



**BULGARIAN  
DEVELOPMENT BANK**

**ANNUAL SEPARATE MANAGEMENT  
REPORT ON THE ACTIVITIES  
OF  
BULGARIAN DEVELOPMENT BANK EAD  
  
FOR 2022**

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## 1 GENERAL INFORMATION

Bulgarian Development Bank EAD

The shareholder structure as of 31 December 2022 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 2022 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 2022 and as of the date of approval the annual financial statements:

MB as of 31 December 2022:	MB as of the date of approval of the annual financial statements:
<ul style="list-style-type: none"> <li>- Mariana Dimitrova Petkova – Chairwoman of the MB and Executive Director</li> <li>- Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director</li> <li>- Krum Georgiev Georgiev – Member of the MB</li> </ul>	<ul style="list-style-type: none"> <li>- Iliya Zapryanov Karanikolov - Chairman of the MB and Executive Director</li> <li>- Ivan Valentinov Cerovski - Member of the MB and Executive Director</li> <li>- Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director</li> </ul>

Head office and registered address as of 31 December 2022:

1000 Sofia, Sredets area, 1 Dyakon Ignatij Str.

Registration Number - UIC 121856059

Joint auditors of Bulgarian Development Bank EAD:

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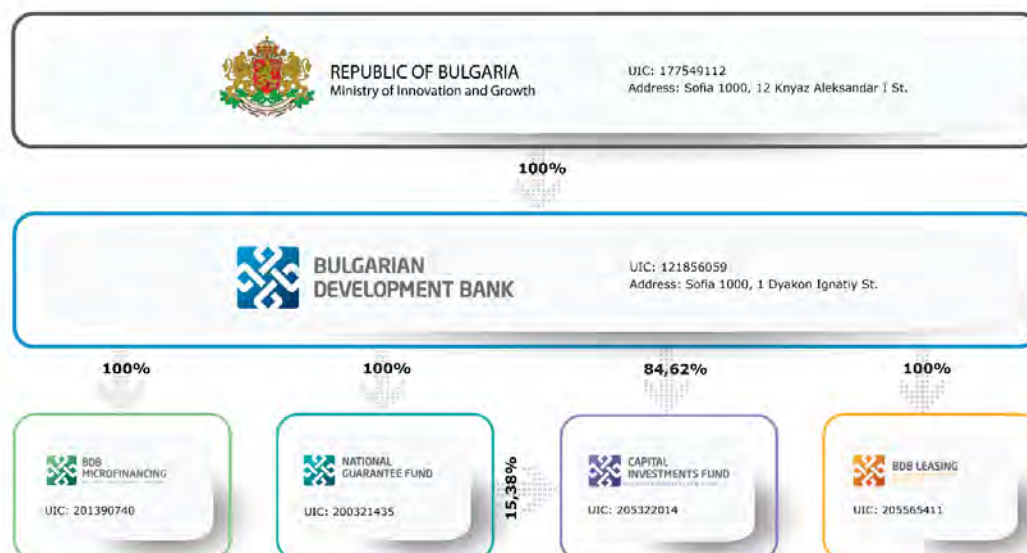
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## 2 INFORMATION ABOUT THE BANK AND THE GROUP

### 2.1 THE BDB GROUP

As of 31 December 2022, the Financial Group Bulgarian Development Bank Bulgarian Development Bank Financial Group (the Group, the 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 2022, 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.

As of 31 December 2022, 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 2022, the capital of the Bank amounts to BGN 1,441,773,500 and consists of 14,417,735 ordinary registered shares with voting rights with a nominal value of BGN 100 each. 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 the subject of transfer transactions.

By virtue of Art. 6 para. 4 of the BDBA the shares of the 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.

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.

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

According to the BDB Statute, the Bank's lending activity is oriented towards:

- pre-export and export credit to small and medium-sized enterprises;
- lending through intermediary banks or directly for other types of activities of small and medium-sized enterprises;
- refinancing of banks lending to small and medium-sized enterprises;
- financing of investments outside the country of small and medium-sized enterprises;
- participation in public and public-private projects or partnerships of strategic, 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 an exposure to one client or a group of related parties other than credit institutions, central governments and central banks is subject to compliance with the requirements and limits of Regulation (EU) No 575/2013, their 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 lend 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 2022 and 31 December 2021, 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 2022 is 233.

As of 31 December 2022, 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 Group conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, BDB Group requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects. In case there are stricter environmental requirements set out in the loan agreements with external creditors, the Group requires compliance with these higher standards by its clients and monitors their performance.

A key factor in the realization of the strategy and business objectives of the BDB Group is human capital.

As of 31 December 2022, there are no pending court, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group amounting to 10% or more of the equity.

At the end of 2022, 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 2022 and in 2023 until the date of approval of the Report on activities:*

In 2022 and 2023, the Bank made the following changes in governance and structure.

#### *2.2.1.1 Change in the principal*

Until 18 March 2022, the rights of the State in BDB are exercised by the Ministry of Economy. After this date, the rights of the State are exercised by the Ministry of Innovations and Growth.

#### *2.2.1.2 Changes in the MB of the Bank*

By a decision of the Supervisory Board under Protocol No 28 of 06.06.2022, Mariana Dimitrova Petkova was elected as a new member of the BDB Management Board. This circumstance was entered in the Commercial Register on 13 June 2022. By a decision of the Management Board under Protocol No 51/06.06.2022, Mrs. Mariana Dimitrova Petkova was authorized to represent and manage the Bank as Executive Director, which circumstance was entered in the Commercial Register on 13 June 2022. Mrs. Mariana Dimitrova Petkova was elected as chairman of the Management Board.

By a decision of the Supervisory Board under Protocol No 30 of 09.06.2022, Vladimir Rashkov Gueorguiev was dismissed as a Member of the Management Board of the Bank. This circumstance was entered in the Commercial Register on June 16, 2022.



By a decision of the Supervisory Board under Protocol No 31 of 09.06.2022, Jivko Ivanov Todorov was dismissed as a Member of the Management Board of the Bank as of 13.06.2022. This circumstance was entered in the Commercial Register on June 23, 2022.

Iliya Zapryanov Karanikolov and Ivan Valentinov Cerovski were elected as new members of the BDB Management Board under Protocol No 2 of 12 January 2023. This circumstance was entered in the Commercial Register on 20 January 2023. By a decision of the Management Board under Protocol No 5 of 13 January 2023 and approved by a decision of the Supervisory Board under Protocol No 5 of 16 January 2023, Iliya Zapryanov Karanikolov and Ivan Valentinov Cerovski are authorized to represent and manage the Bank as Executive Directors. This circumstance was entered in the Commercial Register 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.

#### *2.2.1.3 Changes in the SB of the Bank*

On 13 January 2022, the decision of the sole owner of the Bank's capital was entered in the Commercial Register and the Register of Non-Profit Legal Entities, whereby Velina Ilieva Burska and Mitko Emilov Simeonov were dismissed from the Supervisory Board of the Bank.

By a decision of the sole owner of BDB's capital under the Protocol of 7 November 2022, Rosen Andreev Karadimov and Delyana Valerieva Ivanova were elected members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 14 November 2022.

Mr. Rosen Andreev Karadimov was elected Chairman of the Supervisory Board of the Bank.

By a decision of the sole owner of BDB's capital under the Protocol of 30 November 2022, Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov were dismissed as members of the Supervisory Board of the Bank. On 7 December 2022, the decision of the sole owner of BDB's capital was entered in the Commercial Register, by which Valentin Lyubomirov Mihov and Vasil Atanasov Shtonov were dismissed as members of the Supervisory Board of the Bank.

#### *2.2.1.4 Changes in the Audit Committee of the Bank*

With a decision of the Minister of Innovation and Growth, exercising the rights of the sole owner in the capital of BDB, under Protocol No RD-02-17-29/29.12.2022, Vasil Atanasov Shtonov, Dragomir Ivanov Vuchev and Gergana Stoyanova Moskova were dismissed from the Audit Committee. In their place, as of 1 January 2023, Svetlana Hristova Kurteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova were appointed.

#### *2.2.1.5 Changes to the Bank's Statute and capital*

By decisions of the Minister of Innovation and Growth of 7 June 2022 and 21 July 2022, amendments were made to the Bank's Statute related to the financing of existing exposures. The amendments to the statute have been announced in the Commercial Register.

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 announced for filing in the Commercial Register and the register of non-profit legal entities on 23 May 2023. The change affect neither the value of Bank's net assets as of 31 December 2022 or as of subsequent periods nor the amount of Bank's regulatory equity.**

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

Change in the responsibilities of the members of the Management Board in 2022 and 2023  
After making changes in the staff of the MB and SB in 2022 and at the beginning of 2023, the organizational structure which is effective as of the preparation of this report on activities is divided into three sectors, which have the following allocation of executive directors:

#### **Sector № 1, with structure subordinate to Iliya Zapryanov Karanikolov, Executive Director and Chairman of the MB:**

- Finance Division
- Risk Division
- Regulatory Compliance and Control Division
- Security Division
- Legal Division

- Credit Administration Division
- Information Technologies Division
- Corporate Communications Division
- Non-performing loans Receivables Division
- Methodology and Project Management Division
- AML and Fraud Division

**Sector № 2, with structure subordinate to Ivan Valentinov Cerovski, Executive Director and member of the MB:**

- Corporate Clients Division
- Investment Banking and Project Financing Division
- Human Resources Division
- Strategic Development and Green Policies Division
- Administrative Division

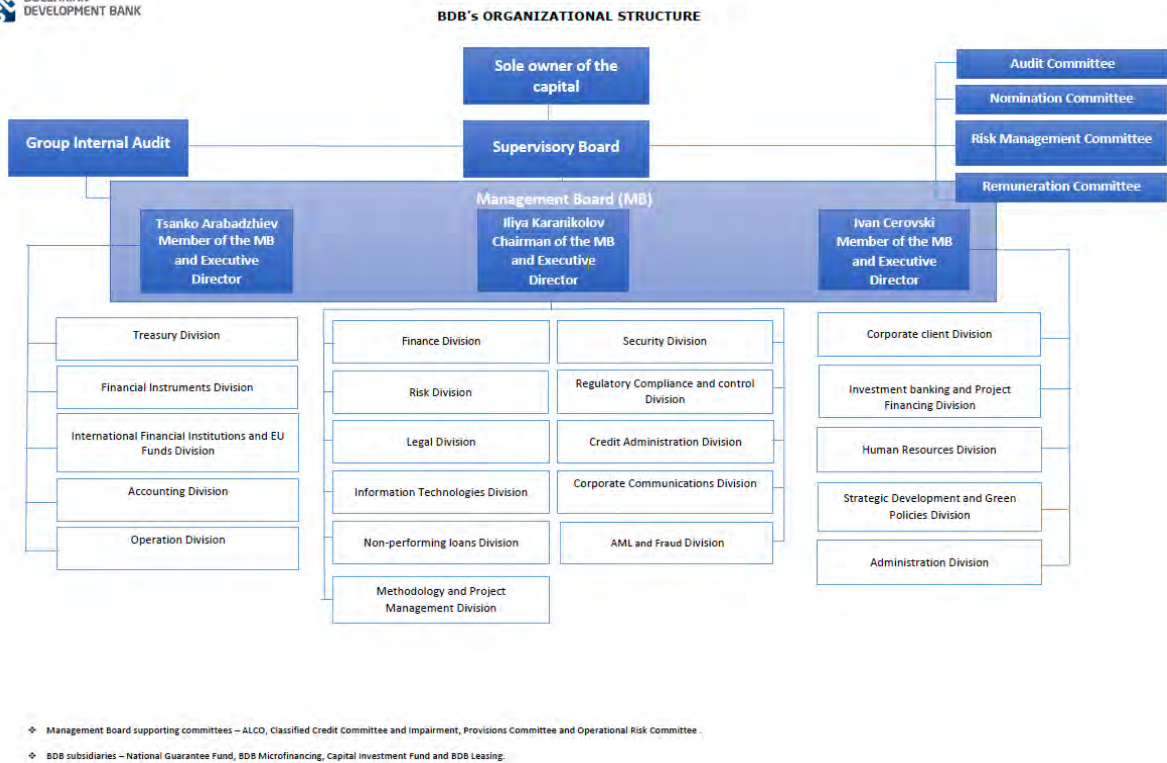
**Sector № 3, with structure, subordinate to Tsanko Rumenov Arabadzhiev, Executive Director and member of the MB:**

- Treasury Division
- Financial Instruments Division
- International Financial Institutions and EU Funds Division
- Accounting Division
- Operation Division

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

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

The chart of the Bank’s current organizational structure is as follows (effective as of 20 April 2023):



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

By decision of the Management Board of BDB of 15 February 2022, approved by decision of the Supervisory Board of 4 March 2022, the structure, functional responsibilities and name of the Strategic Analysis and Development Department has been amended, transforming the unit into the Strategic Development and Green Policies Division. The division is assigned functions related to activities related to the implementation of the regulatory framework ESG, climate tracking and compliance analysis, introduction of models for green, sustainable and climate-neutral loans for SMEs, advisory and consultancy assistance for SMEs, contribution assessment and monitoring of activity.

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

On 16 June 2022, the Managing Body of the Bank has adopted a new organizational structure of the Bank, with a redistribution of the structural units in the portfolios of the Executive Directors and the members of the Management Board and changes in part of the Bank's units, as follows:

- The Corporate Banking Division has been transformed into Small and Medium-sized Enterprises, the Investment Banking and Project Finance Division has been renamed Project Finance and the Operations and Customer Service Division has been changed to Operations;
- Classified Information Division and Compliance Division are united in one Division - Classified Information and Compliance;

The Secretariat Department is included in the structure of the Administrative Division, the Project and Process Management Department becomes part of the Information Technology Division and the position of Chief Economist is closed.

In connection with the merger of BDB Factoring EAD into the Bank, the 2021 decision to establish a new Factoring Division has been reviewed, and the functions of servicing factoring operations have been transferred to the Small and Medium-Sized Enterprises Division until they are completed. The decisions of the Management Board and the Supervisory Board are from 21 June 2022 and 22 June 2022, respectively.

By a decision of the Management Board of 14 July 2022 and of the Supervisory Board of 20 July 2022, the positioning of the Project and Process Management Department directly subordinate to the Executive Director as an independent unit has been approved.

By a decision of the Management Board of 27 October 2022, approved by the Supervisory Board on 2 November 2022, the name of the Classified Information and Compliance Division has been changed to "Regulatory Compliance". The change is effective from 9 November 2022.

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 Group, 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.

### 3 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2022

#### 3.1 KEY EVENTS AND PROCESSES

##### *3.1.1 Regulatory changes*

In 2022, as the most significant changes in the regulatory framework of the BDB Group, 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); Guidelines for indicators related to the recovery plan (EBA/GL/2021/11); Ordinance amending and supplementing Ordinance No 20 of the BNB of 24 April 2019 on the issuance of approvals for members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements for the performance of their functions; 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 and supplement to Ordinance No 58 of 28 February 2018 of the FSC.

Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and restructured exposures (EBA/GL/2022/13) (applicable from 31.12.2022).

Guidelines on the criteria for the use of input data in the risk measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (EBA/GL/2021/07) (applicable from 01.01.2022).

Guidelines for assessing the suitability of members of the management body and employees holding key management positions (EBA/GL/2021/06) (applicable from 31.12.2021).

Guidelines on internal governance under Directive 2013/36/EU (EBA/GL/2021/05) (applicable from 31.12.2021).

Guidelines on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04) (applicable from 31.12.2021).

### 3.1.2 Rating

In August 2022, 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 December 2021	01.10.2021	„BBB“	Positive
As of 31 December 2022 and the date of approval of the Annual Financial Statements	17.08.2022	„BBB“	Positive

The rating agency's assessment is based on the reliable support of the sovereign - the Bulgarian State, its good capitalization, and its increasing role in supporting the government's economic policy.

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

## 3.2 BUSINESS HIGHLIGHTS

In 2022, 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 2022, 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. Only one request for payment under the guarantee commitment made by BDB, amounting to EUR 42 thousand, received in 2022, has been approved, for which BDB has received a corresponding payment under the counter guarantee given by EIF.**

### 3.2.2 Leasing Line programme

In 2022 two new on-lending agreements for EUR 3.5 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 2022, 2 agreements amounting to EUR 3 million were 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 2022, BDB has issued guarantees in the total amount of BGN 403,208 thousand<sup>1</sup>, and it has guaranteed exposures under the two programmes in the total amount of BGN 715,979 thousand (31.12.2021: BGN 649,663 thousand).

For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related **inflow and cash outflow commitments. The methodology is described in detail in the Bank's annual financial statements for 2020, 2021 and 2022.**

At the end of 2022 the provisions under the Anti-Covid programmes amount to BGN 127,215 thousand (31.12.2021: BGN 176,370 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.

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<sup>1</sup> 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.



#### *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, are expected to benefit 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 may benefit from funding and guarantee.

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

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

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

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

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

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

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

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 2022, 2,617 loans with a total amount of BGN 533,910 thousand have been guaranteed. Approved requests for payment of guaranteed amounts under the Programme amount to BGN 1,749 thousand and recovered amount to BDB at the end of 2022 is BGN 98 thousand.

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

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee programme to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB. **The programme will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.**

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

The programme parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 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 is BGN 4500), 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 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 2022, BDB has guaranteed 46,863 loans amounting to BGN 182,069 thousand. The guarantees paid to commercial banks and the costs of establishing and collecting the loans amount to BGN 1,146 thousand and as of the same date BGN 25 thousand have been reimbursed to BDB.

### **3.2.5 "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 2022, BDB has paid share contributions amounting to EUR 10,941 thousand.

In 2022, the structuring of the Three Seas Innovation Fund began with a working group of representatives from the current shareholders in the Three Seas Investment Fund being formed. An existing EIF plan for the creation of a new multilateral fund of funds, the Central Europe Fund of Funds 2, was presented in continuation of the Central Europe Fund of Funds, established in 2017. 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. Further negotiations with the EIF to clarify the target sectors and other details of the founding of the fund are forthcoming.

In May 2022, the Three Seas Fund was presented at the World Economic Forum in Davos, where the main organizer was the Polish Development Bank (BGK). BDB hosted and organized the conference "Equity for Infrastructure and Innovation", which took place on 13 June 2022. The conference was opened by the Minister of Innovation and Growth – Mr. Daniel Lorer. At the end of June, the annual meeting of the leaders of the member states of the Three Seas Initiative was held in Riga, Latvia. Following the summit, additional funding from Development Finance Corporation amounting to EUR 280 million was announced. Another investment in a project in the transport sector and the first in Bulgaria – Port Burgas was announced. The investment in BMF Port Burgas is in line with the fund's goal to improve connectivity in the three seas. Thanks to the deal, the Three Seas Fund is expected to make significant investments in the port - expansion of existing spaces for ships, construction of new spaces for ships, further modernization of facilities and the possibility of handling new types of cargo.

As of 31 December 2022, the amount of BDB's investment in the Three Seas Fund is BGN 22,030 thousand.

### *3.2.6 „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 received approval from the European Commission for eligibility in principle for an InvestEU Implementing Partner. As part of the application process with financial products under the Programme, BDB carried out a Pillar Assessment audited by an independent auditor, which was finally completed in 2023. The pillar evaluation is mandatory for organisations receiving funding from the European budget under programmes under indirect management, such as the InvestEU Programme. The final adoption of the assessment by the European Commission is expected. In 2021, BDB applied in the first announced procedure for financial products of future implementing partners, which is expected to be finalized in 2022.

### *3.2.7 Products, programmes and platforms supporting SMEs and specific sectors*

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

The Pan-European Guarantee Fund was 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. The maximum amount of the portfolio guaranteed under the PEGF is EUR 40 million and the agreed amount is EUR 30 million.

As of 31 December 2022, the guaranteed portfolio amounts to EUR 21.17 million and includes 52 transactions of micro- and SMEs.

### 3.2.7.2 *New products*

In the beginning of 2022, the Bank created specialized programs to support small and medium-sized businesses in the difficult economic conditions. During the year BDB developed and announced several products, targeted towards sectors and companies, that have difficulties in financing from commercial banks:

#### Support for Tourism Programme

In January 2022, the Bulgarian Development Bank launched a new product aimed at some of the businesses most affected by the Covid pandemic - the hotel and restaurant business. Micro, small and medium-sized companies from these sectors can benefit from preferential financing, even if they have arrears of up to 90 days. The volume of the programme is BGN 60 million.

#### Support for Rose Processing Programme

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

#### Energy Support Programme

In February 2022, BDB announced the Energy Support Programme, which is aimed at overcoming the negative trends of rising electricity prices. This product aims to support companies in the unexpected increase in electricity prices. The Bank provides them with an opportunity to reschedule their electricity costs for four consecutive months within 2022. The volume of the programme is BGN 10 million.

#### Working Capital Loans for Raw Materials Programme

The program was announced at the beginning of April 2022. The Bulgarian Development Bank offers small and medium-sized enterprises a new product to overcome the negative effects of the continued increase in inflation and rising prices of basic goods and services. The program provides for working capital loans of up to BGN 200 thousand for companies – SMEs from all sectors that want to purchase raw materials at current prices and thus prevent higher costs in the future. *The volume of the programme is BGN 10 million.*

#### Hospital Funding Programme

The program was announced at the beginning of July 2022. Pursuant to Decision No 568 of the Council of Ministers of 29 July 2022, BDB offers long-term financing of multi-profile hospitals for active treatment with open "Emergency units", which are subject to the policy pursued by the state for rehabilitation and development of hospitals (Hospitals of systemic importance for the regions – BSI). The programme 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 is 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 under this Programme.

#### Energy Efficiency of SMEs Programme

The programme was announced at the beginning of August 2022. The Bulgarian Development Bank will assist companies in the Manufacturing Industry sector in Bulgaria in their transition to a green and low-carbon economy through its new programme "Energy Efficiency of SMEs". It will be available to companies that have submitted project proposals under the procedure "Recovery of SMEs by improving energy efficiency", financed by OP "Innovation and Competitiveness" 2014-2020 (OPIC). The application deadline is 30 June 2023. The volume of the program is BGN 30 million.

#### Technological Modernization of SMEs Programme

The programme was announced in the month of December. It is aimed at direct loans to micro, small and medium-sized enterprises that have submitted project proposals under the Economic Transformation Programme of the National Recovery and Resilience Plan, component "Smart Industry", procedure "Technological Modernization". The funding is BGN 50,000 up to BGN 2,000,000, covering up to 100% of the costs excluding VAT. The application deadline is 30 September 2023. The volume of the program is BGN 30 million.

#### Financing of Groups and Organizations of Agricultural Producers Programme

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 to have at least one completed financial year. The application deadline is 31 December 2023. The volume of the new programme of the Bank is BGN 10 million.

#### Green Energy Financing Programme

In response to the liberalization of the electricity market, BDB proposed a Programme for financing the construction of photovoltaic facilities for electricity generation. The programme was announced at the end of 2021. In 2022, BDB has financed 37 projects for the construction of photovoltaic installations for own needs and the sale of the electricity produced.

#### *3.2.7.3 Digital platform „Business Booster“*

In September 2022, BDB launched digital platform Business booster to help small and medium-sized businesses. The project offers online funding of up to BGN 50 thousand, free business training and the opportunity to open an e-shop. Business Booster is a large facility for micro, small and medium-sized companies in need of financing in the country, as the Bank does not have a branch network. All necessary documents are filled in and signed entirely online. For the creation of a company profile, it is only necessary to enter the UIC and the data is loaded automatically through integration with the Commercial Register. A qualified electronic signature is also needed, for which the platform works with the company Evrotrust. It is also planned to implement a back office system that will speed up the consideration of credit applications – Credit Quest.

Business Booster also offers a free "Business Academy" - 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. In order to provide entrepreneurs with the sale of their products, BDB's new digital platform gives them an opportunity to open easily and free an online store with a built-in invoicing module.

#### *3.2.7.4 National Programme for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB)*

In 2022 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 will contribute to higher level of energy efficiency and energy costs decrease; improving the exploitation features; extending the life cycle of the buildings and providing conditions of living in line with the sustainable development criteria. The Programme has significant environmental effect – according to an expert evaluation as a result of the Programme, the expected reduction of carbon dioxide emissions is estimated at 319,000 tCO<sub>2</sub>/year and the energy saving is 726,000,000 kWh/year.

The economic effect is also related to giving more opportunities to the economic activity of business – designers, construction industry, companies for technical research, companies **for energy efficiency research, materials' producers, etc., as well as participation in the** implementation of the Programme of small and medium-sized companies from all over the country. The Programme achieves also social effects by improving the living conditions in the buildings, energy cost cutting, providing additional employment, establishing traditions in the management of multi-family residential buildings, increasing public awareness of the ways for energy efficiency enhancement. The programme activities cover the entire territory of the Republic of Bulgaria, within 265 municipalities with total financial resource under the Programme at the amount of BGN 2 billion.

### 3.3 FUNDING

#### 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 35 credit agreements with 16 international **institutions at the amount of EUR 1,364 billion. Given the Bank's high liquidity, in 2022,** under cooperation with international financial institutions, the portfolio development contribution is mainly the signed Portfolio Guarantee Agreement with the EIF under the Pan-European Guarantee Fund.

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. The signing of the loans is expected to take place in 2023.

### 3.4 HUMAN RESOURCES

For the successful implementation of the set goals and the stable development of the teams in the BDB Group, it is essential to provide a favorable and effective working environment that stimulates the creative atmosphere, motivation and personal growth of employees. Over the past year, in a dynamic external and internal environment, the main priority in human capital management was attracting and hiring highly qualified specialists for the announced positions, providing appropriate trainings to master the necessary professional skills, developing potential and upgrading competencies. The management of the BDB Group focused its attention on team building and receiving feedback on employee satisfaction and expectations by conducting an eNPS survey, external meetings with mid-level and senior managers, as well as expert level. As an additional benefit, employees were provided with a larger amount of paid annual leave in order to motivate employees to increase their engagement and achieve optimal results in their work.



### 3.5 INFORMATION TECHNOLOGIES

The period 2020 - 2022 was extremely challenging in the context of the global COVID-19 pandemic. One of the main changes for the BDB EAD Group was a change of business model from attendance to remote work. The main focus of the work of the IT teams was to ensure the operation of all business functions and processes from a distance and at the same time ensure the highest possible level of information security.

The IT infrastructure was supported by the updated version of the anti-virus software for the entire BDB group - ESET protect and Anti-malware platform. BDB EAD has implemented an updated solution for hardware and software monitoring of the entire environment - Axence Nvision.

Over the past year, a number of business processes in the Bank and subsidiaries. A successful migration of the main banking system and WEB-banking to the modern platform BrightOS of CISOFT OOD was carried out. A report module (Reporting) was implemented where predefined reports are automatically prepared.

Numerous changes in the core banking system were implemented, dictated by regulatory requirements – changes in SWIFT, BDB EAD certification for migration of non-budget payments in BISERA6 as ISO 20022 XML package payments and successfully completed national tests with BORICA AD, changes in the accountability to the BNB according to ECB requirements. The Bank successfully covered the tests and certification for switching to the new consolidated platform Target2 for payments in EUR, according to the requirements of the BNB.

Projects for migration of companies were launched: NGF, CIF and BDB Microfinance for migration to BrightOS (the system used by the Bank).

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

### 3.6 COMMUNICATIONS AND PUBLIC RELATIONS

In the first half of 2022, a series of new products of the bank were launched focusing on the needs of hoteliers, restaurateurs, rose processors and businesses in connection with the high electricity prices, for which a marketing strategy and a media campaign were prepared.

In the second half of the month, the Bank's communication activity was focused on the launch of the digital platform Business Booster, the New Energy Efficiency Credit Programme and on equity investments of CIF in the companies "Econic One" and "Barin Sports".

To promote financial products in 2022, BDB made a special Road Show with 37 meetings with businesses across the country, during which presentations and consultations were made. And in this year, the Bank was actively present as a participant and co-organizer in specialized economic and financial forums in support of SMEs – Endeavour Bulgaria, Innovation Academy, Beam Up Lab, World Startup Cup, Digital Sofia, Responsible Producers Forum, Automotive & Mobility Forum, Automotive EE Forum, AIBEST Sourcing Conference, National Culinary Fair and DigiTech.

The Bank's commitment to the **"The Three Seas"** initiative also continued, a mini-conference of the 3SIIF Investment Fund was organized during the year, as well as a meeting of the Supervisory Board of the Fund in Sofia, where the new investment made in Bulgaria was presented.

As part of BDB's positioning strategy in the field of sustainable policies the Bank systematically continued its work on preparing and communicating on the topic. It organised a survey among SMEs on their readiness for a 'green transition' and continued its consultancy and information activities through periodic announcements, interviews and participation in events.

In 2022, overall coordination of the implementation of Phase 2 of the digital platform Business Booster was carried out: On-boarding (creation of company profile), Loan Application (digital loan application) and Credit Quest (back-office system). Its launch was officially presented to media and business organizations in September 2022, and immediately after that a marketing campaign to promote the platform was launched.

The development and introduction of BDB Group Corruption Prevention System was actively communicated through the Bank's internal newsletter as well as in management interviews.

#### 4 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2022

In 2022, the global economy was marked by the ongoing recovery after the COVID-19 crisis, coupled with the shocks of the war in Ukraine and the ensuing energy problems in Europe. In the first half of the year, strong economic growth was recorded, which slowed down at the end of the year. In 2023, high inflation and rising interest rates will significantly limit consumption and investment activity, leading to a slowdown in growth rates.

In 2022, the actual growth of Bulgaria's gross domestic product reached 3.4%, compared to an expected growth of 2.9% in the autumn forecast of the Ministry of Finance (MoF). The higher growth was due to an increase in household consumption. Expectations for a slowdown in consumer spending growth in the second half of the year, due to weaker growth in real disposable income, did not come true.

Since the last quarter of 2022, there has been a downward trend in the annual inflation rate according to the HICP. Since September 2022, when the highest inflation rate of 15.6% was reported on an annual basis, it has slowed to 13.7% in February 2023. The slowdown of the inflationary processes in the country is largely due to decreases of international prices of energy goods and other raw materials.

In 2022 a recovery in employment after the lifting of all restrictive measures against COVID-19 was observed. For 2023, annual employment growth is expected to slow down, with the main argument being the overall slowdown in the growth of the Bulgarian economy. Ukrainian immigrants who have sought refuge in the country are expected not to have a major impact on employment dynamics (at the end of March the number of Ukrainians remaining in Bulgaria is less than 50,000 people, including young children).

In the first half of 2023, the BNB expects a weakening of economic activity, which will contribute to both the projected decrease in stocks in the economy and the expected weaker exports of goods due to the deteriorating global economic situation and factors specific to Bulgaria.

#### 4.1 BANKING SECTOR

In 2022, banks in Bulgaria carried out their activities in an environment of accelerated inflation and increased uncertainty in the economic environment. The past year has been characterised by lower impairment costs and accrued provisions, increased lending rates, rising interest rates and improving the performance of the banking sector.

As of December 31, 2022, 25 banks operate in Bulgaria, seven of which are branches of foreign banks, and at the end of the fourth quarter of 2022 the market share of the five largest banks by asset size reached 67.2%. The total assets of the banking system increased by 14.8% to BGN 155.4 billion. (EUR 79.5 billion) compared to 2021.

The net interest income of banks increased by 17% on an annual basis (compared to an increase of 4.1% on an annual basis at the end of 2021) and as of December 2022 amounted to BGN 3.2 billion (EUR 1.65 billion) against the backdrop of increased credit activity during the year. At the end of 2022, net fee and commission income increased by 15.2% year-on-year (up from 19.5% at the end of 2021) to BGN 1.4 billion. (EUR 731 million). As of 31 December 2022, the net profit of the banking system amounted to BGN 2.079 billion (EUR 1.063 billion) at BGN 1.416 billion (EUR 724 million) in the previous year.

In 2022, the banking sector continues to maintain a solid capital position, maintaining capital adequacy and liquidity coverage ratios well above regulatory requirements at system and local level, as well as compared to the European bank average.

The amount of non-performing loans continues to decrease in 2022. As of 31 December 2022, the volume of non-performing loans (more than 90 days overdue; excluding central banks and credit institutions) decreased to BGN 2.7 billion or 3.18% as a share. Although the level of non-performing loans is above the EU average, the banking system in Bulgaria continues to maintain a higher level of impairment coverage of gross non-performing loans compared to the EU average. At the end of 2022, the coverage rate of gross non-performing loans and advances in the Bulgarian banking system was at 77.6%.

In 2022, there is a gradual increase in average interest rates on newly negotiated deposits and loans. The average interest rate for newly negotiated deposits with agreed maturity for non-financial companies increased from -0.19% to 0.43% for deposits in BGN and increased from 0.06% to 0.47% for deposits in EUR. The average interest rates on newly granted loans to non-financial companies increased from 2.39% to 3.12% for those in BGN and for those in EUR increased from 2.17% to 3.92%.

The influence of several regulations and regulatory requirements also has an impact on the performance of the banking sector. In October 2022, the BNB identified eight banks as other systemically important institutions (OSIIs), and the OSIIs buffer rates are in the range of 0.50%-1% effective as of 1 January 2023.

The increase in the countercyclical capital buffer by the BNB from 1% to 1.5% as of January 2023 and the announced increase to 2%, effective from 1 October 2023, will also have an impact on capital indicators. The activity of the banking system in 2022 is also under the influence of banks' preparations 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 2022 and 2021:

Comprehensive income	2022	2021	YoY change
Net interest income	58,410	56,678	3.1%
Net fee and commission income (expenses)	836	(328)	(354.9%)
Net income on foreign exchange deals	524	427	22.7%
Net (loss)/gain on financial assets at fair value through other comprehensive income	(851)	1,101	(177.3%)
General and administrative expenses	(28,981)	(28,567)	1.4%
Other income from the activity	1,890	343	451.0%
Operating profit before impairment and provisions	31,828	29,654	7.3%
Expenses for impairment and provisions of non-financial assets	(11,914)	(185,610)	(93.6%)
(Loss)/gain before tax	19,914	(155,956)	(112.8%)
Income tax benefit	305	105	190.5%
Net profit / (loss) for the year	20,219	(155,851)	(113.0%)
Actuarial gains on defined benefits plans, net of taxes	172	11	1,463.6%
Net change in fair value of equity financial assets at fair value through other comprehensive income	10,610	(5,005)	(312.0%)
Net change in fair value of debt financial assets at fair value through other comprehensive income	(31,457)	(1,839)	1,610.5%
Total comprehensive income	(456)	(162,684)	(99.7%)

The interest income for the financial year 2022 amounted to BGN 77,227 thousand (for 2021: BGN 75,330 thousand), reporting a moderate growth of 2.5%, mainly due to the increased interest income from deposits provided in other banks, as well as to the higher interest income from customers maintaining large account balances, which compensate for the reduced volume of receivables in the Bank's direct loan portfolio.

In the past 2022, interest expenses in the Bank's financial statements increased by a minimum of 0.9%, reaching BGN 18,817 thousand compared to BGN 18,652 thousand for the same period in 2021. This annual change is due to the increased cost of the attracted resource due to the increased market levels of interest rates. Similar to 2021 the greater part of 2022 passed under the sign of negative interest rates.

As a result of the realized interest income and expenses in 2022, net interest income was reported by 3.1% higher compared to 2021, its value amounting to BGN 58,410 thousand (for the financial year 2021: BGN 56,678 thousand).

Fee and commission income for the twelve months of 2022 amounted to BGN 4,479 thousand and increased by 22.4% compared to the same period of 2021. The net result of accrued fees and commissions for 2022 was positive and amounted to BGN 836 thousand compared to the reported net cost of BGN 328 thousand for the same period in 2021. 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 2022, a net loss on financial assets measured at fair value through other comprehensive income of BGN 851 thousand was realised. For the previous year, a gain on sale of financial instruments measured at fair value through other comprehensive income of BGN 1,101 thousand was reported.

In 2022, general and administrative expenses and depreciation and personnel costs amounted to BGN 28,981 thousand increased by 1.4% compared to the costs for 2021 (2021: BGN 28,567 thousand). At the end of 2022, the amount of costs for the period is below the planned levels in the Bank's budget for 2022.

In 2022 the Bank reported a negative result from accrued impairments and provisions of loans, receivables and off-balance-sheet commitments – a net expense of BGN 11,914 thousand. For comparison, for the same period of the previous 2021, the Bank reported a net impairment expense and provisions of loans, receivables and off-balance-sheet commitments amounting to BGN 185,610 thousand.

The reported negative result for 2022 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 result in 2022 is mainly due to the reintegration of provisions and a decrease in BDB's exposure on the approved guarantee lines to several commercial banks, as well as to the reduced effect of the impairment costs incurred during the period to cover expected credit losses.

The financial result of the Bulgarian Development Bank EAD for 2022 is an after-tax profit of BGN 20,219 thousand and a reported loss for 2021 after taxes amounting to BGN 155,851 thousand.

Financial position as at 31.12.2022 and 31.12.2021:

Financial position	As of 31.12.2022	As of 31.12.2021	YoY change
<b>Assets</b>			
Cash in hand and balances in current account with the Central Bank	527,836	243,625	116.7%
Financial assets at amortized cost –receivables from banks	139,305	385,347	(63.8%)
Financial assets at mortised cost – receivables from clients, receivables from the state budget and securities	1,528,142	1,748,573	(12.6%)
Financial assets at fair value through other comprehensive income– debt and equity securities	578,647	656,612	(11.9%)
Investments in subsidiaries	166,968	173,512	(3.8%)
Fixed assets	58,829	60,797	(3.2%)
Other assets	66,059	60,357	9.4%
<b>Total assets</b>	<b>3,065,786</b>	<b>3,328,823</b>	<b>(7.9%)</b>
<b>Liabilities</b>			
Borrowings from international institutions	779,497	1,110,740	(29.8%)
Deposits from customers other than credit institutions	994,068	881,673	12.7%
Deposits from credit institutions	2,641	1,719	53.6%
Other borrowings	16,608	16,746	(0.8%)
Provisions	132,996	177,747	(25.2%)
Other liabilities	5,703	4,651	22.6%
<b>Total liabilities</b>	<b>1,931,513</b>	<b>2,193,276</b>	<b>(11.9%)</b>
<b>Equity</b>			
Share capital	1,441,774	1,441,774	-
Accumulated loss	(211,369)	(386,706)	(45.3%)
Revaluation reserve on financial assets at fair value through other comprehensive income	(95,455)	(74,608)	27.9%
Reserves	(677)	155,087	(100.4%)
<b>Total equity</b>	<b>1,134,273</b>	<b>1,135,547</b>	<b>(0.1%)</b>

As of 31 December 2022, the Bank's assets amounted to BGN 3,065,786 thousand (as of 31 December 2021: BGN 3,328,823 thousand), or a decrease of 7.9% compared to the previous year, which is mainly due to a decrease in Financial Assets reported at amortised cost.

## 5.2 LENDING ACTIVITY

In 2022, the Bank continued to develop its activities, supporting the Bulgarian business by continuing to maintain diversification of the industry structure of its loan portfolio. Increased dynamics were observed in the relative shares in the loan portfolio of the following sectors and subsectors: increases for: Industry (+4.2%) and in particular "Industry - other manufacturing" (+ 24.3%); as well as decrease for "Trade" (-28.6%) , "Transport" (- 37.2%), and "Construction" (-8.7%) and "Industry - Energy production and distribution" (-15%).

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.**

At the end of 2022, the loans and advances granted (financial assets reported at amortised cost – receivables from customers) amounted to BGN 1,528,142 thousand and registered a decrease of 12.6% (as of 31.12.2021: BGN 1,748,573 thousand). The decline is due to the decrease of the granted loans and advances (BGN 224,976 thousand), as a decrease in gross loans amounted to BGN 321,656 thousand (of the impairments by BGN 96,680 thousand).

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

The financing of the Programme is carried out through the Bulgarian Development Bank. For this purpose, the Bank concludes trilateral contracts with the regional governors (representatives of the state) and the municipal mayors (proxies of the owners' associations). As of the end of December 2022 the total amount of the agreed funding under signed contracts amounts to BGN 1,977,438 thousand (compared to the end of 2021 – BGN 1,973,964 thousand).

The sites for which special purpose financing contracts have been concluded with the Bank are a total of 2,022 (of which 1,885 buildings under NPEEMFRB and 137 buildings transferred from Energy Renovation of Bulgarian Homes (ERBH) Programme). Under the National Programme for Energy Efficiency of Multi-Family Residential Buildings by the end of 2022 the completed loans under which the Ministry of Regional Development and Public Works has forwarded amounts to BDB AD are for 1,936 buildings. The utilized amount is BGN 1,949,190 thousand and gross receivables on loans under NPEEMFRB amount to BGN 23,598 thousand (as of 31.12.2021 – BGN 18,866 thousand).

From the beginning of the Programme by the end of 2022, a total of BGN 1,950,374 thousand were repaid with funds from the state budget, which amount includes a principal repayment of BGN 1,926,314 thousand and interest paid on completed contracts at the amount of BGN 24,060 thousand.

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

#### 5.4 ANTI-COVID-19 GUARANTEE PROGRAMS

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.

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

As of the end of December 2022, under the "Programme for individuals and households" the guarantee agreements concluded with the commercial banks have an aggregated result of 52,915 loans guaranteed by the BDB, in the total amount of BGN 254,609 thousand. As of 31 December 2022, BDB has guaranteed 46,863 loans in the amount of BGN 182,069 thousand. The guarantees paid to commercial banks and the costs of establishing and collecting the due loans amount to BGN 1,146 thousand, of which BGN 25 thousand have been reimbursed to BDB as of the same date.

The formation of portfolios under the Recovery Programme was completed on 30 June 2022, and according to final data from the commercial banks – partners under the scheme, 2,894 loans with original loan amount BGN 630,349 thousand for which a guarantee has been provided by BDB in the amount of 80% or for BGN 504,279 thousand. As of 31 December 2022, 2,617 loans with a total amount of BGN 533,910 thousand have been guaranteed under the Recovery Programme for enterprises. The approved requests for payment of guaranteed amounts under the Programme amount to BGN 1,749 thousand and the reimbursements to the BDB at the end of 2022 amount to BGN 98 thousand.

At the end of 2022, BDB has issued guarantees for a total of BGN 403,208 thousand<sup>2</sup> by guaranteeing exposures under both programmes totalling BGN 715,979 thousand. (31.12.2021: BGN 649,663 thousand). For these programs, BDB adopted a special methodology for determining expected credit losses in view of the specifics of the programmes, the profile of customers and the structure of product-related commitments for cash inflows and outflows. The methodology is described in detail in the Bank's annual financial statements for 2020, 2021 and 2022.

At the end of 2022, the provisions set aside for expected credit losses under the anti-COVID programmes amounted to BGN 127,215 thousand (31.12.2021: BGN 176,370 thousand), which, according to the Bank, is also the maximum potential cumulative negative effect on BDB's liquidity and capital in the medium term, resulting from these programs.

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<sup>2</sup> For the programme for individuals, 100% of the exposure on the principal of the partner bank to the customer is guaranteed. For the programme for micro, small and medium-sized enterprises, BDB guarantees 80% of the principal on loans, at 50% limit of guarantee payments on portfolio basis.



## 5.5 FUNDING

The attracted funds from international institutions at the end of 2022 accounted for 40.4% in the liability structure and amounted to BGN 779,497 thousand compared to BGN 1,110,740 thousand at the end of 2021. The decrease in 2022 amounted to BGN 331.2 million compared to the end of 2021 and was determined by scheduled repayments under signed financial agreements, as well as a full early repayment of BGN 144.7 million to China Development Bank at the end of the period.

## 6 DEVELOPMENT STRATEGY OF THE BDB GROUP

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. The subsequent change in the Bank's management presented new strategic guidelines for operation and development. The current update of the Strategy for the remaining period until 2023 was adopted by a decision of the Council of Ministers on 29 July 2023 and summarizes and introduces the new moments.

With its activities, BDB follows three main Strategic priorities:

1. More loans for a wider range of micro and SMEs.
2. Supporting vibrant, innovative, competitive SMEs with the potential for integration into European and global networks.
3. Financing business models of green transition, social and sustainable initiatives and services.

For the implementation of the priorities, BDB will follow the following Strategic objectives:

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

In the period 2022-2023, BDB will support viable SMEs that have growth potential but face difficulties in accessing finance due to higher risk and need support to cope with economic shocks. Through the implementation of guarantee programmes for BDB clients and in portfolios of commercial banks for their SME clients, BDB will seek opportunities for alleviated financing in terms of collateral, terms and / or price.

During the period, BDB will continue to implement the government's guarantee programmes for business recovery, as well as other special anti-crisis measures for assignment (under the procedure and rules for state aid).

BDB Group finances directly and indirectly the business in order to reach SMEs in a new and more focused way:

- ❖ With standardised products aimed at niches with identified market disadvantage and suboptimal market solutions
- ❖ With targeted products for the recovery of affected sectors
- ❖ Increased funding for small and medium-sized businesses
- ❖ Financing the green transition and sustainable business models
- ❖ Accelerated digitalization, optimized processes, full support for small and medium-sized businesses

For the period, the BDB Group's activities will be consistent with the dynamics of business and the economy as a result of crises. The humanitarian and economic consequences of the war in Ukraine and the sanctions imposed on Russia negatively change the business situation. The Group will strive to best respond to the demand and need of SMEs to finance and address negative economic effects by creating sustainable business models.

The long-term goals of the Bulgarian Development Bank Group are:

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

BDB recognizes its specific role, which is expressed in three main areas – achieving complementarity through its credit products compared to the existing products on the market, applying good banking practices for development banks and seeking to achieve non-financial contribution from the activity (through consultations, etc.).

BDB Group will continue to support SMEs through anti-crisis programmes and it will provide direct financing and funding for guarantee support for risk sharing and it will lend to clients with a higher risk profile.

As a state-owned development bank, BDB will continue to fulfil its countercyclical and anti-crisis role and to support sectors with liquidity problems. A significant part of enterprises and organizations overcame the initial negative effect of the corona crisis, but the accumulation of new crises – Russia's war in Ukraine and the disruption of supply chains and the subsequent rise in fuel and food prices, put new and prolonged pressure on their business. Insufficient reforms in most of the socially significant areas also contribute significantly to their poor condition. In addition to its main mission as a support bank for SMEs, BDB will seek the opportunity to support with bridge financing socially critical activities such as healthcare, facilities for education (from kindergarten to vocational education) and science, housing for vulnerable social groups and others.

The Bank will continue to develop and establish new partnerships with international financial institutions and universities to share good governance practices and knowledge.

BDB will continue to provide deep penetration of the credit market through cooperation and programmes with commercial partner banks and non-bank financial institutions, including and to overcome the economic shocks of rising prices of electric energy and fuels, as well as other consequences of possible complications on the geopolitical scene.

BDB is preparing to meet market expectations for products and instruments for financing the energy efficiency of enterprises and transition to environmentally friendly and clean production.

## 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 2022, 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 116/16.12.2022 and by a decision of the SB under Protocol No 68/20.12.2022. 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 Group and sets out the recovery indicators - a system of indicators the Bank observes with the aim of early identification of potential situations which could jeopardize the financial performance of the institution. The prerequisites for the implementation of the recovery measures set out in the Recovery Plan are described. Scenarios and recovery options are considered which, in the event of activation of the Recovery Plan, can be taken, as well as the internal communication and decision-making process. A communication action plan has been elaborated in case of activation of the Recovery Plan.

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

The companies from the BDB Group follow 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.

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

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

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

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

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

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

- The First Line of Defense covers risk management by business and risk-taking units - divisions Small and Medium-sized Enterprises, Project Financing, External Programs, Problem Receivables, Treasury and Financial Instruments. 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.

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. Compliance Division has two departments as follows: Regulatory Compliance and Control and Prevention of Money Laundering and Fraud. The Regulatory Compliance and Control Department 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 Group 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.**

## 10 BANK SUPERVISION AUTHORITIES PURSUANT TO THE 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 31.12.2022, 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 2022 is 43.65% (31.12.2021: 35.82%). 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: 20.88% (as of 31.12.2022) and 22.62% (as of 31.12.2021). BDB continues to maintain a good level of liquidity. As of 31.12.2022, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the Bank is 250.3% (compared to a value of 376.61% at the end of 2021). For the banking system, the aggregated liquidity coverage ratio was 235.0% (as of 31.12.2022) and 274.1% (as of 31.12.2021).

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 2022, the aggregate level of NSFR for the banking system was 162.4% and for BDB EAD it was 119.2%.

## 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. BDB purchased two new shares in the capital increase of EIF, bringing the total number of shares held to five shares.

Since 2005, BDB has been an active member of the European Association of Public Banks (EAPB). EAPB has 28 member financial institutions from 17 countries.

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

In 2022, 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 2022, BDB continued its membership in the French-Bulgarian Chamber of Commerce and Industry (FBCI).

In 2022, BDB continued its participation in the Interbank Association of China and the countries of Central and Eastern Europe.

In 2022, BDB continued its participation as a member of the Central and Eastern European Chamber of Commerce and Industry (Singapore).

## 12 BANK GOVERNANCE

There were no charges in the main BDB corporate governance principles in 2022.

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 Supervisory Board, Management Board, Audit Committee and Statute of the Bank, which have occurred in 2022 and until the date of approval of this report are described in section Error! Reference source not found.:

As of 31 December 2022, the BDB's management and supervisory boards have the following composition:

### 12.1 SUPERVISORY BOARD OF BDB IN 2022, AS OF 31.12.2022 AND AS OF THE DATE OF APPROVAL OF THIS REPORT:

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

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 Valeriava 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.

In addition, in 2022, the following persons participated in the composition of the Supervisory Board:

Valentin Lyubomirov Mihov – chairman of the SB (from 7 July 2021 to 13 November 2022) and member of the SB to 7 December 2022.

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

Vassil Atanasov Shtonov – Deputy-chairman and member of the SB from 7 July 2021 to 13 November 2022 and member until 7 December 2022.

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

Mitko Emilov Simeonov – Deputy-chairman of the SB from 27 November 2017 to 13 January 2022.

Mitko Simeonov holds a **master's degree in law from the New Bulgarian University** and a **master's degree in international Economic Relations from the University of National and World Economy**.

He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

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

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

## 12.2 BDB MANAGEMENT BOARD IN 2022, AS OF 31 DECEMBER 2022 AND AS OF THE DATE OF THIS REPORT:

At the date of approval of this report, 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 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.

In 2022, 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.

Vladimir Rashkov Gueorguiev – member of the MB and executive director from 7 July 2021 to 16 June 2022.

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of non-performing loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity.

Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

Jivko Ivanov Todorov – member of the MB and executive director from 14 April 2020 to 23 June 2022.

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

In April 2020 Mr. Todorov was elected as Executive Director and member of the MB of Bulgarian Development Bank EAD.

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

### 12.3 CONTRACTS SIGNED WITH RELATED PARTIES, INVOLVED IN THE MANAGEMENT AND PARTICIPATION 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 2022, 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 Group companies and their 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):

#### Members of MB and SB

I. With regard to members of the SB of the Bank, who participated in its composition in 2022 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.



Valentin Lyubomirov Mihov, Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 7 July 2021 to 13 November 2022 and member to 7 December 2022.

Participation in the management of trade companies:

- First Ukrainian International Bank – Member of SB.

Participation in the share capital of commercial entities:

- „Valor Advisors“ EOOD, UIC: 204708828 – ownership of more than 25% of share capital).

Vassil Atanasov Shtonov – Deputy-Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 7 July 2021 to 13 November 2022 and member until 7 December 2022.

Participation in the management of trade companies:

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

Participation in the capital of trade 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:

- State Enterprise Management and Administration of Dams, UIC: 205756975, Member of the Management Board until 25 February 2022.

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

Mitko Emilov Simeonov – Member of the Supervisory Board of Bulgarian Development Bank EAD from 21 November 2017 to 13 January 2022.

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

Velina Ilieva Burska – Member of the Supervisory Board of Bulgarian Development Bank EAD from 21 November 2017 to 13 January 2022.

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

II. With regard to members of the MB of the Bank, who have participated in its composition in 2022 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;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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.

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 22 March 2023.

Participation in the capital of commercial companies or cooperatives: 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;
- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

Vladimir Rashkov Gueorguiev – Executive Director and member of the Management Board of Bulgarian Development Bank EAD from 7 July 2021 to 16 June 2022.

Participation in the management of other companies:

- BDB Microfinancing EAD, UIC: 201390740 – member of the Board of Directors – from 23 August 2021 to 23 June 2022.

Participation in the capital of commercial companies or cooperatives:

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

Jivko Ivanov Todorov – Executive Director of BDB, member of the MB of BDB from 14 April 2020 to 23 June 2022.

Participation in the management of commercial companies:

- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Chairman of the Board of Directors – from 20 May 2020 to 23 August 2021;
- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors – from 20 May 2020 to 23 June 2022.

Participation in the share 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 2022, AS OF 31 DECEMBER 2022 AND AT THE DATE OF APPROVAL OF THIS REPORT:

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

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

Svetlana Kurteva 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. He 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.

In addition, in 2022, the following persons were part of the Audit Committee:

By decision under Protocol dated 29 December 2022 of the Minister of Innovation and Growth, exercising the rights of the sole owner of the capital of BDB, Vasil Atanasov Shtonov, Dragomir Ivanov Vuchev and Gergana Stoyanova Moskova were released from the Audit Committee. Svetlana Hristova Kurteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova were appointed in their place as of 1 January 2023.

Dragomir Ivanov Vuchev – Chairman of the Audit Committee from 25 May 2021 to 29 December 2022.

Dragomir Vuchev has extensive experience in working with fast-growing businesses – both in the financial sector and in other industries, including in the healthcare sector, where he has worked as CFO. He has gained considerable expertise in consulting services, working for over 17 years for KPMG Bulgaria, where he has headed the Professional Practice Department for the Balkans, dealing with complex IFRS cases and internal training. He has participated in the preparation of the exams for the Institute of Certified Public Accountants.

Vassil Atanasov Shtonov – Member of the Audit Committee from 25 May 2021 to 29 December 2022.

Vassil Shtonov holds a Master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications and energy. He has experience at a U.S. venture capital fund for small and medium-sized enterprises in Los Angeles, at McKinsey consultancy company as a junior partner, where he has led commercial bank analysis and management teams, and at Bear Stearns investment bank in New York. He has been Chief Strategy and Marketing Officer for Blizoo Cable Telecom. He was Interim Minister of Economy and Energy in 2014.

Gergana Stoyanova Moskova – Member of the Audit Committee from 7 July 2021 to 29 December 2022.

**Gergana Moskova holds a Master's degree in Microeconomics and a Bachelor's degree in Economics from St. Kliment Ohridski University of Sofia. She has extensive professional experience in accounting and has worked as an auditor and tax consultant.**

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

The owner of BDB is the Bulgarian state. Transactions with related parties and companies under the common control with the state are disclosed in Note 39 to the separate financial statements of BDB for 2022.

## 14 EVENTS AFTER THE REPORTING PERIOD FOR THE YEAR ENDING ON 31 DECEMBER 2022

No adjusting events or significant non-adjusting events have 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

Please see section 2.2.1 of the activity report of Bulgarian Development Bank for 2022.

Changes in the Audit Committee of Bulgarian Development Bank EAD

Please see section 2.2.1 of the activity report of Bulgarian Development Bank for 2022.

Changes in the Statute and the capital of Bulgarian Development Bank EAD

Please see section 2.2.1 of the activity report of Bulgarian Development Bank for 2022.

Changes in the management bodies of subsidiaries:

### *BDB Leasing EAD*

By decision under Protocol dated 7 March 2023 of the Management Board of BDB, as the sole owner of the capital of BDB Leasing EAD, Krum Georgiev Georgiev was dismissed as member of the Board of Directors of the company, and Ivan Valentinov Cerovski was elected as new member. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 17 March 2023. Mr. Ivan Valentinov Cerovski was elected Chairman of the Board of Directors of the company.

### *National Guarantee Fund EAD*

By decision under Protocol dated 10.03.2023 of the Management Board of BDB, as the sole owner of the capital of the National Guarantee Fund EAD, Krum Georgiev Georgiev was dismissed as member of the Board of Directors of the company, and Ivan Valentinov Cerovski was elected as new member. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 17 March 2023. Mr. Ivan Valentinov Cerovski was elected Chairman of the Board of Directors of the company.

### *BDB Microfinancing EAD*

By a decision of 07.03.2023 of the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, Mr. Tsanko Rumenov Arabadzhiev was elected as member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 22 March 2023. Mr. Tsanko Rumenov Arabadzhiev was elected Chairman of the Board of Directors of the company.

By Protocol No 23 dated 7 March 2023 and Protocol No 26 dated 10 March 2023, the Management Board of BDB, exercising the rights of the Bank as the sole owner of the capital of BDB Microfinancing EAD, decided to amend the Statute of BDB Microfinancing EAD regarding the company's manner of representation, namely: The company shall be represented jointly by the two Executive Directors or at least one Executive Director and one member of the Board of Directors. The changes are announced in the file of BDB Microfinancing EAD in the Commercial Register with entry dated 22.03.2023.

By decision under Protocol No 4 dated 9 March 2023 of the Board of Directors of BDB Microfinancing EAD, Mrs. Mariana Dimitrova Petkova was elected second Executive Director. By decision under Protocol No 26 dated 10 March 2023, the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, approved the election of Mrs. Mariana Dimitrova Petkova as Executive Director and confirmed that Ivana Borisova Tsaneva continues to perform the functions of Executive Director of the company. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 22 March 2023.

#### *Trade Center Maritsa EOOD*

By decision under Protocol no 18 dated 21 February 2023 of the Management Board of BDB, as the sole owner of the capital of Trade Center Maritsa EOOD, Vaska Borisova Stancheva was released as managing director of the company, and Nadezhda Yordanova Nikova was elected as the new managing director. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 17 March 2023.

#### The banking crisis in the United States and Switzerland

With the closure of Silicon Valley Bank on 10 March 2023, the banking sector around the world was gripped by uncertainty, with bank share quotes falling significantly. On 12 March 2023, it was followed by Signature Bank, and a few days later doubts arose about First Republic, which currently continues to operate. The banking regulator and the Federal Deposit Insurance Corporation took swift action to place both banks under supervision and subsequent restructuring in order to limit the negative impact of these failures on the US and global banking system.

Bulgarian Development Bank is still analyzing the potential effects that these bank failures may have on the sources of financing and the cost of the resources, as well as the overall impact on the national and European economy.

As at the date of this report, BDB and its subsidiaries have no exposures to the above-mentioned banks.

In a separate event, after weeks of uncertainty, Switzerland's Credit Suisse was acquired by rival UBS in a deal that generated more than USD 17 billion losses to holders of shares and subordinated bonds of the absorbed bank. Separately, the Swiss Central Bank provided liquidity of over CHF 100 billion. The decision on the acquisition was taken jointly by the Swiss government and the banking regulator, without consulting Credit Suisse shareholders.

Bulgarian Development Bank and its subsidiaries have no exposures to Credit Suisse.

The Bank constantly monitors these developments and analyses their potential effects on the banking sector in Europe and around the world, and the possible effects on its business and assets. Currently, according to the Bank, the effects, if any, are not reliably measurable.

## 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 2022, 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 with Protocol no. 45 of the Management Board dated 29 May 2023 by the Management Board of Bulgarian Development Bank EAD and with Protocol no. 25 of the Supervisory Board of the Bank dated 30 May 2023, and was signed by:



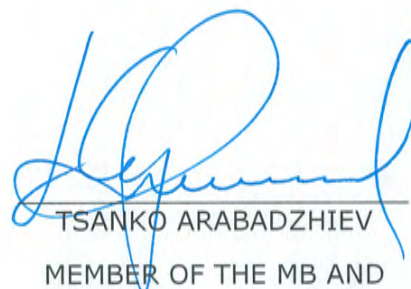
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ILIYA KARANIKOLOV  
CHAIRMAN OF THE MB AND  
EXECUTIVE DIRECTOR



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IVAN CEROVSKI  
MEMBER OF THE MB AND  
EXECUTIVE DIRECTOR



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TSANKO ARABADZHIEV  
MEMBER OF THE MB AND  
EXECUTIVE DIRECTOR

## APPENDIX 1: BDB GROUP CORPORATE GOVERNANCE STATEMENT

### 1 PRINCIPLES OF CORPORATE GOVERNANCE

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.

### 2 THE BDB GROUP

As of the end of 2022, the financial group of Bulgarian Development Bank <sup>3</sup> (the "Group", the "BDB Group" or the "Financial Group") includes Bulgarian Development Bank EAD <sup>4</sup> ("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 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 the BDB Group 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.

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<sup>3</sup> As of the end of 2022 the Bank is the sole owner of TC Maritza EOOD. The company is not part of the strategic business model of the Financial Group of BDB.

<sup>4</sup> On 04.06.2021 Bulgarian Development Bank is registered in the Trade Register and Register of Non-Profit Entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.



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

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 2022, Bulgarian Development Bank EAD has no branches.

**As of 31 December 2022 the number of the Bank's employees is 233.**

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 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.

As of 31 December 2022, 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.

As of 31 December 2022, the capital of the Bank amounts to BGN 1,441,773,500, composed of 14,417,735 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 the 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 2022, BDB has no obligations under existing or new securities issues.

As of 31 December 2022 there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group 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.

As of 31 December 2022, and 31 December 2021, there is no exposure to a client or group of related clients that is greater than 25% of the Bank's regulatory equity.

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.

The largest credit exposure of the Bank provided to a group of related parties (other than banking institutions) as at 31 December 2022 amounts to BGN 172,452 thousand (including BGN 135,533 thousand gross carrying amount of debt, BGN 15,031 thousand for utilization and BGN 21,888 thousand guarantees) (for 2021: BGN 182,419 thousand) at amortised cost, representing 16.76% (2021: 17.05%) of the Bank's equity / the Bank's eligible capital, calculated in accordance with Regulation 575/2013/EU, at the amount of BGN 1,052,229 thousand (2021: BGN 1,070,167 thousand). An analysis of the structure of the loan portfolio by segment is provided in the consolidated and separate financial statements of the Bank.

Given the specific activity of the Bank, as of 31 December 2022, the funds attracted from 20 largest non-bank depositors represent 72.58% of the total amount of liabilities to other clients (31 December 2021: 85.52%). The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 29.90% (as at 31 December 2021: 14.62%).

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). At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio has expired. The deadline for inclusion of loans in the guarantee programme of BDB was last extended until 30 June 2022.

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

## 2.2 NATIONAL GUARANTEE FUND (NGF)

National Guarantee Fund EAD is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. The sole owner of the company is Bulgarian Development Bank EAD.

**National Guarantee Fund EAD is a financial institution. The company's principal activities include:**

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

The registered capital of the company as of 31 December 2022 amounted to BGN 80,000,000 distributed into 800,000 shares with nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The company's capital is fully paid in.

The seat and registered address of National Guarantee Fund EAD is Sofia, 1, Dyakon Ignatij Str. The company uses a rented office in Sofia 1421, 105 Arsenalski Blvd.

As of 31 December 2022, the number of employees of NGF is 11.

As of 31 December 2022, NGF has no branches.

## 2.3 BDB MICROFINANCING EAD (BDB MICROFINANCING)

BDB Microfinancing EAD was registered at the Commercial Register on 14 January 2011. The sole owner of the company is Bulgarian Development Bank EAD.

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

As of 31 December 2022, the registered capital of BDB Microfinancing is BGN 14,643,000 and is distributed to 146,430 shares with a nominal value of BGN 100 each. The shares are ordinary, materialized, registered, and indivisible, each share giving the right to one vote. The capital of the company is fully paid in.

The seat and registered address of BDB Microfinancing EAD is Sofia, 1, Dyakon Ignatij Str. The company uses a rented office in Sofia 1421, 105 Arsenalski Blvd.

As of 31 December 2022, the number of employees of BDB Microfinancing EAD is 15.

As of 31 December 2022, BDB Microfinancing EAD has no branches.

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

Capital Investments Fund AD was incorporated on 24 August 2018 and registered on 04 October 2018 as a joint-stock company. The shareholders of CIF are Bulgarian development Bank EAD with 84.62% share in the capital and National Guarantee Fund EAD with 15.38% share in the capital.

Capital Investments Fund AD is a financial institution. The scope of activities of CIF includes:

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

A key priority is providing capital for the growth of small and medium-sized enterprises with an established business model and opportunities for accelerated expansion on local and international markets.

As of 31 December 2022, the registered capital amounts to BGN 57,814,000, distributed to 578,140 shares with a nominal value of BGN 100 each. The shares are ordinary, materialized, registered, and indivisible, each share giving the right to one vote. The capital of the company is fully paid in.

The seat and management address of Capital Investments Fund AD is Sofia 1000, 1, Dyakon Ignatij Str.

As of 31 December 2022, the number of employees of CIF is 5.

As of 31 December 2022, CIF has no branches.

## 2.5 BDB LEASING EAD (BDB LEASING)

BDB Leasing EAD was incorporated on 6 March 2019 and entered in the Commercial Register on 12 March 2019. The sole owner of the company is Bulgarian Development Bank EAD.

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

The sole owner of the capital of BDB Leasing EAD is Bulgarian Development Bank EAD. The capital of the company, paid-in at the time of the establishment amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each.

As of 31 December 2022, the registered capital of BDB Leasing is BGN 18,630,000 distributed to 186,300 shares with a nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, each share giving the right to one vote. The capital of the company is fully paid in.

The seat and management address of BDB Leasing EAD is Sofia, 1, Dyakon Ignatij Str. The company uses a rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

As of 31 December 2022, the number of employees of BDB Leasing EAD is 12.

As of 31 December 2022, BDB Leasing EAD has no branches.

## 2.6 BDB FACTORING EAD (BDB FACTORING)

The merger of BDB Factoring EAD into Bulgarian Development Bank EAD is entered in the Commercial Register on 9 July 2022. BDB Factoring EAD is deregistered as of 9 July 2022.

## 3 BDB GROUP RISK MANAGEMENT

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

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

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

### 3.1 MAIN RISKS /AS OF 31 DECEMBER 2022/

#### 3.1.1 Credit risk of BDB Group

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

BDB has established and operates bodies for monitoring, controlling and assessing the quality of the loan portfolio. Procedures and mechanisms have been introduced for ongoing monitoring, 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 Group's internal policies and rules regulate the most important risk mitigation tools and actions and determine BDB's tolerance/predisposition to take credit risks.

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

As a result of all this complex assessment, a credit rating shall be issued to each counterparty reflecting its individual probability of default. The process of awarding an internal credit rating is based on rating models, stipulated 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 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 the BDB Group.

The management of the credit risk under the off-balance-sheet (guarantee) commitments made by the NGF is on two levels – at the level of individual transaction (guarantee) and at portfolio level. Credit risk at individual level is managed in accordance with the internal rules and procedures for the guarantee activity for issuing a guarantee. At portfolio level, credit risk is managed through payment limits (caps) limiting the NGF's commitment to pay up to a certain share of the amount of the guarantee portfolio issued under a programme to a bank.



The subsequent management of the credit risk undertaken by the NGF shall be carried out through monitoring procedures within which the Fund may exclude from the guaranteed portfolio certain loans which do not meet specific requirements of the signed guarantee agreements.

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

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

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

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

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

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

### *3.1.2 Market risks of BDB Group*

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

In managing interest rate risk, the BDB Group 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 Group. 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 Group's capital. The internal limit framework limits the potential risk to expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement based on the economic value of capital, analysis of discrepancies, interest rate stress scenarios. Regular reports and analyses are prepared for the financial assets and liabilities of the BDB and the companies of the Group, distributed at time intervals, according to their sensitivity to changes in interest rates.

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

The portfolio of securities formed by the BDB Group for the purpose of investing available funds is characterized by relatively low interest rate risk and relatively liquid government securities and securities issued by reliable institutions. In 2022, the BDB Group 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 Group applies internal rules and procedures through which a system of liquidity indicators including limits and early warning indicators is established. The liquidity of the Bank is managed by closely monitoring ratios indicating the liquidity position by period. Liquidity risk is measured by applying additional cash flow scenarios. The Group's liquidity buffers and additional sources of funding for market and idiosyncratic shocks are measured and monitored. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and limits set according to the risk tolerance of BDB Group. Compliance with liquidity ratio limits is monitored and reported regularly to the competent authorities.

The assessment of market 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 Group.

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

For operational risk management BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. 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 or the companies of the Group, 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 Group.

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

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 Group.

### 3.2 STRUCTURE OF RISK MANAGEMENT

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

For the Parent Company (the Bank):

- Supervisory Board - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is supported by specialized committees as follows:
  - Audit Committee (AC) – the responsibilities of the AC with regard to risk include monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring the independent financial audit, making recommendations for the selection of a registered auditor and reporting to the Supervisory Board on all matters within its competence.
  - Risk Management Committee (RMC) - advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's propensity to take risks and supports the control of its implementation by senior management staff. The RMC regularly reviews information on the analysis, management, and control of risks, informing it of the overall risk profile, implementation of the risk restrictions, as well as the capital and liquidity position of BDB.
  - Remuneration Committee - prepares and proposes remuneration decisions, taking into account the impact on risk and its management, the long-term interests of shareholders, investors and other parties concerned.
  - Recruitment Committee – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity, **and suitability assessment in “Bulgarian Development Bank” EAD and makes recommendations for a change in it.**
- Management Board (MB) – is responsible for the general approach to risk management and approves strategies, principles and specific methods, techniques and procedures for risk management. The Management Board has the following ancillary bodies, which function as specialised committees:
  - Assets and Liabilities Management Committee (ALCO) – it is responsible for the 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.
  - Complaints and Signals Commission – a body for dealing with complaints and signals submitted by employees of the Group. As of 1 April 2022 the functioning of the commission has been terminated, and a new Procedure for reporting irregularities was introduced in the BDB Group.
  - Credit Committee for classified exposures (former Legacy Credit Committee) – 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, 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 (RICO) – the committee has been functioning since 23.04.2023. The purpose of RICO 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).
- 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 Division – there are two separate departments within Regulatory Compliance Division as follows: Regulatory Compliance and Control and Money Laundering and Fraud Prevention. Money Laundering and Fraud Prevention Department supervises the prevention of money laundering and terrorist financing. Regulatory Compliance and Control Department 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. 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 Microfinancing and European Funds.

For the subsidiary National Guarantee Fund EAD:

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

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

For the subsidiary BDB Leasing EAD:

Leading unit in terms of risk management at BDB Leasing EAD is the Risk Division of BDB Leasing EAD. The Risk Division provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks. The unit performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting on their implementation, as well as preparation of independent opinions on leasing proposals. It carries out **an initial and ongoing analysis of lessees' rating, as well as initial and ongoing analysis of risk assessment methods.**

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

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

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

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

For the subsidiary BDB Microfinancing EAD:

The main units directly responsible for risk management are:

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

For the subsidiary Capital Investments Fund AD:

The main units directly responsible for risk management are:

Board of Directors – the responsibilities include:

- Approves internal rules and procedures of CIF;
- Approves prepared proposals related to investments in shares;
- Decides on investment portfolio management.

Risk Manager:

- Carries out capital risk assessment and control of all rules and procedures related to the investment process and capital risk management;
- Identifies the main risks of investment transactions on the basis of a thorough analysis and is responsible for their proper addressing to the competent authorities in accordance with the current Rules for levels of competence for approval of credit risk transactions in the BDB Group;
- Periodic monitoring of portfolio investments – quarterly investment review reports to the Board of Directors of CIF;
- Verifies the reports on the revaluation of portfolio investments, which are prepared by the Investment Department;
- Monitors compliance with the limits set out in the Risk Management Policy of Capital Investments Fund AD;
- Makes proposals for amendments and supplements to policies, rules, procedures and limits in order to minimize the risks inherent to the activity of CIF;
- Manages the process of collecting information about operational events and preparing relevant reports;
- Participates in the periodic monitoring of portfolio companies in accordance with the current Investment Policy and Rules of Operation of CIF;
- Coordinates the periodic revaluation of the investments of CIF, taking into account the inherent risks and their relative weights in the formation of the final values.

The transformation of BDB Factoring EAD through merger into Bulgarian Development Bank EAD was entered in the Commercial Register on 9 July 2022. Thus, the merger of BDB Factoring EAD into the Bulgarian Development Bank EAD was completed. BDB has become a universal successor of the assets and liabilities of the subsidiary, and the strategic decision of the Group's management is that these products will not be offered in the future due to limited demand and partial overlap with other products of the Bank.



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

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As of 31 December 2022, 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 European Bank Supervision as well as the Single Restructuring Mechanism are the main pillars of the banking union in the EU.

BDB's reported capital adequacy on an individual basis as at 31 December 2022 is 43.65% (31.12.2021: 35.82%). 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: 20.88% (as of 31.12.2022) and 22.62% (as of 31.12.2021). BDB continues to maintain a good level of liquidity. As of 31.12.2022, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the Bank is 250.3% (compared to a value of 376.61% at the end of 2021). For the banking system, the aggregated liquidity coverage ratio was 235.0% (as of 31.12.2022) and 274.1% (as of 31.12.2021).

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 2022, the aggregate level of NSFR for the banking system was 162.4% and for BDB EAD it was 119.2%.

## 5 CONTROL ENVIRONMENT

The companies from the BDB Group follow 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 Small and Medium-sized Enterprises, Project Financing, External Programs, Problem Receivables, Treasury and Financial Instruments. Their activities are supported by the divisions Legal, Credit Administration, Security, Finance, Operations and MFI and European Funds, which 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. 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. Compliance Division has two departments as follows: Regulatory Compliance and Control and Prevention of Money Laundering and Fraud. The Regulatory Compliance and Control Department 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 Group 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).

As of 31 December 2022, the BDB's management bodies have the following composition:

### 6.1 SUPERVISORY BOARD OF BDB IN 2022, AS OF 31.12.2022 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. Prof. 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 also 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 Lending Act (1992) and the Commercial Code (1991), among others. Rosen Karadimov was a legal consultant and attorney of a number of credit institutions, including BDB.

Delyana Valeriava 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). Mr. Yanev is a lawyer specialized in the field of mergers and acquisitions, and investments. His professional path passes through 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 addition, in 2022, the following persons participated in the composition of the Supervisory Board:

Valentin Lyubomirov Mihov – Chairman of the SB (from 7 July 2021 to 13 November 2022) and member of the SB to 7 December 2022.

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

Vassil Atanasov Shtonov – Deputy-Chairman (from 07 July 2021 to 13 November 2022) and member of the SB until 7 December 2022.

Vassil Shtonov holds a **Master's degree in Finance from the Massachusetts Institute of Technology** in Cambridge. He has extensive experience in banking, telecommunications, and energy.

He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

Mitko Emilov Simeonov – Deputy-chairman of the SB from 27 November 2017 to 13 January 2022.

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

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

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

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 2022 and as of the date of approval of this declaration is as follows:

Member	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 was elected Chairperson of the Remuneration Committee on 25 January 2023.

## 6.2 AUDIT COMMITTEE IN 2022, AS OF 31.12.2022 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 Kurteva – Chairperson of the Audit Committee since 1 January 2023.

Svetlana Kurteva 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. He 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.



In addition, in 2022, the following persons were part of the Audit Committee:

By decision under Protocol dated 29 December 2022 of the Minister of Innovation and Growth, exercising the rights of the sole owner of the capital of BDB, Vasil Atanasov Shtonov, Dragomir Ivanov Vuchev and Gergana Stoyanova Moskova were released from the Audit Committee. Svetlana Hristova Kurteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova were appointed in their place as of 1 January 2023.

Dragomir Ivanov Vuchev – Chairman of the Audit Committee from 25 May 2021 to 29 December 2022.

Dragomir Vuchev has extensive experience in working with fast-growing businesses – both in the financial sector and in other industries, including in the healthcare sector, where he has worked as CFO. He has gained considerable expertise in consulting services, working for over 17 years for KPMG Bulgaria, where he has headed the Professional Practice Department for the Balkans, dealing with complex IFRS cases and internal training.

He has participated in the preparation of the exams for the Institute of Certified Public Accountants.

Vassil Atanasov Shtonov – member of the Audit Committee from 25 May 2021 to 29 December 2022.

Vassil Shtonov holds a Master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications and energy. He has experience at a U.S. venture capital fund for small and medium-sized enterprises in Los Angeles, at McKinsey consultancy company as a junior partner, where he has led commercial bank analysis and management teams, and at Bear Stearns investment bank in New York. He has been Chief Strategy and Marketing Officer for Blizoo cable telecom. He was Interim Minister of Economy and Energy in 2014.

Gergana Stoyanova Moskova – member of the Audit Committee from 7 July 2021 to 29 December 2022.

Gergana Moskova **holds a Master's degree in Microeconomics and a Bachelor's degree in Economics** from St. Kliment Ohridski University of Sofia. She has extensive professional experience in accounting and has worked as an auditor and tax consultant.

### 6.3 BDB MANAGEMENT BOARD IN 2022, AS OF 31 DECEMBER 2022 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 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 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.

In 2022, the following members also participated in the composition of the Management Board:

Mariana Dimitrova Petkova – Chairwoman 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 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 also has successful experience as an Asset Manager in the RES sector.

Vladimir Rashkov Gueorguiev – member of the MB and executive director from 7 July 2021 to 16 June 2022.

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of non-performing loans.

He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

Jivko Ivanov Todorov – member of the MB and executive director from 14 April 2020 to 23 June 2022.

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

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

In 2022, there were no changes in the basic principles of governance in BDB Group.

#### 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 Impairment 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 (former Legacy Credit Committee) – 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, 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;
- Complaints and Signals Commission – a body for dealing with complaints and signals submitted by employees of the Group. As of 1 April 2022, the functioning of the commission has been terminated, and a new Procedure for reporting irregularities was introduced in the BDB Group.
- Operational Risk Committee (RICO) – the committee has been functioning since 23.04.2023. The purpose of RICO 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).

As of 31 December 2022 the MB Committees consist of the following members:

MB Committees	Assets and Liabilities Management Committee	Legacy Committee *	Complaints and Signals Commission (terminated as of 1 April 2022)	Committee on Impairments and Provisions
Mariana Petkova	Member	Chairperson	-	Member
Krum Georgiev	Member	Deputy Chairperson	-	Chairperson
Tsanko Arabadzhiev	Chairperson	Member	-	-
Head of Problem Receivables Division	-	Member	-	Member
Head of Risk Division	Member	Member	Member	Member
Head of Market, liquidity and operational risk Department, Risk Division	Member	-	-	-

MB Committees	Assets and Liabilities Management Committee	Legacy Committee *	Complaints and Signals Commission (terminated as of 1 April 2022)	Committee on Impairments and Provisions
Head of Legal Division	-	Member	-	-
Head of Security Division	-	-	Member	-
Head of Finance Division	Member	-	Member	Member
Head of Internal Audit of the Group Division	-	-	Member	-
Head of Treasury Division	Member	-	-	-
Head of Corporate Clients Division	-	Member	-	Member
Head of Monitoring Department, Corporate Clients Division	-	Member	-	-
Head of Compliance Division	-	-	Chairperson**	-
Head of International Financial Institutions and European Funds Division	Member	-	-	-
Head of Financial Instruments Division	Member	-	-	-

\* Former Legacy Committee, renamed to Loan Committee for classified exposure, pursuant to April 20, 2023 MB's Decision

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

As of the date of preparation of this declaration the MB Committees consist of the following members:

MB Committees	Operational Risk Committee (RICO)	Assets and Liabilities Management Committee	Credit Committee for classified exposures*	Committee on Impairments and Provisions
Iliya Karanikolov	Chairperson	Member	Chairperson	-
Ivan Cerovski	-	Member	Member	-
Tsanko Arabadzhiev	-	Chairperson	Member	-
Head of Finance Division	Member	Member	-	Chairperson
Head of Reporting Department, Finance Division	Member	-	-	-
Head of Corporate Clients Division	-	-	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
Head of Risk Control Department, Risk Division	Member	-	-	-
Head of Market, liquidity and operational risk	Member	Member	-	-

MB Committees	Operational Risk Committee (RICO)	Assets and Liabilities Management Committee	Credit Committee for classified exposures*	Committee on Impairments and Provisions
Department, Risk Division				
Head of Problem Receivables Division	Member	-	Member	Member
Head of Treasury Division	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	-	-	-
Head of Operations Division	Member	-	-	-

\*Former Legacy Committee.



## 6.5 CONTRACTS SIGNED WITH RELATED PARTIES, INVOLVED IN THE MANAGEMENT AND PARTICIPATION 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 2022, 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 Group companies and their 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 declaration):

### Members of MB and SB

I. With regard to members of the SB of the Bank, who participated in its composition in 2022 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 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.

Valentin Lyubomirov Mihov, Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 7 July 2021 to 13 November 2022 and member to 7 December 2022.

Participation in the management of trade companies:

- First Ukrainian International Bank – Member of SB.

Participation in the share capital of commercial entities:

- „Valor Advisors“ EOOD, UIC: 204708828 – ownership of more than 25% of share capital).

Vassil Atanasov Shtonov – Deputy-Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 7 July 2021 to 13 November 2022 and member until 7 December 2022.

Participation in the management of trade companies:

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

Participation in the capital of trade 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:

- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board until 25 February 2022.

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

Mitko Emilov Simeonov – member of the Supervisory Board of Bulgarian Development Bank EAD from 21 November 2017 to 13 January 2022.

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

Velina Ilijeva Burska – member of the Supervisory Board of Bulgarian Development Bank EAD from 21 November 2017 to 13 January 2022.

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

II. With regard to members of the MB of the Bank, who have participated in its composition in 2022 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 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;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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.

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 22 March 2023.

Participation in the capital of commercial companies or cooperatives: 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;
- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

Vladimir Rashkov Gueorguiev – Executive Director and member of the Management Board of Bulgarian Development Bank EAD from 7 July 2021 to 16 June 2022.

Participation in the management of other companies:

- BDB Microfinancing EAD, UIC: 201390740 – member of the Board of Directors – from 23 August 2021 to 23 June 2022.

Participation in the capital of commercial companies or cooperatives:

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

Jivko Ivanov Todorov – Executive Director of BDB, member of the MB of BDB from 14 April 2020 to 23 June 2022.

Participation in the management of commercial companies:

- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Chairman of the Board of Directors – from 20 May 2020 to 23 August 2021;
- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors – from 20 May 2020 to 23 June 2022.

Participation in the share 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.

## 7 MANAGEMENT OF SUBSIDIARY COMPANIES

As of 31 December 2022 and the date of preparation of the present declaration, BDB is the equity owner of the following subsidiaries

Sole owner of:

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

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

As of 31 December 2022 BDB exercises control over Kohoferm OOD<sup>5</sup>, UIC 201807408, by virtue of exercised rights under the pledge of a commercial enterprise. In 2021 the Bank acquired the main production assets of the company at the amount of approximately BGN 2.5 million. As of 31 December 2022 and the date of the present declaration, the company does not hold significant assets.

As of 31 December 2022 BDB exercises control over Roadway Construction AD, UIC 205427809 by virtue of exercised rights under the pledge of a commercial enterprise.

As of 31 December 2022 BDB exercises control over Ponsstroyengineering AD (bankrupt), UIC 102907182, by virtue of exercised rights under the pledge of a commercial enterprise. The company is bankrupt.

### 7.1 NATIONAL GUARANTEE FUND EAD

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

BD as of 31 December 2022	BD as of the date of approval of the separate financial statements:
<ul style="list-style-type: none"> <li>- Todor Lyudmilov Todorov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;</li> <li>- Zaharina Damianova Todorova – member of the Board of Directors since 20 May 2020;</li> <li>- Deyan Petrov Kalupchiev – member of the Board of Directors since 27 September 2021;</li> <li>- Krum Georgiev – Chairman of the Board of Directors from 6 July 2022 to 17 March 2023</li> </ul>	<ul style="list-style-type: none"> <li>- Todor Lyudmilov Todorov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;</li> <li>- Zaharina Damianova Todorova – member of the Board of Directors since 20 May 2020;</li> <li>- Deyan Petrov Kalupchiev – member of the Board of Directors since 27 September 2021;</li> <li>- Ivan Valentinov Cerovski – Chairman of the Board of Directors since 17 March 2023</li> </ul>

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

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

<sup>5</sup> Kohoferm OOD, Roadway Construction AD and Ponsstroyengineering AD are not part of the strategic business model of the financial group of BDB.

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

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

Ivan Valentinov Cerovski – Chairman of the Board of Directors of NGF since 17 March 2023.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, Member of MB and Executive Director since 20 January 2023;
- BDB Leasing EAD, UIC 205565411 – Member of the Board of Directors – since 17 March 2023.

Participation in the capital of trade companies or cooperatives:

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

Krum Georgiev Georgiev – Chairman of the Board of Directors of NGF from 6 July 2022 to 17 March 2023

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, Member of MB from 7 July 2021 to 14 February 2023;
- BDB Leasing EAD, UIC 205565411 – Member of the Board of Directors - from 23 August 2021 to 17 March 2023;
- BDB Factoring EAD, UIC 205566082 – Member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

Participation in the management of other trade companies:

- Glenridge Capital EOOD, UIC 205578775, Managing Director;
- Tracian Invest EAD, UIC 207223310 – Member of the Board of Directors.

Participation in the capital of trade companies:

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

Jivko Ivanov Todorov – Chairman of the Board of Directors of NGF from 20 May 2020 to 23 June 2022

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, Executive Director and Member of the Management Board from 14 April 2020 to 23 June 2022.

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

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

Participation in the management of trade companies: none.

Participation in the capital of trade companies: none.

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

Participation in the management of trade companies:

- G&L Properties OOD, UIC: 175172659, Managing Director until 31 September 2022;
- Capital alliance EOOD, UIC: 175172627, Managing Director.
- Participation in the capital of trade companies:
- Capital alliance EOOD, UIC: 175172627, sole owner of the capital;
- G&L Properties OOD, UIC: 175172659, partner holding a 50% share of the capital.

## 7.2 BDB MICROFINANCING EAD

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

BD as of 31 December 2022	BD as at the date of approval of the separate financial statements:
<ul style="list-style-type: none"> <li>- Mariyana Dimitrova Petkova – Chairwoman of the Board of Directors since 23 June 2022;</li> <li>- Iliya Radkov Komitov – Member of the Board of Directors since 28 August 2020;</li> <li>- Boyan Stefanov Bianov – member of the Board of Directors since 30 August 2021;</li> </ul>	<ul style="list-style-type: none"> <li>- Mariyana Dimitrova Petkova – Chairwoman of the Board of Directors (from 23 June 2022 to 22 March 2023) and Executive Director since 22 March 2023;</li> <li>- Iliya Radkov Komitov – member of the Board of Directors since 28 August 2020;</li> </ul>

<ul style="list-style-type: none"> <li>- Ivana Borisova Tsaneva – Executive Director and Vice-Chairwoman of the Board of Directors since 20 May 2020.</li> </ul>	<ul style="list-style-type: none"> <li>- Boyan Stefanov Bianov – member of the Board of Directors since 30 August 2021;</li> <li>- Ivana Borisova Tsaneva – Executive Director and Vice-Chairwoman of the Board of Directors since 20 May 2020;</li> <li>- Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 22 March 2023.</li> </ul>
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The Company is represented jointly by any two of the Executive Directors or at least one Executive Director and one member of the Board of Directors.

Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 22 March 2023.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Member of the Management Board and Executive Director since 7 July 2021;
- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors – since 5 August 2021;
- BDB Factoring EAD, UIC 205566082 – Member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

Mariyana Dimitrova Petkova – Chairwoman of the Board of Directors (from 23 June 2022 to 22 March 2023) and Member of the Board of Directors and Executive Director since 22 March 2023.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Chairman of the Management Board (from 13 June 2022 to 12 January 2023) and Executive Director – from 13 June 2022 to 16 March 2023;

Participation in the capital of trade companies - none

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

Participation in the management of trade companies - none.

Participation in the capital of trade companies - none.



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

Participation in the management of trade companies - none.

Participation in the capital of trade companies - none.

Iliya Radkov Komitov - member of the Board of Directors since 28 August 2020.

Participation in the management of trade companies:

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

Participation in the capital of trade companies:

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

In 2022 the following person also participated in the Board of Directors:

Vladimir Rashkov Georgiev – Chairman of the Board of Directors from 23 August 2021 to 23 June 2022.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – member of the Management Board and Executive Director – from 7 July 2021 to 16 June 2022.

Participation in the capital of trade companies or cooperatives:

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

### 7.3 CAPITAL INVESTMENTS FUND AD

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

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

Board of Directors:

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

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

Rusalín Stanchev Dinev – member of the Board of Directors since 16 September 2022.

In 2022 the following persons also participated in the Board of Directors:

Krasimir Tenev Atanasov – member of the Board of Directors from 5 August 2021 to 16 September 2022.

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

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

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

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors since 5 August 2021.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – member of the Management Board and Executive Director since 7 July 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – since 22 March 2023;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

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

Participation in the management of other trade companies - none.

Participation in the capital of trade companies:

- RM FRUIT OOD, UIC 206485936, partner.

Rusalín Stanchev Dinev - member of the Board of Directors since 16 September 2022.

Participation in the management of other trade companies:

- Barin Sports AD, UIC 204332774 – member of the Board of Directors;
- Eljoy AD, UIC 206157003 - member of the Board of Directors.

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

Krasimir Tanev Atanasov – member of the Board of Directors from 5 August 2021 to 16 September 2022.

Participation in the management of other trade companies:

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

Participation in the capital of trade companies:

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

#### 7.4 BDB LEASING EAD

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

Board of Directors:

Ivan Valentinov Cerovski – Chairman of the Board of Directors since 17 March 2023.

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

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

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

In 2022 the following persons participated in the Board of Directors:

Krum Georgiev Georgiev – Chairman of the Board of Directors from 23 August 2021 to 17 March 2023.

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

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

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

Ivan Valentinov Cerovski – Chairman of the Board of Directors since 17 March 2023.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, member of the Management Board and Executive Director since 20 January 2023;
- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – since 17 March 2023.

Participation in the capital of trade companies or cooperatives:

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

Krum Georgiev Georgiev – Chairman of the Board of Directors from 23 August 2021 to 17.03.2023;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Member of the Management Board from 7 July 2021 to 14 February 2023;
- National Guarantee Fund EAD, UIC 200321435, subsidiary of the Bank – Chairman of the Board of Directors – from 6 July 2022 to 17 March 2023;
- BDB Factoring EAD, UIC 205566082 – Member of the Management Board from 16 September 2021 to 9 July 2022.

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

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

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

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

Participation in the management of other trade companies:

– Optima Asset 21 EOOD – sole owner of the capital

Participation in the capital of trade companies - none.

Ivaylo Kirilov Popov – procurator since 01 June 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies:

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

## 7.5 BDB FACTORING EAD

BDB Factoring EAD had a one-tier management system - Board of Directors, consisting of three to five members, which as at the date of closure of the company on 9 July 2022 had the following members:

Board of Directors:

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors from 16 September 2021 to 9 July 2022.

Krum Georgiev Georgiev – Member of the Board of Directors from 16 September 2021 to 9 July 2022.

Georgi Vanyushev Lilyanov – Executive Director and Vice Chairman of the Board of Directors from 20 May 2020 to 9 July 2022.

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors from 16 September 2021 to 9 July 2022

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Member of the Management Board and Executive Director since 7 July 2021;
- Capital Investments Fund AD, UIC 205322014, subsidiary of the Bank – Chairman of the Board of Directors since 5 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – Member of the Management Board since 22 March 2023.

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

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

Krum Georgiev Georgiev – Member of the Board of Directors from 16 September 2021 to 9 July 2022.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Member of the Management Board from 7 July 2021 to 14 February 2023;
- BDB Leasing AD, UIC 205565411, subsidiary of the Bank – Chairman of the Board of Directors from 23 August 2021 to 17 March 2023;
- National Guarantee Fund EAD, UIC 200321435, subsidiary of the Bank – Chairman of the Board of Directors from 6 July 2021 to 17 March 2023.

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

Georgi Vanyushev Lilyanov – Executive Director and Vice Chairman of the Board of Directors from 20 May 2020 to 9 July 2022.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

In 2022, there were no material contracts concluded by the BDB Group, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

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

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

## 9 STRATEGY FOR DEVELOPMENT OF BDB GROUP 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. The subsequent change in the Bank's management presented new strategic guidelines for operation and development. The current update of the Strategy for the remaining period until 2023 was adopted by a decision of the Council of Ministers on 29 July 2023 and summarizes and introduces the new moments.

With its activities, BDB follows three main Strategic priorities:

1. More loans for a wider range of micro and SMEs.
2. Supporting vibrant, innovative, competitive SMEs with the potential for integration into European and global networks.
3. Financing business models of green transition, social and sustainable initiatives and services.

For the implementation of the priorities, BDB will follow the following Strategic objectives:

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

In the period 2022-2023, BDB will support viable SMEs that have growth potential but face difficulties in accessing finance due to higher risk and need support to cope with economic shocks. Through the implementation of guarantee programmes for BDB clients and in portfolios of commercial banks for their SME clients, BDB will seek opportunities for alleviated financing in terms of collateral, terms and / or price.

During the period, BDB will continue to implement the government's guarantee programmes for business recovery, as well as other special anti-crisis measures for assignment (under the procedure and rules for state aid).

BDB Group finances directly and indirectly the business in order to reach SMEs in a new and more focused way:

- ❖ With type products aimed at niches with identified market disadvantage and suboptimal market solutions
- ❖ With targeted products for the recovery of affected sectors
- ❖ More and predominant funding for small and medium-sized businesses
- ❖ Financing the green transition and sustainable business models
- ❖ Accelerated digitalization, optimized processes, full support for small and medium-sized businesses

For the period, the BDB Group's activities will be consistent with the dynamics of business and the economy as a result of crises. The humanitarian and economic consequences of the war in Ukraine and the sanctions imposed on Russia negatively change the business situation. The Group will strive to best respond to the demand and need of SMEs to finance and address negative economic effects by creating sustainable business models.

The long-term goals of the Bulgarian Development Bank Group are:

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

BDB recognizes its specific role, which is expressed in three main areas – achieving complementarity through its credit products compared to the existing products on the market, applying good banking practices for development banks and seeking to achieve non-financial contribution from the activity (through consultations, etc.).

The BDB Group will continue to support SMEs through anti-crisis programmes and it will provide direct financing and funding for guarantee support for risk sharing and it will lend to clients with a higher risk profile.

As a state-owned development bank, BDB will continue to fulfil its countercyclical and anti-crisis role and to support sectors with liquidity problems. A significant part of enterprises and organizations overcame the initial negative effect of the corona crisis, but the accumulation of new crises – Russia's war in Ukraine and the disruption of supply chains and the subsequent rise in fuel and food prices, put new and prolonged pressure on their business. Insufficient reforms in most of the socially significant areas also contribute significantly to their poor condition. In addition to its main mission as a support bank for SMEs, BDB will seek the opportunity to support with bridge financing socially critical activities such as healthcare, facilities for education (from kindergarten to professional education) and science, housing for vulnerable social groups and others.

The Bank will continue to develop and establish new partnerships with international financial institutions and universities to share good governance practices and knowledge.

BDB will continue to provide deep penetration of the credit market through cooperation and programmes with commercial partner banks and non-bank financial institutions, including and to overcome the economic shocks of rising prices of electric energy and fuels, as well as other consequences of possible complications on the geopolitical scene.

BDB is preparing to meet market expectations for products and instruments for financing the energy efficiency of enterprises and transition to environmentally friendly and clean production.

## 10 SOCIAL RESPONSIBILITY AND DIVERSITY POLICY

The Bulgarian Development Bank traditionally dedicates its mission for corporate social responsibility to topics important for the public life, such as education, culture, art and history, entrepreneurship.

### 10.1 ENTREPRENEURSHIP

BDB's strategy provides support for innovative business start-ups. In this context, BDB was again a partner of the accelerator program *Beam UP lab* on the Bulgarian Stock Exchange. Its aim is to distinguish promising and innovative Bulgarian companies with sustainable business models, to give them visibility before potential investors, as well as to increase their knowledge of financing opportunities.



The Bank supported again *Startup World Cup 2022*, which is held annually in San Francisco and welcomes participants from 50 countries. Among the Bulgarian companies that took part in the competition, there were those at a conceptual stage, as well as working businesses with interesting products and innovative solutions.

Our representatives took part in the forum dedicated to digitalization and the creation of the so-called. "Smart Cities" – *Digital Sofia*. The aim of the conference, sponsored by BDB, is to strengthen the awareness of citizens, businesses, the state and local authorities **to apply innovation and technology in the life of a city to be "smart"**.

BDB continues to actively participate in public initiatives and discussions related to the transition to a green economy, digitalization and innovation such as the Innovation **Starter's** *The Innovation Academy*, *Energy Efficiency Day*, organized by Automotive Cluster Bulgaria, *Digital Trends*, organised by Profit.bg as well as the *SEE ITS Summit 2022* conference, organised by AIBEST and BESCO. The Bank continues to be a partner of the *Academy for Sustainable Investment and Finance* of Sofia University "St. Kliment Ohridski".

## 10.2 CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

With the support of BDB in the village of Stoykite was officially opened the first museum of the bagpipe in Bulgaria, which combines a traditional exposition with interactive elements. The exhibition presents everything related to bagpipe art – a workshop, video productions, literature by teachers from music schools, photos, autobiographies, music. The official opening brought together bagpipers from all generations in the beautiful Bulgarian mountain, which is the cradle of the bagpipe tradition in our country.

## 10.3 VULNERABLE GROUPS

The Bulgarian Development Bank has always responded to sudden and severe events leading to health and humanitarian crises. The outbreak of war in Ukraine became an event with severe consequences for the lives of the civilian population and caused a refugee wave. In our country, in the very first days, thousands of women, children and elderly asylum seekers crossed our border, and one of the most pressing problems was finding shelter. BDB responded immediately, providing funds to the *Bulgarian Red Cross*, which helped in providing food and accommodation for the victims.

In 2022, BDB supported the campaign of the *24 hours* newspaper - *The Worthy Bulgarians*. The initiative is aimed at distinguishing Bulgarians who during the year have contributed to saving lives, helped people in distress or reached out to those in need.

In this context, BDB provided financial assistance for the treatment of a serious illness of the 40-year-old *Martin Roydev* from Sofia. *For Our Children Foundation*, working for early childhood development, also received support.

Traditionally, the Bank is involved as a partner of the presidential initiative ***The Bulgarian Christmas***, aimed at promoting philanthropy and solving problems related to hospital care and child healthcare. It supports the treatment of hundreds of children, their recovery after serious illnesses and operations, provides funds for diagnostics and modern equipment for hospitals in the country.

This Corporate Governance Statement is updated as of 29.05.2023 and is signed by:



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ILIYA KARANIKOLOV

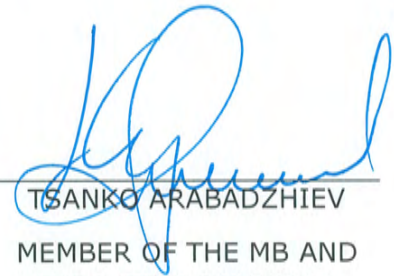
CHAIRMAN OF THE MB AND  
EXECUTIVE DIRECTOR



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IVAN CEROVSKI

MEMBER OF THE MB AND  
EXECUTIVE DIRECTOR



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TSANKO ARABADZHIEV

MEMBER OF THE MB AND  
EXECUTIVE DIRECTOR