
Carrying amount at the end of the year	**38,726**	**37,434**

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.

	2023	**2022**
Assets acquired from collateral foreclosure	38,726	37,434
Prepayments and advances	2,101	3,152
Art	66	66
VAT refundable	-	37
Other assets	2,645	3,091
Impairment of other receivables	-	*(824)*
	43,538	**42,956**

As of 31 December 2023, the other receivables include mainly receivables for fees for guarantees.

As of 31 December 2023, the other receivables include receivables from a supplier of operating software, the contractual relationships with whom were terminated in 2022. The receivables not written-off as of 31 December 2022 from this supplier in the amount of BGN 824 thousand are fully impaired.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2023	2022
Deposits from local banks	189,700	485
Deposits from foreign banks	20,218	2,156
	209,918	**2,641**

	2023	2022
Term deposits	189,303	-
Demand deposits	20,615	2,641
	209,918	**2,641**

The accrued interest payables on deposits of the credit institutions as of 31 December 2023 amount to BGN 58 thousand (31.12.2022: no payables).

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2023	2022
Companies and sole traders	578,819	924,186
Special-purpose deposits	63,466	63,128
Individuals	7,882	6,754
	650,167	**994,068**

	2023	2022
Term deposits	263,078	115,581
Demand deposits	387,089	878,487
	650,167	**994,068**

Interest payable on deposits from customers, other than credit institutions as of 31 December 2023 amount to BGN 1,705 thousand (2022: BGN 198 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

	2023	2022
China Development Bank	445,216	557,604
Industrial and Commercial Bank of China /EUROPE/	103,945	118,000
Long-term loans from the European Investment Bank	32,770	36,850
Export–Import Bank of China	-	49,415
Long-term framework loan agreement with the Council of Europe Development Bank	-	17,628
	581,931	**779,497**

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 2023 are in the range from 4.10%-5.35% (31.12.2022: from 2.03%-4.15%).

In 2023 the loan to Export-Import Bank of China was paid in advance and fully repaid.

The interest payables on the borrowings from international institutions as of 31 December 2023 amount to BGN 1,728 thousand (2022: BGN 1,721 thousand).

As of 31 December 2023, the main funding sources of the Bulgarian Development Bank EAD are presented below, as follows:

China Development Bank

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 2023, the loan is fully utilized and used according to purpose.

As of 31 December 2023, the outstanding principal on the loan amounts to EUR 227,500 thousand equivalent to BGN 444,951 thousand. The interest rate is floating, based on the 6M EURIBOR plus a margin.

As of 31 December 2022, the outstanding principal on the loan amounts to EUR 285,000 thousand equivalent to BGN 557,412 thousand.

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 2023, the loan is fully utilized and used according to purpose.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Industrial and Commercial Bank of China (through its divisions in Austria and Poland) (continued)

As of 31 December 2023, the debt on the loan amounts to EUR 52,500 thousand equivalent to BGN 102,681 thousand. The interest rate is floating based on six-month EURIBOR plus margin.

As of 31 December 2022, the debt on the loan amounts to EUR 60,000 thousand equivalent to BGN 117,350 thousand.

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 BBD, 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 2023, the loan is fully utilized, used according to purpose and repaid.

As of 31 December 2022, the outstanding principal on the loan amounts to EUR 25,000 thousand equivalent to BGN 48,896 thousand.

On 5 December 2023 the BDB signed a new agreement with Export – Import Bank of China for the amount of EUR 50,000 thousand. The funds can be used to finance the overall lending activity of BBD. The interest rate is floating, based on the three-month EURIBOR plus margin. As of 31 December 2023, no funds have been utilized on the loan.

European Investment Bank

On 18 November 2016, BDB signed a third contract with European Investment Bank (EIB) 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 2023, the outstanding principal under the loan amounted to EUR 16,728 thousand equivalent to BGN 32,717 thousand. The interest rate is floating, based on the 6M EURIBOR plus a margin.

As of 31 December 2022, the outstanding principal under the loan amounted to EUR 18,819 thousand equivalent to BGN 36,806 thousand.

On 11 July 2023 the BDB signed with European Investment Bank a financial agreement amounting to EUR 175,000 thousand with State guarantee. The guarantee agreement was signed on 19 July 2023 and subsequently it was ratified by the National Assembly of the Republic of Bulgaria on 27 July 2023.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

European Investment Bank (continued)

The purpose of the loan is to finance small and medium-sized enterprises, innovations, green projects according to EIB definitions, including climate and environmental sustainability. Financing can be provided directly or through intermediaries approved by the EIB. As of 31 December 2023, no funds have been utilized under the loan.

Council of Europe Development Bank

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 2023, 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. As of 31 December 2023, the loan is fully repaid. As of 31 December 2022, the loan payable amounts to EUR 9,000 thousand equivalent to BGN 17,602 thousand.

On 13 July 2023 the Bulgarian Development Bank signed with the Council of Europe Development Bank a financial agreement amounting to EUR 175,000 thousand with State guarantee. The Guarantee Agreement was signed on 20 July 2023 and the draft law for its ratification was submitted to the National Assembly of the Republic of Bulgaria on 27 July 2023 without the ratification procedure completed as of 31 December 2023. The loan is intended for direct financing of small and medium-sized enterprises, job creation and environmental protection environment. As of 31 December 2023, no funds have been utilized under the loan.

31. OTHER BORROWINGS

	2023	**2022**
Loan financing from the Ministry of Finance with funds from KfW	11,687	11,286
KfW funds provided by the Ministry of Finance for trust management	5,131	5,322
	16,818	**16,608**

Interest payables accrued on other borrowings as of 31 December 2023 amount to BGN 22 thousand (2022: BGN 12 thousand).

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 2023, the outstanding principal amounted to EUR 5,964 thousand equivalent to BGN 11,664 thousand. The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2022, the outstanding principal on the loan amounts to EUR 5,765 thousand equivalent to BGN 11,275 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 fur 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 2023, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,623 thousand equivalent to BGN 5,131 thousand.

As of 31 December 2022, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,721 thousand equivalent to BGN 5,322 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

	2023	**2022**
Provisions for guarantee programmes related to the COVID-19 pandemic	111,845	127,215
Bank guarantee provisions	3,242	1,745
Total provisions for guarantees	**115,087**	**128,960**
Provisions for lawsuits	3,950	4,017
Provisions for unutilized loans	6	19
	119,043	**132,996**

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.

In 2023, the Bank reassessed the provisioning rates based on the results of the guaranteed portfolios in 2022 and 2023. As a consequence, the Bank retained the provisioning rate on guarantees for loans to enterprises to 27.6% and reduced the rates on guarantees on loans for individuals to 34% (as of 31 December 2022: 36%). Cumulatively, in 2023, the movement in the provisions under guarantee programs related to the COVID-19 pandemic is an increase by BGN 6,945 thousand (2022: decrease by BGN 15,386 thousand) of provisions for guarantees on loans to enterprises, and a decrease of BGN (22,315) thousand (2022: decrease by BGN 33,769 thousand) of provisions on guarantees for loans of individuals.

Bank guarantee provisions are amounts determined using the expected credit loss method in accordance with IFRS 9. The provisions for issued individual guarantees as of 31 December 2023 amounted to BGN 1,975 thousand (2022: BGN 1,745 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

32. PROVISIONS (CONTINUED)

The table below presents the movement of guarantee provisions:

	2023	2022
Balance as of 1 January	**128,960**	**177,715**
Accruals for the year – anti-COVID programmes	20,883	14,029
Utilised in the year	(12,140)	(5,020)
Reversed in the year	(24,113)	(58,164)
	(15,370)	*(49,155)*
Accruals for the year – bank guarantees	1,905	756
Utilised in the year	2,799	2,578
Reversed in the year	(3,207)	(2,934)
	1,497	*400*
Balance as of 31 December	**115,087**	**128,960**

The table below presents the movement of provisions for lawsuits:

	2023	2022
Balance as of 1 January	4,017	-
Accrued in the statement of comprehensive income	6	4,017
Released during the year	(73)	-
Balance as of 31 December	**3,950**	**4,017**

33. LEASE LIABILITIES

Lease liabilities represent liabilities to lease companies, related to assets purchased on lease. As of 31 December 2023, these liabilities amount to BGN 208 thousand (as of 31 December 2022: BGN 299 thousand).

34. OTHER LIABILITIES

	2023	2022
Accruals for expenses	2,273	2,263
Payables to personnel for salaries and social security	861	872
Retirement benefit liabilities	705	610
Tax liabilities	208	105
Charges on debenture loans and guarantees	73	635
Payables to EIF	26	-
Other creditors	1,153	919
	5,299	**5,404**

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

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 705 thousand was included in the separate statement of financial position as of 31 December 2023 (31 December 2022: BGN 610 thousand).

	2023	2022
Present value of the liability as of 1 January	**610**	**754**
Current service cost	92	67
Interest expense	37	4
Amounts paid in the period	(57)	(43)
Actuarial loss related to provisions for retirement and sickness	11	-
Actuarial loss/(gain) on changes in demographic and financial assumptions and actual experience	12	(172)
Present value of the liability as of 31 December	**705**	**610**

	Amounts on retirement for old age and length of service	
	2023	**2022**
Actuarial gain/(loss) as of 1 January	141	(31)
Actuarial gain / (loss) recognized in other comprehensive income for the period	(12)	172
Actuarial gain/(loss) as of 31 December	**129**	**141**

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2023:

- 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 2010 – 2022;
- 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 – 4.5% (2022 г. – 5.5%);
- assumptions for the future level of working salaries in the Bank are based on the Bank's development plan for 2022 – 3% compared to the 2022 level and for 2024 and subsequent years – 3% compared to the previous year level.

The effect for 2023 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:

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
Increase / (decrease) of liability	61	(54)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Increase / (decrease) of liability	(53)	61

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Increase / (decrease) of liability	(59)	67

35. SHARE CAPITAL

	2023	2022
	Number of shares	*Number of shares*
Ordinary shares issued paid in cash	14,417,735	14,417,735
Capital decrease – transfer to reserves	(3,062,735)	-
Ordinary shares issued paid in cash	**11,355,000**	**14,417,735**

As of 31 December 2023, the capital of the Bank consists of 11,355,000 ordinary registered voting shares with par value of BGN 100 each (2022: 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 Ac 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.

35. SHARE CAPITAL (CONTINUED)

Capital decrease of Bulgarian Development Bank EAD in 2023

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.

By decision of 21.07.2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD, decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease. By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank’s Statute were entered in the Commercial Register and the register of non-profit legal entities on 31 May 2023. The change affects neither the value of Bank’s net assets as of 31 December 2023 or as of subsequent periods, nor the amount of Bank’s regulatory equity.

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.

By decision of the Minister of Innovation and Growth dated 23.05.2022, funds from the Reserve Fund amounting to BGN 74,939 thousand and from additional reserves amounting to BGN 80,179 thousand are used to partially cover the loss from 2020.

As of 31 December 2023, the Reserve Fund of the Bank amounts to BGN 0 thousand (31 December 2022: BGN 0 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. RESERVES (CONTINUED)

As of 31 December 2023, the Additional Reserves of the Bank amounted BGN 305,584 thousand (31.12.2022: BGN 677 thousand) and are formed as a result of capital decrease and to cover losses of the Bank from prior years, according to decisions of the sole owner of the capital, as well as from movements in the reserves due to the merging of BDB Factoring EAD into BDB in 2022.

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 2023, this reserve is a negative value in the amount of BGN 57,286 thousand (31.12.2022: BGN 95,455 thousand – negative value).

37. CONTINGENCIES AND COMMITMENTS

	2023	**2022**
Contingent liabilities		
Anti-COVID guarantees	373,894	403,208
Bank guarantees and letters of credit	97,354	126,772
incl. with cash collateral	(2,742)	(9,081)
Letters of credit, incl. with borrowings-		
Reported as loan commitment	1,101	-
Guarantee provisions (Note 32)	(115,087)	(128,960)
Incl. provisions under guarantees for Anti-Covid programmes	*(111,845)*	*(127,215)*
Total contingent liabilities	**354,520**	**391,939**
Irrevocable commitments		
Unutilised amount of approved loans	184,384	184,715
Including letters of credit opened with borrowed funds	*1,101*	-
Provisions on unutilized loans (Note 32)	*(6)*	*(19)*
Unpaid portion of shares of Three Seas Initiative	7,788	17,970
Participation in the SIA investment program	479	652
Total irrevocable commitments	**192,645**	**203,318**
	547,165	**595,257**

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 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.

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.

The aggregated result achieved under the Program includes 52,915 loans guaranteed by BDB, with a total value of BGN 254,609 thousand.

As of 31 December 2023, BGN 135,152 thousand portfolio guarantees have been issued to commercial banks. BDB has guaranteed 42,840 loans worth BGN 127,721 thousand. The guarantees paid to the commercial banks and the costs of establishing and collecting the credits due are in the amount of BGN 4,836 thousand, of which BGN 183 thousand have been reimbursed to BDB as of the same date.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

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
- 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);

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

Measures for micro, small and medium-sized enterprises (continued)

- 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)
- 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:

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

Measures for micro, small and medium-sized enterprises (continued)

- 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".

The formation of portfolios under the Program ended on 30.06.2022, and according to final data from the commercial banks - partners in the scheme, 2,842 loans were guaranteed, the original amount of the loans being BGN 630,349 thousand, for which a guarantee was provided by BDB in the amount of 80 % or for BGN 504,279 thousand.

The portfolio status is updated on a quarterly basis. As of 31 December 2023, portfolio guarantees were issued for BGN 238,742 thousand, and 2,184 loans with a total amount of BGN 427,042 thousand were guaranteed. Approved requests for payment of guaranteed sums under the Program amount to BGN 7,741 thousand, and those reimbursed to BDB at the end of 2023 are in the amount of BGN 225 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.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

SIA (continued)

As of 31 December 2023 thirty-two contributions to equity were made under the initiative and the balance amounts to EUR 755 thousand equivalent to BGN 1,477 thousand (2022: EUR 666 thousand equivalent to BGN 1,304 thousand), and the carrying amount as of 31 December 2023 amounts to EUR 577 thousand (BGN 1,128 thousand) (as of 31.12.2022: EUR 666 thousand equivalent to BGN 1,304 thousand) (Note 22).

Guarantee programmes for small and medium-sized businesses NAPRED

In 2015, the Bank launched a 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 2023, the Bank has active agreements with three partner banks and the size of the portfolio of guarantees is BGN 646 thousand (31.12.2022: three partner banks and guarantee portfolio amounting to BGN 816 thousand).

BDB’s programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME

In November 2016, BDB signed a counter-guarantee agreement with limited payments with the European Investment Fund (EIF) under the COSME (Competitiveness of Small and Medium-sized Enterprises) program to support small and medium-sized businesses. The COSME programme is supported by EFSI (European Fund for Strategic Investments). The Bank has the opportunity to cover up to 60% of the risk of loans to SMEs granted by commercial banks and non-bank financial institutions with which it partners. Half of this risk is counter-guaranteed by EIF, with the total amount of the counter-guarantee being EUR 10 million. With the resources guaranteed under the COSME program, BDB's partner banks can grant investment and working capital loans, bank guarantees, as well as revolving loans. The maximum amount of loans granted is EUR 150,000. The repayment period is from 1 to 10 years.

The portfolio size as of 31 December 2023 is EUR 13.6 million, including 294 loans to micro, small and medium-sized enterprises. As of the same date, BDB has submitted four claims for payment under the counter-guarantee and has received EUR 92 thousand from EIF.

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)

As of the end of 2023 BDB continues to implement the agreements under 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 two commercial banks and six non-banking financial institutions with permitted amount of BGN 51,143 thousand. The programme is implemented with the support of European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guaranteed facility and counter-guarantee.

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)

The COSME Programme implemented by the EIF upgrades the Entrepreneurship and Innovation Program (EIP) established in the period 2007-2013. Its total budget is EUR 2.3 billion for the period 2014-2020. It covers four areas of support - improving access to financing for SMEs in the form of equity and debt instruments; improving market access for SMEs worldwide; improvement of the framework conditions for competitiveness of enterprises and promotion of entrepreneurship.

Requests received in 2023 for payment under guarantee commitments made by the BDB were satisfied, in the amount of EUR 103 thousand (COSMEE and NAPRED), for which the BDB received a corresponding payment under the counter-guarantee given by the EIF under the COSME Programme.

As of 31 December 2023, the BDB has concluded contracts under the Programme with 8 financial institutions in the total amount of EUR 26,149 thousand, of which two commercial banks and six non-banking financial institutions, entered in the register of the BNB.

As of 31 December 2023, the value of the guaranteed by the BDB sub-loans is BGN 21,014 thousand (EUR 10,774 thousand), and the guaranteed amount – BGN 6,452 thousand (EUR 3,299 thousand).

Leasing line programme

In 2023 three new on lending agreements were signed amounting to EUR 7.0 million under the Lease Line programme, which is for non-banking financial institutions partners – lessors, registered at the BNB, carrying out financial lease. The programme is intended for lending to lease companies, in order to facilitate the access to resources for purchase and leasing of assets, used in the business activity of small and medium-sized enterprises.

BROD programme

The BDB's implementation of the latest product for indirect financing of small and medium-sized enterprises "BROD Programme" continues. The budget of the Programme is EUR 20 million. The cost of financing is up to 6 months. EURIBOR + 3.5% and at 3.5% as a minimum. The partners under the BROD Programme finance SMEs subject to a certain ceiling of interest rate and total annual appreciation, which are in line with the changes in the value of EURIBOR. In 2023, one agreement was concluded in the amount of EUR 1.2 million euros.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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. In September 2021, BDB signed with EIF a guarantee agreement under the Pan-European Guarantee Fund. The guarantee agreement allows the Bank to provide direct financing with an EIF guarantee (AAA-rated) with no limit on loss payments, with a coverage of 70% of the loss under guaranteed loan of SME. In turn, BDB undertakes to provide a financial advantage – a reduction in the risk margin with the coverage of the PEGF guarantee, which is reflected in reduction in the interest rate on each of the guaranteed loans. Customers who are final recipients must comply with certain conditions and requirements related to the PEGF guarantee and the state aid regime.

From the end of September 2021 through financial instruments of the Pan-European Guarantee Fund, BDB presented 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 at most in volume, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB granted direct loans under easier loan terms.

As of 31 December 2023, the portfolio guaranteed under the agreement amounted to EUR 18.5 million and includes 51 transactions of micro small and medium-sized enterprises (as of 31 December 2022: EUR 21.17 million and 52 transactions). As of the same date the BDB has requested payments on the guarantee for three transactions in the total amount of EUR 203 thousand.

BDB's programme to support households by financing investments in energy from renewable sources, in implementation of the National Recovery and Sustainability Plan of the Republic of Bulgaria (Framework Conditions)

By decision of the Management Board of BDB EAD with Protocol No 57 dated 13.07.2023, a portfolio guarantee with loss-ceiling was approved for partial coverage of credit risk in bridge financing provided by commercial banks for investments in RES, in support of households under the National Households Support Scheme in The Field Of Energy From Renewable Sources of the Ministry of Energy (the Scheme). The initial budget of the Programme is BGN 56 million.

The goal is to facilitate and improve access to bridge financing for RES investments under the Scheme and to reach an optimal number of potential candidates under the Scheme - clients of commercial banks from all over the country. The term of the guarantee is up to 5 years, but not longer than the term of the individual guaranteed loan.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BDB's programme to support households by financing investments in energy from renewable sources, in implementation of the National Recovery and Sustainability Plan of the Republic of Bulgaria (Framework Conditions) (continued)

Limit on guarantee payments (Loss-ceiling)

The maximum amount of covered losses under the Portfolio Guarantee under the programme amounts to BGN 16,800 thousand, with the limit of guarantee payments being the maximum amount to which BDB's obligation to pay to each commercial bank is limited, calculated on a portfolio basis by applying the Guaranteed Payment Limit percentage to the Guaranteed Portfolio multiplied by 70%.

Conditions for eligibility of Borrowers and financing under the Programme

Eligible Borrowers:

Applicants approved for funding under the Scheme who have signed a contract under the Scheme with the Monitoring and Reporting Structure (MRS). The borrower under the Programme is allowed to be different from the grant recipient under the Scheme if due to objective circumstances for the financing bank (e.g. old age, reduced working capacity, significant indebtedness, weaker creditworthiness, or other), the Applicant would not receive a bridging loan for financing the investment in RES under the Scheme. In such cases, the applicant approved for financing under the Scheme is jointly and severally liable with the Borrower for the repayment of the loan, and the grant is paid to the recipient's account in the financing bank and should provide collateral for the loan as if the Applicant were the recipient of the loan. Commercial banks should indicate to the BDB the objective circumstances that prevent the provision of credit under the Program in favor of the Applicant.

Type and purpose of financing

Provision of bridging loans for realization of investments in RES, for which a grant has been approved and a contract has been signed with the MRS for financing under the Scheme, namely: 1. Solar installation for domestic hot water supply (DHW installation) or 2. Photovoltaic system up to 10 kWp, which may include electrical energy storage systems (System). The purpose of the financing is stated in the loan agreement under the Programme, which specifically defines the costs eligible for financing. Credit amounts: up to BGN 3,000 for investments in DHW installations; up to BGN 22,000 for investments in systems, loan term - up to 5 years.

As of 31 December 2023, the evaluation process of applicants interested in the Commercial Banks Program was completed. As of the date of issue of these financial statements BDB has signed agreements with four commercial banks under the programme.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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

	2023	2022
Cash in hand (Note 17)	920	442
Current accounts with the central banks (Note 17)	127,742	527,394
Receivables from banks with original maturity up to 3 months (Note 18)	468,094	81,305
	596,756	**609,141**

The following tables summarise 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 years ended 31 December 2023 and 31 December 2022.

	1 January 2023	Cash inflows	Cash outflows	31 December 2023
Current borrowings from international institutions	779,497	-	(197,566)	581,931
Current liabilities on other borrowings	16,608	330	(120)	16,818
Total liabilities from financing activity	**796,105**	**330**	**(197,686)**	**598,749**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. CASH AND CASH EQUIVALENTS (CONTINUED)

	1 January 2022	Cash inflows	Cash outflows	31 December 2022
Current borrowings from international institutions	1,110,740	-	(331,243)	779,497
Current liabilities on other borrowings	16,746	160	(298)	16,608
Total liabilities from financing activity	**1,127,486**	**160**	**(331,541)**	**796,105**

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER COMMON CONTROL OF THE STATE

Entity/person	***Type of control***
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	Subsidiary
CAPITAL INVESTMENTS FUND AD	Subsidiary
TC MARITSA EOOD	Subsidiary
BDB LEASING EAD	Subsidiary
KOHOFERM OOD	Company controlled by BDB
ROADWAY CONSTRUCTION AD	Company controlled by BDB
PARTSTROYENGINEERING AD	Company controlled by BDB
HOLDING BULGARIAN STATE RAILWAYS EAD	Company under common control of the State
UMBAL PROF. ALEXANDER CHIRKOV EAD	Company under common control of the State
BULGARIAN INSTITUTE FOR STANDARDIZATION	Company under common control of the State
AVTOMAGISTRALI EAD	Company under common control of the State
TEREM – HOLDING EAD	Company under common control of the State
SOUTH STREAM BULGARIA AD	Company under common control of the State
ICGB AD	Company under common control of the State
BULGARIAN ENERGY HOLDING EAD	Company under common control of the State
KINTEX EAD	Company under common control of the State
WATER SUPPLY AND SEWERAGE EOOD PLOVDIV	Company under common control of the State
TPP MARITSA EAST 2 EAD	Company under common control of the State
STATE CONSOLIDATION COMPANY EAD	Company under common control of the State
AVIOSNAMS AD	Company under common control of the State
EKO ANTRATSIT EAD	Company under common control of the State
WATER SUPPLY AND SEWERAGE SHUMEN OOD	Company under common control of the State
MONTAZHI EAD	Company under common control of the State
MONTAZHI-SOFIA EOOD	Company under common control of the State
STATE ENTERPRISE KABIYUK DP	Company under common control of the State
BULGARTRANSGAZ EAD	Company under common control of the State
BDZ – FREIGHT TRANSPORT EOOD	Company under common control of the State
SOFIA TECH PARK AD	Company under common control of the State
MBAL LOZENETS EAD	Company under common control of the State
UMBAL ALEKSANDROVSKA EAD	Company under common control of the State
UMBAL ST. IVAN RILSKI EAD	Company under common control of the State

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER COMMON CONTROL OF 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

Entity/person	***Type of balance***	**2023**	**2022**
Ministry of Finance	Financial assets at fair value through other comprehensive income	249,066	273,233
BDB Micro Financing EAD	Loans and advances to customers	18,522	20,752
BDB Leasing EAD	Loans and advances to customers	56,767	54,662
BDB Leasing EAD	Other assets (Prepaid expenses)	11	15
Companies controlled by BDB	Loans and advances to customers	3,226	8,381
Companies under common control of the State	Loans and advances to customers	221,003	261,394
Companies under common control of the State	Financial assets at fair value through other comprehensive income	21,201	19,875
Total		**569,796**	***638,312***
Of which with subsidiaries		***75,300***	***75,429***

Liabilities

Entity/person	***Type of balance***	**2023**	**2022**
Ministry of Finance	Other borrowings	16,817	16,608
National Guarantee Fund EAD	Liabilities to customers on deposits	67,212	96,909
BDB Micro Financing EAD	Liabilities to customers on deposits	3,494	7,179
BDB Leasing EAD	Liabilities to customers on deposits	1,467	2,615
BDB Leasing EAD	Other liabilities (lease liabilities)	173	299
Trade Center Maritsa EOOD	Liabilities to customers on deposits	255	6
Capital Investments Fund AD	Liabilities to customers on deposits	38,610	41,267
Companies under common control of the State	Liabilities to customers on deposits	145,968	191,872
Total		***273,996***	***356,755***
Of which with subsidiaries		***111,211***	***148,275***

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER COMMON CONTROL OF THE STATE (CONTINUED)

Related party transactions in the statement of comprehensive income:

Entity/person	Type of relation	2023	2022
Ministry of Finance	Fee and commission income	13	55
	Interest income	1,238	1,025
	Interest expenses	(506)	(159)
National Guarantee Fund EAD	Fee and commission income	13	2
	Interest expenses	(17)	(2)
	Rental income	74	88
	Dividend income	2,515	-
BDB Micro Financing EAD	Fee and commission income	23	1
	Interest income	852	411
	Rental income	71	75
BDB Leasing EAD	Fee and commission income	3	2
	Interest expenses	(12)	(9)
	Interest income	2,721	939
	Other operating income	61	62
Capital Investments Fund AD	Interest expenses	(451)	(36)
	Other operating income	28	46
Companies under common control of the State	Interest income	14,092	13,967
	Fee and commission income	218	180
	Interest expenses	(150)	(27)
Total income		***21,922***	***16,853***
Total expenses		***(1,136)***	***(233)***
Total income from transactions with subsidiaries		***6,361***	***1,626***
Total expenses for transactions with subsidiaries		***(480)***	***(47)***

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER COMMON CONTROL OF THE STATE (CONTINUED)

Commitments and contingencies with related parties:

Entity/person	*Type*	2023	2022
BDB Micro Financing EAD	Unutilised amount of a loan approved	6,095	3,500
BDB Leasing EAD	Unutilised amount of a loan approved	27,014	13,356
Companies under common control of the State	Unutilised amount of a loan approved	19,558	20,532
Companies under common control of the State	Bank guarantees issued	15,398	17,360
Total		***68,065***	***54,748***
Of which with subsidiaries		***33,109***	***16,856***

Relations with key management personnel:

Balances with key management personnel	**2023**	**2022**
Payables to customers on deposits	626	177
Remuneration payable	-	15

Transactions with key management personnel	**2023**	**2022**
Remuneration and social security contributions	(1,145)	(1,253)

40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events occurred after the reporting date until the date of approval of the separate financial statements, except for the following non-adjusting events:

Changes in the Management Board of Bulgarian Development Bank EAD in 2024

By decision of the Supervisory Board with Protocol No 11 dated 19.03.2024, Teodora Petrova Pesheva was elected as new member of the Management Board of BDB. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 25.03.2024.

Changes in the capital of *BDB Microfinancing EAD*

With Protocol No 88 dated 21.12.2023, supplemented by Protocol No 7 dated 01.02.2024 and Protocol No 14 dated 12.03.2024, the Management Board of BDB, exercising the Bank's rights as the sole owner of the capital of BDB Microfinancing EAD decided to reduce the capital of the company from BGN 14,643,000 (fourteen million six hundred and forty-three thousand) to BGN 14,035,000 (fourteen million and thirty-five thousand) through acquisition and invalidation of 6,080 (six thousand and eighty) ordinary registered dematerialized voting shares, with a nominal value of BGN 100 each, in order to cover losses and to comply with the provisions of Art. 252, Para. 1, item 5 in conjunction with Art. 247a, para. 2 of the Commerce Act. The decision was filed in the Commercial Register and the Register of Non-Profit Legal Entities on 12 April 2024.

INFORMATION UNDER ART. 70, PARA. 6 OF THE LAW ON CREDIT INSTITUTIONS

This appendix on an individual basis has been prepared in accordance with the requirements of Art. 70, para. 6 of the Law on Credit Institutions (LCI).

1. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION

Bulgarian Development Bank EAD is a sole owned joint-stock company registered with the Commercial register under EIC 121856059, with a seat in the city of Sofia, Sofia City Region, Bulgaria and management address at 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 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;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad;
- participation in public and public-private projects or partnerships of strategic, national and/or regional importance.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION

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 misbalances 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;
- 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.

The bank operates on the territory of the Republic of Bulgaria.

As of 31 December 2023, Bulgarian Development Bank EAD operates from a registered address in the city of Sofia, 1 Dyakon Ignatij Str.

3. VOLUME OF THE TURNOVER

For the year ended 31 December 2023, the Bank realized turnover as follows:

	2023	**2022**
Interest income (note 6)	117,940	77,227
Fee and commission income (note 7)	4,719	4,496
Other operating income	29,808	2,625
Total income	**152,467**	**84,348**

4. AVERAGE NUMBER OF FULL-TIME EMPLOYEES

As of 31 December 2023, the Bank has 201 employees (31 December 2022: 233).

5. FINANCIAL RESULT OF THE ACTIVITY BEFORE TAX

For the year ended 31 December 2023, the Bank’s financial result before tax amounts to BGN 31,661 thousand (for the year ended 31 December 2022: BGN 19,914 thousand).

6. TAX ON THE FINANCIAL RESULT OF THE ACTIVITY

For the financial year 2023, the taxes accrued on the financial result of the activity amount to BGN 81 thousand (for the financial year 2022: minus BGN 305 thousand). See note 15 to the annual financial statements.

7. RETURN ON ASSETS AS A RATIO OF NET PROFIT TO TOTAL BALANCE

The realized net profit (after tax) for 2023 amounts to BGN 31,580 thousand (for 2022: BGN 20,219 thousand).

The total assets of the Bank as of 31 December 2023 are BGN 2,787,393 thousand (as of 31 December 2022: BGN 3,065,786 thousand).

The return on assets as a ratio of net profit to the total balance for 2023 is 1.13% (for 2022: 0.66%).

8. GOVERNMENT SUBSIDIES RECEIVED

The Bank did not receive government subsidies in 2023.