BULGARIAN DEVELOPMENT BANK EAD

ANNUAL SEPARATE REPORT ON THE ACTIVITIES

INDEPENDENT AUDITORS' REPORT

ANNUAL SEPARATE FINANCIAL STATEMENTS

31 December 2024

Unofficial translation from Bulgarian

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1 GENERAL INFORMATION

Bulgarian Development Bank EAD

The shareholder structure as of 31 December 2024: the Republic of Bulgaria (the State) through the Minister of Innovation and Growth – 100%.

As of the date of approval of the report: The State through the Minister of Finance – 100%.

Supervisory Board (SB) as of 31 December 2024 and as of the date of approval of 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
- Dimitar Ivanov Mitev – Member of the SB

Management Board (MB) as of 31 December 2024 and as of the date of approval of the annual financial statements:

MB as of 31 December 2024:	**MB as of the date of approval of the annual financial statements:**
- Ivaylo Angelov Moskovski – Member of the MB and Executive Director - Iliya Zapryanov Karanikolov - Member of the MB and Executive Director - Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director - Teodora Petrova Pesheva – Member of the MB	- Ivaylo Angelov Moskovski – Chairman of the MB and Executive Director - Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director - Teodora Petrova Pesheva – Member of the MB

Head office and registered address as of 31 December 2024:

1000 Sofia, Sredets district, 1, Dyakon Ignatij Str.

Registration Number - UIC 121856059

Joint auditors of Bulgarian Development Bank EAD:

Deloitte Audit OOD
4, Mihail Tenev Str., fl.12
Balkan Business Center
1784 Sofia
Bulgaria
cebgreceptionteam@deloittece.com

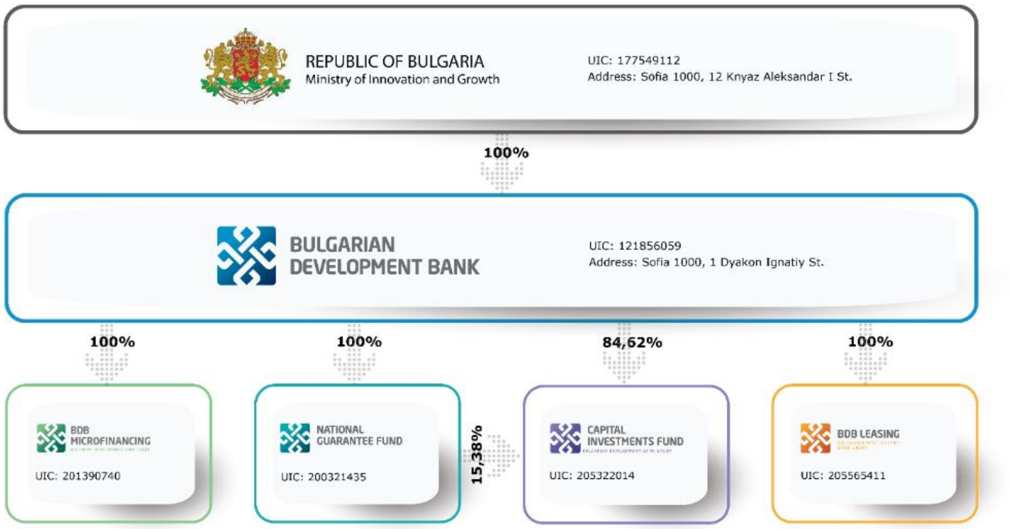
Grant Thornton OOD
26, Cherni Vrah Blvd.
1421 Sofia
Bulgaria
office@bg.gt.com

2 INFORMATION ABOUT THE BANK AND THE GROUP

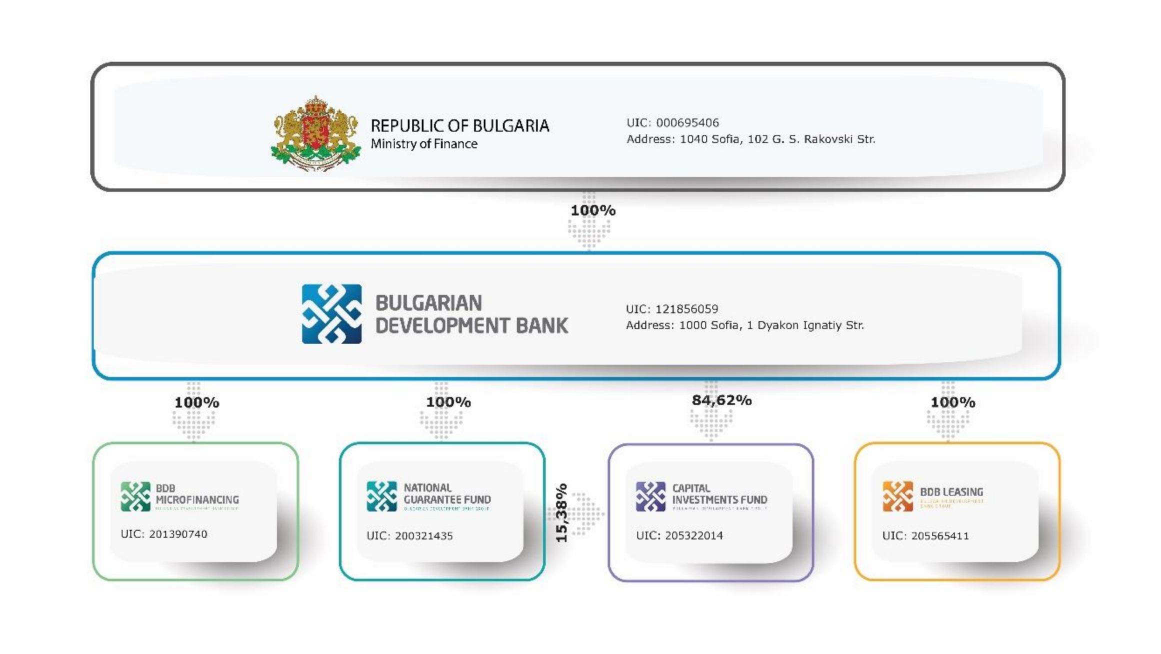
2.1 BDB GROUP

As of 31 December 2024, Bulgarian Development Bank's Financial Group (the Group, BDB Group or the Financial Group) consists of the Bulgarian Development Bank EAD ("BDB", the "Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), BDB Microfinancing EAD, Capital Investments Fund AD ("CIF") and BDB Leasing EAD ("BDB Leasing").

As of 31 December 2024, the Group has the following structure:



As of the date of approval of this report the Group has the following structure:



2.2 BULGARIAN DEVELOPMENT BANK EAD

Bulgarian Development Bank EAD was established on 11 March 1999 as a joint-stock company under the name of Encouragement Bank AD.

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

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

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

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

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

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

With a change in the Bulgarian Development Bank Act, effective as of 31 March 2025 the rights of the state as sole owner of the capital of the Bank are exercised by the Minister of Finance.

As of the date of approval of this report, 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 Finance.

As of 31 December 2024, the capital of the Bank amounts to BGN 1,135,500,000 and consists of 11,355,000 ordinary registered shares with voting rights with a nominal value of BGN 100 each. The shares of the BDB are not traded on a regulated market.

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

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

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

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

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

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

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

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

As a rule, 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. In 2024 and 2025 the following changes were made to the Statute, introducing exceptions to this rule:

1. In case of financing to end customers in whole or in part with funds received or managed by the Bank from the EU, the European Investment Bank, the European Investment Fund, another EU instrument, the Development Bank of the Council of Europe, other development banks, when the single exposure limit follows the limitations of the financing agreement of BDB with the relevant institution;

2. When financing public enterprises, as well as commercial companies in which the state/municipality owns not less than 50 per cent of the capital, established on the basis of an act of a state body in the Republic of Bulgaria, for the implementation of regional or international projects, and in which another state or its administrative-territorial unit participates;

3. In case of financing beneficiaries under national or EU programs up to the amount of their approved grant. Funding outside the framework of the programs under the previous sentence or above the grant under national or EU programs shall be in the maximum amount under para. 5;

4. In the case of fully or partially secured exposures in cash and/or government securities and/or government guarantees, bank guarantees issued by first-class banks or significant credit institutions (as determined by the European Central Bank), the part of the exposure covered by other types of collateral may not exceed the limit referred to in paragraph (5);

5. In co-financing/guaranteeing with development banks, first-class banks and significant credit institutions (designated by the European Central Bank), EXIM institutions;

6.1 When financing customers for the implementation of projects assigned by budget spenders/budget organizations or from public enterprises to the amount of the assigned activities;

6.2 When financing customers for the implementation of projects assigned by companies under item 2, up to the amount of the assigned activities;

6.3 When using various instruments, as a result of which receivables from public enterprises or companies under item 2 are formed;

7. When financing pre-export and export activities for products produced by exporting enterprises registered in Bulgaria. The financing is carried out according to a program approved by the Bank;

8. Financing of manufacturing enterprises registered in Bulgaria from the military-industrial complex. The financing is carried out in accordance with a program approved by the Bank;

9. When issuing bank guarantees for payment in order to guarantee (secure) the fulfilment of obligations under grant contracts under the Investment Promotion Act and the Regulations for its implementation.

The restriction of BGN 5 million shall not apply to exposures to subsidiaries of the Bank, other credit institutions, the Council of Europe Development Bank, the European Investment Bank and the European Investment Fund and development banks from Member States of the European Union, in cases where the Bank carries out financial transactions within its scope of activity, programmes specifically assigned by the Government of the Republic of Bulgaria, as well as in certain cases in existing exposures.

The Bank does not grant loans for:

- activities which are in non-compliance with national legislation, including environmental protection;
- companies with unknown ultimate controlling owner;

- political parties and persons related with them. Individuals related to political parties are: youth, women's and other organizations, which by law parties can establish, as well as entities established by political parties for the implementation of only the business activity permitted by law - publishing, copyright and use of intellectual property, as well as from the sale and distribution of print, audio and audio-visual materials with party - propaganda content;
- non-profit companies and organisations;
- activities related to the provision of media services;
- 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 2024, and 31 December 2023, 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 2024 is 213 (as of 31 December 2023: 201).

As of 31 December 2024, 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., Sredets district, 1000 Sofia City.

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

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

As of 31 December 2024, there are no pending court, administrative or arbitration proceedings concerning liabilities or receivables of the BDB amounting to 10% or more of the equity.

At the end of 2024, BDB had no obligations on existing or new issues of securities.

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

In 2024 and 2025, the following changes were made to the management and structure of the Bank

2.2.1.1 Changes to the MB of the Bank

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

By decision of the Supervisory Board under Protocol No. 22 of 28 May 2024, Ivan Valentinov Cerovski was dismissed as a member of the Management Board of Bulgarian Development Bank EAD and Executive Director. The decision was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024.

By decision of the Supervisory Board under Protocol No. 41 of 29 October 2024, Ivaylo Angelov Moskovski was elected as a new member of the Management Board of BDB. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 5 November 2024.By a decision of the Management Board under Protocol No. 73 of 29 October 2024, approved by a decision of the Supervisory Board under Protocol No. 42 of 29 October 2024, Mr. Ivaylo Angelov Moskovski is authorized to represent and manage the Bank as Executive Director. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 5 November 2024.

By decision of the Supervisory Board under Protocol No. 8 of 20 February 2025, Iliya Zapryanov Karanikolov was dismissed as a member of the Management Board of Bulgarian Development Bank EAD and Executive Director. The decision was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 27 February 2025.

As of the date of approval of this report, the Management Board is composed of:

- Ivaylo Angelov Moskovski – Chairman of the MB and Executive Director;
- Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director;
- Teodora Petrova Pesheva – Member of the MB.

2.2.1.2 Changes in the SB of the Bank

By decision under Protocol No. RD-02-17-17 of 31 October 2024 of the Minister of Innovation and Growth in his capacity as sole owner of BDB’s capital, Dimitar Ivanov Mitev was elected as a member of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 7 November 2024.

As of 31 December 2024, and as of the date of issuance of this report, the Supervisory Board is composed of:

- Rosen Andreev Karadimov – Chairman of the SB[1]
- Delyana Valerieva Ivanova – Member of the SB
- Stamen Stamenov Yanev – Member of the SB
- Dimitar Ivanov Mitev – Member of the SB

2.2.1.3 Amendments to the Statute of the Bank

By decisions of the Minister of Innovation and Growth of 7 June 2024 and 18 June 2024, amendments to the Statute of the Bulgarian Development Bank EAD have been adopted, which have been approved by the Bulgarian National Bank and have been entered in the Commercial Register and the Register of Non-Profit Legal Entities, which have been in force since 12 July 2024.

By decision under Protocol No. RD-02-17-1 of 14 January 2025 of the Minister of Innovation and Growth, in the capacity of exercising the rights of the state as the sole owner of the capital of BDB, amendments and supplements to the Statute of Bulgarian Development Bank EAD have been adopted, which have been approved by the Bulgarian National Bank, and have been entered in the Commercial Register and the Register of Non-Profit Legal Entities, which have been in force since 19 February 2025.

The amendments to the Statute are in accordance with the Strategy for the Activities of Bulgarian Development Bank EAD for the period 2024 – 2026, approved by the Council of Ministers.

2.2.1.4 Amendments to the BDBA

The Law on the State Budget of the Republic of Bulgaria for 2025 was promulgated in issue 26 of the State Gazette of 27 March 2025. The law amended the Bulgarian Development Bank Act, according to which the rights of the state in the general meeting of the Bank's shareholders are exercised by the Minister of Finance. The amendment is effective as of 31 March 2025.

2.2.2 Changes in the structure of the Bank

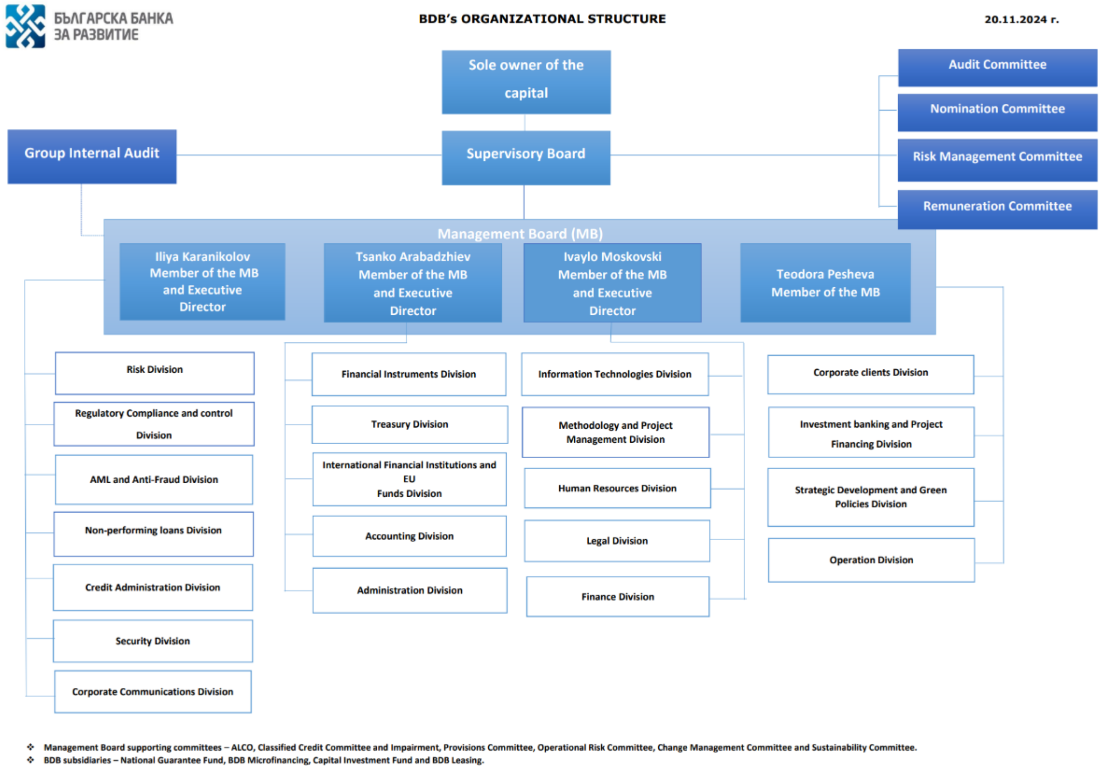
Change in the responsibilities of the members of the Management Board in 2024 and 2025

[1] In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of a caretaker government (promulgated in State Gazette No. 32 of April 9, 2024), Mr. Rosen Karadimov stopped temporarily and did not exercise his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD for the period in which he was appointed caretaker Minister of Innovation and Growth.

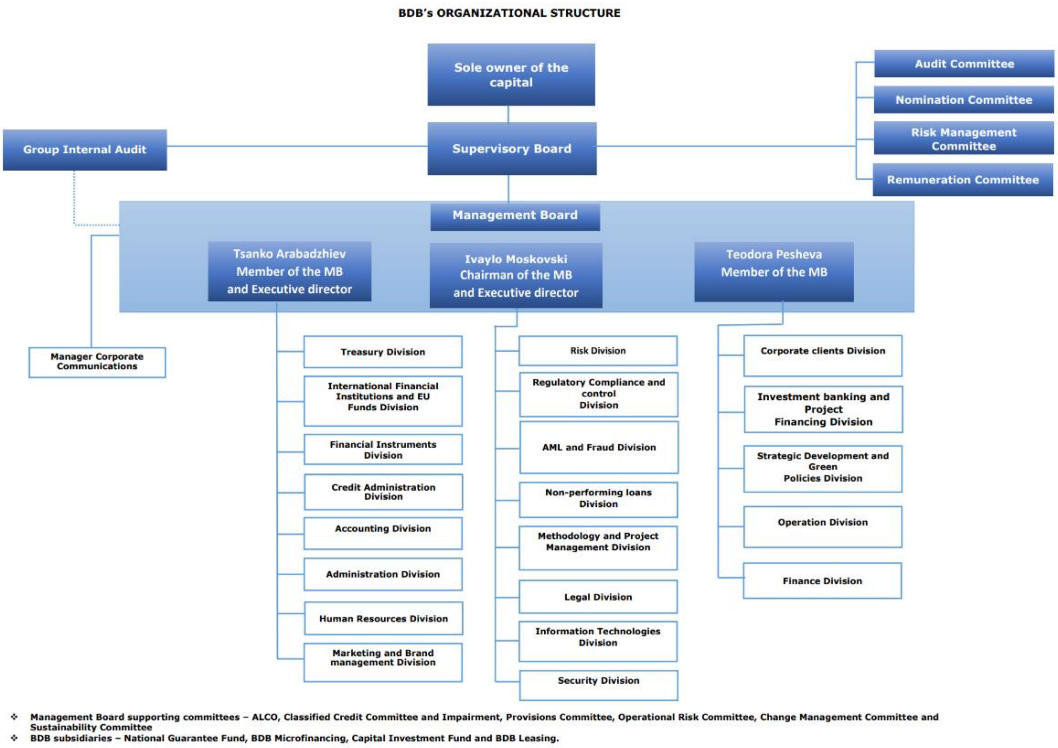
In connection with Decree No. 222 of 27 August 2024 of the President of the Republic of Bulgaria on the appointment of a caretaker government (SG No. 73/2024), Mr. Rosen Karadimov stopped temporarily and did not exercise his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD for the period in which he was appointed caretaker Minister of Innovation and Growth.

By decision of the 51st National Assembly of 16.01.2025 on the election of the Council of Ministers of the Republic of Bulgaria (Promulgated, SG No. 5 of 17.01.2025), the powers of the caretaker government appointed by Decree No. 222 of the President of the Republic of Bulgaria of August 27, 2024 (SG No. 73/2024) have been terminated. As of 17.01.2025, Mr. Rosen Karadimov continued to exercise his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD.

Following changes in the composition of the Management Board in 2024, the organizational structure as of 31 December 2024 is divided into four sectors, which have the following allocation of responsibilities of the executive directors, as presented in the following chart:



The chart of the Bank's current organisational structure is as follows (effective as of 20 March 2025):



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

In 2024 and until the date of issuance of this Report, the following changes have occurred in the allocation of sectors between the members of the MB:

✓ By decision of the Management Board under protocol No 18/27 March 2024, approved by the Supervisory Board by decision under protocol No 14/29 March 2024 a reallocation of the sectors of the MB was carried out, in connection with the increase of the composition of the board with a new member – Mrs. Teodora Pesheva.

The allocation of the sectors between the members of the MB as of 29 March 2024 is as follows:

Iliya Karanikolov – Member of the MB and Executive Director

- Information Technologies Division
- Non-performing Loans Division
- Security Division
- Credit Administration Division
- Regulatory Compliance and Control Division
- Corporate Communications Division
- AML and Fraud Division
- Methodology and Project Management Division

Ivan Cerovski - Member of the MB and Executive Director

- Human Resources Division
- Administration Division
- Finance Division
- Legal Division
- Risk Division

Tsanko Arabadzhiev – Member of the MB and Executive Director

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

Teodora Pesheva – Member of the MB

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

✓ By decision of the Management Board under protocol No 34/30 May 2024 approved by the Supervisory Board by decision under protocol No 23/3 June 2024 a new reallocation of sectors of the MB was carried out in connection with the dismissal of Mr. Ivan Cerovski as member of the Management Board.

The allocation of the divisions between the members of the Management Board as of 3 June 2024 is as follows:

Iliya Karanikolov – Member of the MB and Executive Director

- Information Technologies Division
- Non-performing Loans Division
- Security Division
- Credit Administration Division
- Regulatory Compliance and Control Division
- Corporate Communications Division
- AML and Fraud Division
- Methodology and Project Management Division
- Risk Division

Tsanko Arabadzhiev – Member of the MB and Executive Director

- Financial Instruments Division
- Treasury Division
- Accounting Division
- International Financial Institutions and EU Funds Division
- Human Resources Division
- Legal Division
- Administration Division

Teodora Pesheva – Member of the MB

- Corporate Clients Division
- Investment Banking and Project Financing Division
- Strategic Development and Green Policies Division
- Finance Division
- Operations Division

✓ By decision of the Management Board under Protocol No. 77/18 November 2024, approved by decision of the Supervisory Board under Protocol No. 49/20 November 2024, a new reallocation of the responsibilities of the Management Board was carried out, in connection with the election of Mr. Ivaylo Moskovski as a new member of the Management Board, which is as follows:

Iliya Karanikolov – Member of the MB and Executive Director

- Non-performing Loans Division
- Security Division
- Credit Administration Division
- Regulatory Compliance and Control Division
- Corporate Communications Division
- AML and Fraud Division
- Risk Division

Tsanko Arabadzhiev – Member of the MB and Executive Director

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

Ivaylo Moskovski – Member of the MB and Executive Director

- Information Technologies Division
- Methodology and Project Management Division

- Human Resources Division
- Legal Division
- Finance Division

<u>Teodora Pesheva – Member of the MB</u>

- Corporate Clients Division
- Investment Banking and Project Financing Division
- Strategic Development and Green Policies Division
- Operations Division

✓ By decision of the Management Board under Protocol No. 6/4 February 2025, due to the need to strengthen the Bank's marketing activities, the "Public Relations" function was separated from the "Corporate Communications" Division, and the position of Public Relations Manager was created, directly subordinate to the Management Board, and the name of the "Corporate Communications" Division was changed to "Marketing and Brand Management".

✓ By decision of the Management Board under Protocol No. 7/11 February 2025, approved by decision of the Supervisory Board under Protocol No. 5/11 February 2025, in connection with the dismissal of Mr. Iliya Karanikolov and in order to ensure continuity, the divisions headed by him were transferred to the other members of the Management Board, as follows:

<u>Ivaylo Moskovski – Member of MB and Executive Director</u>

- Risk Division
- Regulatory Compliance and Control Division
- AML and Fraud Division
- Non-performing Loans Division
- Information Technologies Division
- Methodology and Project Management Division
- Legal Division
- Security Division

<u>Tsanko Arabadzhiev – Member of the MB and Executive Director</u>

- Financial Instruments Division
- Treasury Division
- Accounting Division
- International Financial Institutions and EU Funds Division
- Administration Division
- Credit Administration Division
- Human Resources Division
- Marketing and Brand Management Division

<u>Teodora Pesheva – Member of the MB</u>

- Corporate Clients Division
- Investment Banking and Project Financing Division
- Strategic Development and Green Policies Division
- Operations Division
- Finance Division

Iliya Karanikolov – Member of the MB and Executive Director

- No divisions are under his direct subordination.

The position of Public Relations Manager is directly subordinate to the Management Board.

✓ By decisions of the Management Board under Protocol No. 8/14 February 2025, approved by decisions of the Supervisory Board under Protocol No. 6/14 February 2025, Mr. Ivaylo Moskovski was elected Chairman of the Management Board of the Bank, and the decision is also reflected in the organizational structure.

✓ By decision of the Management Board under protocol No 15/18 March 2025, approved by the Supervisory Board by decision under protocol No 12/20 March 2025 and in connection with the reduced composition of the Management Board after the dismissal of Iliya Karanikolov, the organizational structure of the Bank was updated and the allocation of responsibilities for sectors between the members of the Management Board as of 14 February 2025, is as follows:

Ivaylo Moskovski – Member of MB and Executive Director

- Risk Division
- Regulatory Compliance and Control Division
- AML and Fraud Division
- Non-performing Loans Division
- Information Technologies Division
- Methodology and Project Management Division
- Legal Division
- Security Division

Tsanko Arabadzhiev – Member of the MB and Executive Director

- Financial Instruments Division
- Treasury Division
- Accounting Division
- International Financial Institutions and EU Funds Division
- Administration Division
- Credit Administration Division
- Human Resources Division
- Marketing and Brand Management Division

Teodora Pesheva – Member of the MB

- Corporate Clients Division
- Investment Banking and Project Financing Division
- Strategic Development and Green Policies Division
- Operations Division
- Finance Division

Internal Audit Department of the Group, in view of its implementation of independent and objective assurance and consulting activities is in direct communication with the Supervisory Board/Management Board.

A change in the internal structure of the divisions in the Bank was carried out in the Operations Division (decision of MB under protocol No 22/17 April 2024), by which the Document Operations Department was renamed to Payments and Document Operations Department and takes over part of the operations of "Back Office and Operations". By decision of the Management Board under protocol No 17/23 March 2025, departments in the Security Division were closed and the employees were transferred to the direct subordination of the head of the division.

3 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2024

3.1 KEY EVENTS AND PROCESSES

3.1.1 Regulatory changes

In 2024, as the most significant changes in the regulatory framework of the BDB, the following can be mentioned:

1. Guidance on the comparative analysis of diversity practices, including diversity policies and the gender pay gap under Directive 2013/36/EU and Directive (EU) 2019/2034' (EBA/GL/2023/08);
2. EBA Guidelines amending Guideline EBA/GL/2020/14 on Systemically Important Indicators Specifications and Disclosure (EBA/GL/2023/10) issued by the European Banking Authority;
3. Guideline EBA/GL/2024/01 amending Guideline EBA/2021/02 pursuant to Articles 17 and 18(4) of Directive (EU) 2015/849 on customer due diligence and factors to be taken into account by credit and financial institutions when assessing the risk of money laundering and terrorist financing related to individual business relationships and occasional transactions;
4. Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience in the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 – Digital Operational Resilience Act (DORA).

The main changes in the national legal framework were:

1. Ordinance No. 10 of the BNB of 2019 on the organization, management and internal control in banks;
2. Ordinance No. 20 of the BNB of 2019 on the requirements for the members of the management and supervisory body of a credit institution, as well as for the assessment of their suitability, and of persons occupying key positions;
3. Ordinance No. 22 of 16.07.2009 on the Central Credit Register;
4. Ordinance No. 12 of 2016 on the Register of Bank Accounts and Safe Deposit Boxes;
5. Ordinance No. 3 of the BNB of 18 April 2018 on the terms and conditions for opening payment accounts, executing payment transactions and using payment instruments;
6. Law on the introduction of the euro in the Republic of Bulgaria;
7. Ordinance No. 44 on the terms and conditions for the selection of independent appraisers under Art. 55a of the Recovery and Resolution of Credit Institutions and Investment Intermediaries Act;
8. Independent Financial Audit and Assurance of Sustainability Reporting Act, etc.

3.1.2 Rating

In July 2024, the international rating agency Fitch Ratings confirmed the outlook for the Bank's long-term credit rating - BBB, with a positive outlook. This is the highest credit rating for a Bulgarian financial institution, and for BDB it is limited to the rating of the sovereign – the Bulgarian state. This rating was confirmed by the rating report, issued on 12 December 2024.

Rating effective as of:	Date of preparation of the rating/ Confirmation of rating:	Long-term rating (IDR, SRF)	Outlook
As of 31 December 2024, and as of the date of approval of annual financial statements	29 July 2024 12 December 2024	BBB	Positive

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

3.2 BUSINESS HIGHLIGHTS

In 2024, the development of the Bank's product and loan portfolio continued, direct and indirect support with a focus on small and medium-sized businesses, as well as the diversification of funding sources.

In 2024, BDB's on-lending partners under active indirect financing programs concluded a total of 170 sub-transactions with 124 final recipients. The total amount of financing provided through commercial banks and non-bank financial institutions is BGN 15 840 thousand.

The most important highlights of BDB's contribution in 2024 to the overall implementation of the "National Strategy for Small and Medium-sized Enterprises" 2021-2027, implemented through indirect support to small and medium-sized businesses, are:

3.2.1 COSME+ and FORWARD programmes

As of the end of 2024, BDB continues to manage the active portfolios formed under the agreements concluded with two commercial banks and six non-bank financial institutions under the Bulgarian Development Bank Programme for Indirect Financing of SMEs with Guarantee Facility and Counter-Guarantee under the EIF COSME Programme, with the support of the European Fund for Strategic Investments (**COSME+ PROGRAMME**). 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 Programme, implemented by the EIF, builds on the Entrepreneurship and Innovation Programme (EEA), established in the period 2007-2013. The total budget is EUR 2.3 billion for the period 2014-2020. Its scope includes four areas of support – improving access to finance for SMEs in the form of equity and debt instruments; improving market access for SMEs worldwide; improving the framework conditions for the competitiveness of enterprises and promoting entrepreneurship. Within the framework of the Cosme+ Programme, BDB provided funds in the total amount of BGN 46,253,181 for subsequent financing of SMEs through financial intermediaries. According to aggregate data of the Programme, 245 enterprises have been supported, and the funds they received amount to BGN 47,746,156.

One request for payment received in 2024 under a guarantee commitment made by BDB, amounting to EUR 6,591.27, for which BDB has received a corresponding payment under the counter-guarantee given by the EIF under the COSME+ Programme, has been approved.

In 2024, the last full year of the implementation of the "BDB Partnership Programme for Indirect Financing of Micro, Small and Medium-Sized Businesses FORWARD" has expired. The four partner banks under this Programme have supported a total of 490 small and medium-sized enterprises, providing sub-loans amounting to BGN 113,677 thousand.

As of 31 December 2024, the active sub-loans in the portfolio under the Programme are 86, with an original amount of BGN 14,806 thousand. One request for payment received in 2024 under a guarantee commitment made by BDB, amounting to BGN 230 thousand, has been approved.

3.2.2 Leasing Line programme

In 2024, the implementation of the "Bulgarian Development Bank Programme for Small and Medium-sized Enterprises – Lessees" ("Leasing Line Programme"), which is aimed at financing SMEs in the form of financial lease by providing long-term targeted credit lines to non-bank financial institutions – lessors, entered in the register of the BNB under Art. 3a of the CIA. The programme is designed to provide loans to lease companies in order to facilitate the access of funds for the purchase and lease of assets used in the economic activities of small and medium-sized enterprises.

The aggregated data under this Programme as of 31 December 2024 show 871 supported SMEs – lessees and lease sub-transactions with a total amount of BGN 91,417 thousand, with credit lines provided by BDB for on-lending financing in the amount of BGN 60,729 thousand.

3.2.3 BROD programme

The implementation of the latest product for indirect financing of small and medium-sized enterprises "BROD Programme" continues. The budget of the Programme is EUR 20 million. In 2024, 2 new agreements were concluded with non-bank financial institutions entered in the BDB Register under Art. 3a of the Credit Institutions Act, amounting to BGN 4.2 million. The total amount of on-lending financing provided by the Bank as of 31 December 2024 is BGN 26,339 thousand.

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 2024, BDB has issued guarantees in the total amount of BGN 286,226 thousand[2], and it has guaranteed exposures under the programmes in the total amount of BGN 377,823 thousand (31.12.2023: BGN 554,763 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 separate financial statements for 2024.

At the end of 2024 the provisions under the Anti-Covid programmes amount to BGN 90,289 thousand (31.12.2023: BGN 111,845 thousand), which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

3.2.4.1 Programme for companies – The Recovery programme

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

The measure was approved by European Commission Decision No. C (2020) 2342 of 8 April 2020 on State aid SA.56933 (2020/N) — Bulgaria COVID-19, amended by EC Decision No. C (2020) 8384 of 24.11.2020 and EC Decision C (2021) 7260 of 1 October 2021, on the basis of the EC Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (the Temporary Framework).

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 and the maximum amount of the loans to one and the same entity was increased from BGN 300,000 to BGN 1 million for SMEs and BGN 2 million for large entities). Companies from all sectors are included in the programme. The companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality, and restaurant business, benefited mostly from the programme.

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

After the introduction, in 2021, of the renewed conditions under the Recovery Programme, the maximum amount of funding became up to BGN 3 million, regardless of the size of the company, and micro, small, medium-sized companies and so-called "small mid-caps" (with up to 499 employees) from all sectors of the economy could benefit from the guarantee instrument.

[2] For the program for individuals, 100% of the partner bank's principal exposure to the client is guaranteed. For the micro, small and medium-sized enterprise programme, BDB guarantees 80% of the loan principal, with a 50% limit on guarantee payments on a portfolio basis.

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

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

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

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

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

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

The formation of portfolios under the Programme ended on 30 June 2022, and according to final data from the commercial partner banks under the scheme, 2,892 loans with an original loan amount of BGN 620 million have been guaranteed, for which a guarantee of BDB has been provided in the amount of 80%.

The status of the portfolio is updated on a quarterly basis.

As of 31 December 2024, 1,677 loans with a total amount of BGN 281,189 thousand were guaranteed and the decrease is due to the loans that have been cancelled, including due to voluntary repayment, the loans excluded by decision of the Board of Directors of BDB, as well as the loans for which guaranteed amounts claimed by commercial banks have been paid by BDB. The approved requests for payment of guaranteed amounts under the Programme amount to BGN 11,347 thousand, and the amounts refunded to BDB by the end of 2024 amount to BGN 1,061 thousand.

3.2.4.2 Programme for individuals and households

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

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

The programme parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 408/2020 of the Council of Ministers, Decision 910/10.12.2020 of the Council of Ministers and Decision 194/05.03.2021 of the

Council of Ministers. Eligible borrowers had the opportunity to receive interest-free loans of up to BGN 6,900 (the initially allowed maximum amount was BGN 4,500), which are granted in full or in instalments. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No interest, fees, commissions, charges or penalties are payable on the loans.

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

The deadline for applying for the measure expired on 31 August 2021 and the deadline for granting and utilization of the loans - on 30 September 2021.

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

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

As of 31 December 2024, BDB has guaranteed 36,347 loans amounting to BGN 58,057 thousand. The guarantees paid to commercial banks and the costs of establishing and collecting the loans amount to BGN 12,616 thousand and as of the same date BGN 625 thousand have been reimbursed to BDB.

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

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

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

Limit of guarantee payments (Loss ceiling)

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

Conditions for eligibility of Borrowers and financing under the Program

Eligible borrowers:

Applicants approved for funding under the Scheme who have signed a contract under the Scheme with the Monitoring and Reporting Structure (MRS). The borrower under the

Programme is allowed to be different from the grant recipient under the Scheme if due to objective circumstances for the financing bank (e.g. old age, reduced working capacity, significant indebtedness, weaker creditworthiness, or other), the Applicant would not receive a bridging loan for financing the investment in RES under the Scheme.

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

Type and purpose of financing:

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

After the completion, in 2023, of the assessment process of the banks that applied for the Program, in 2024, guarantee agreements were concluded with four financial intermediaries, which were provided with a portfolio guarantee in the amount of BGN 9.8 million. Commercial banks can use BDB's guarantee to provide bridge loans to individuals for investments in renewable energy sources before the disbursement of the grant.

BDB's guarantee provides lower collateral and co-payment requirements from borrowers.

By the end of the reporting period, there was no official information available on whether the Ministry of Energy had begun to conclude grant agreements with the approved grant recipients under the Scheme, who are also potential recipients of guaranteed loans under the Programme.

3.2.6 Three Seas Initiative

The Three Seas Initiative (Black, Adriatic, Baltic) aims to strengthen investment, ties and cooperation – politically and financially – between the member states in the region. It is a public-private financial instrument whose purpose is to complement funding from the Structural and Other Funds of the European Union. By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved BDB's participation in the Investment Fund to the Three Seas Initiative. At the end of 2020, a Subscription Agreement relating to Three Seas Initiative Investment Fund S.A. SICAV – RAIF was signed between BDB and the Fund, with which BDB officially became a Class A shareholder in the Fund. As of 31 December 2024, BDB has made share contributions in the amount of EUR 14,268 thousand.

3.2.7 InvestEU Programme

InvestEU Programme envisages a single European Investment Support Facility for the new programming period 2021-2027. The programme is based on the successful experience of the implementation of the EFSI and the current EC instruments. The InvestEU Programme will provide an EU budget guarantee to support financial products provided by partners implementing the Programme. The funds are spread over four "windows" (areas) where the financial products will be developed: 1) sustainable infrastructure; 2) research, innovation and digitalization; 3) SMEs and small enterprises with medium market capitalization; 4) social investment and skills.

To be an implementing partner, BDB underwent a Pillar Assessment audited by an independent auditor, which was finally completed in 2023.

The first project under the Guarantee Agreement with the EC was presented in the summer of 2023.

In the second quarter of 2023, negotiations began with the EC on the eligibility criteria for products under the programme, which were conducted according to detailed criteria developed by BDB. Within the same period, compliance with state aid rules for group exemption of the products was discussed and confirmed with the EC.

During the negotiation process and at the request of the EC, a change was made in the number of sub-products under the SME Window and a change in the number of tranches under the sub-products under the Sustainable Infrastructure Window, thereby reducing the risk assumed by BDB.

A Guarantee Agreement was signed with the EC for the Section "Member States" in November 2023. The Guarantee Agreement signed on 7 November 2023 covers only the contribution under the "Member States" Section of EUR 125 million, and it is agreed that the contribution of EUR 40 million from the EU Section to the guarantee under the SME Window will be supplemented by an annex.

In this regard, in February 2024, the EC presented a draft annex to supplement the Guarantee Agreement.

In May 2024, negotiations on the Guarantee Agreement with the EC were concluded and the internal coordination procedure with the EC services was launched. The Agreement with the EC was signed on 16 July 2024.

In parallel with the negotiations, documentation was prepared for conducting market consultations, including: Indicative technical specifications for five sub-products under the policy component "Sustainable Infrastructure" and under the policy component "Small and Medium-sized Enterprises";

Questionnaire for conducting market consultations; Short presentation with the main characteristics of the by-products; Communication strategy; Summary of the criteria and explanation of the selection stages, as regulated in the Rules for the implementation of financial instruments and the selection methodology for them; Summary of the information and documents that will need to be provided by potential applicants; full eligibility criteria for by-products, etc.

The market consultations started in early July 2024 and continued until 30 July 2024. In parallel, documentation was developed for the selection of financial intermediaries, including: Call for Expression of Interest; Forms of Expression of Interest and a total of 8 (eight) declarations thereto; 5 technical specifications; Criteria and Methodology for the selection of financial intermediaries; Proposal template from candidates and information required when submitting the proposal for evaluation under the above criteria; Methodology for conducting research and analysis (due diligence); Model of the Operational Agreement with its Appendices in accordance with the Guarantee Agreement with the EC and EU law.

After approval by the Board of Directors and after coordination of aid schemes falling within the scope of the group exemption with the Ministry of Finance, on 8.10.2024, the Call for Expression of Interest for the selection of financial intermediaries under the Guarantee Products InvestEU was published on BDB's website.

According to the above-mentioned Call for Expressions of Interest, the deadline for submitting expressions of interest is 29 October 2024.

Within the period 15-18 October 2024, 27 requests for clarifications were received from potential candidates in accordance with the terms of the documentation, to which responses were prepared and published.

The procedure for selecting financial intermediaries takes place in two main stages.

The first stage is an assessment of the expressions of interest for compliance with the formal criteria, including the absence of grounds for exclusion under the Financial Regulation and the Guarantee Agreement; circumstances subject to verification under the legislation on measures against money laundering and terrorist financing; whether the candidate is subject to restrictive measures and restrictive lists; whether the candidate operates in non-cooperative jurisdictions and high-risk third countries, etc.

The specified evaluation stage began with the appointment of a committee and the opening of the submitted expressions of interest on 30 October 2024 and ended with a report of the committee on 4 December 2024. The applicants for financial intermediaries under the programme, who have passed the first stage are in total 7 commercial banks, which are expected to form a loan portfolio of over EUR 1.4 billion.

Significant events in 2025: According to the Rules for the Implementation of BDB's Financial Instruments, the second stage of the evaluation began after the submission of proposals by the admitted candidates, with the deadline for candidates to submit initial proposals expiring on 20 February 2025.

The second stage of the evaluation starts immediately after the expiration of the specified deadline with a review of the submitted proposals.

In parallel with the assessment process, BDB prepared a template documentation, on the basis of which the EC will carry out a compliance check in accordance with Art. 23 of the Regulation on InvestEU.

The documentation covers 6 sets in total for 5 framework operations and one individual operation. The standard forms for the evaluation of the mentioned operations were developed and submitted to the EC at the end of January 2025, and the six operations were approved by an EC decision of 18 February 2025.

In March 2025, at a meeting of the Investment Committee of InvestEU, BDB made an initial presentation of the guarantee products it will implement and the operations for which it will submit a request for a guarantee. In the same month, the first operation was submitted for approval by the Investment Committee.

Three Investment Committee meetings are scheduled to consider potential operations.

The Investment Committee is part of the Fund InvestEU governance structure, which must examine proposals for financing and investment operations submitted by implementing partners for coverage under the EU guarantee that have passed the compliance check under Article 23(1) of the Regulation for InvestEU.

The Committee also verifies the compliance of BDB's proposals with the relevant regulatory framework and relevant investment guidelines, as well as verifies whether the financing and investment operations that will benefit from the support under the EU guarantee meet all relevant requirements.

A request for issuing a guarantee to the Investment Committee for 5 operations is pending, final ranking of the banks, negotiations and conclusion of guarantee agreements, under which BDB will guarantee the credit portfolios formed by the financial intermediaries under the sub-products "Guarantee with a loss cap" and "Guarantee without loss cap" under the Guarantee product for SMEs, as well as for subproducts "Guarantee with loss cap "Management of waste, waste and clean air" and "Guarantee with loss cap "Multimodal transport" under Guarantee product "Sustainable investments".

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

The InvestEU programme provides new financing for innovation and job creation in Europe in the period 2021-2027. The EIF is one of the Commission's major Implementing Partners under InvestEU and provides support to smaller companies in Europe.

The EIF products are guarantees and counter-guarantees, equity financing and capacity building investments. The guarantees and counter-guarantees are provided in several areas with specific conditions and eligibility criteria, including SME-Competitiveness, Sustainability, Innovation and Digitalisation, Creative and Cultural Sector, Microfinance, etc.

On 17 July 2023 BDB signed with EIF a Guarantee Agreement under the InvestEU Fund, in which BDB Leasing is a participating but not signing party. The Agreement allows BDB to provide direct financing to SMEs with an EIF guarantee with a payment limit in three areas: "SMEs – Competitiveness", "Innovation and Digitalisation" and "Sustainability". The EIF guarantee is payable.

Each of the areas has specific eligibility requirements, payment limits and maximum guaranteed portfolio for the included transactions. Final recipients must comply with certain conditions and requirements related to the InvestEU guarantee. In turn, BDB is committed to providing financial advantages:

- decrease of the interest rate on each of the guaranteed loans in the three areas – through a reduction of the risk premium component as a result of the used "AAA" EIF guarantee under InvestEU;
- only under the area "SME-Competitiveness" - reduction of the required collateral: for investment loans (up to 50% of the loan amount) and for working capital loans (0% collateral).

The maximum amount of the BDB's portfolio guaranteed under the three areas of InvestEU is EUR 45.50 million.

As of 31 December 2024, "SME-Competitiveness" – 59% reached guaranteed limit.

- "Innovation and Digitalisation" – 65% reached guaranteed limit.
- "Sustainability" - 28% reached guaranteed limit.

The deadline for inclusion in the guaranteed transactions under InvestEU is 16 July 2025.

As of 31 December 2024, loans with an InvestEU guarantee were approved for BGN 28,695 thousand, and the total portfolio of utilized loans reached BGN 43,102 thousand.

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

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

On 17 September 2021, BDB signed with EIF a Guarantee Agreement under the Pan-European Guarantee Fund. The guarantee agreement allows BDB to provide direct financing with a guarantee from EIF (AAA-rated) without limit of payments for losses, with a coverage of 70% of the loss on guaranteed loan to SMEs. For its part, BDB undertakes to provide a financial advantage – a reduction in the risk margin with the coverage of the PEGF guarantee, which is reflected in a reduction in the interest rate on each of the guaranteed loans. The customers who are the final recipients must comply with certain conditions and requirements related to the guarantee of the PEGF and the state aid regime.

As of 31 December 2024, the portfolio guaranteed under the agreement amounts to EUR 18.5 million and includes 51 transactions of micro, small and medium-sized enterprises (as of 31 December 2023: EUR 18.5 million and 51 transactions). As of the same date, BDB has claimed payments under the guarantee for six transactions with a total amount of BGN 2.17 million.

3.2.10 Direct working capital financing programme for construction companies.

BDB offers working capital financing for construction companies with a contract for the performance of construction and assembly works (C&A) with contractors, a party to a contract for receiving grant aid under national and European programmes. Its scope includes two areas:

- AREA 1 – projects under the National Recovery and Resilience Plan (NRRP) and the European Structural and Investment Funds (ESIF)
- AREA 2 – projects under Measure 7.6 "Study and investments related to the maintenance, restoration and improvement of the cultural and natural heritage of villages" of the European Agricultural Fund for Rural Development (EAFRD).

3.2.11 New products

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

The Bank announced several target loan products to support SMEs, medical facilities and promote certain sectors, which at the end of 2024 are as follows:

- Programme for financing medical institutions for hospital care;
- "Financing Green Energy" Programme (renewed);
- Programme for direct financing of SMEs with approved projects under European and national Programmes;
- Defence Industry Support Program;

- Export - Pre-Export and Post-Export Financing Programme.

3.2.11.1 Programme for financing medical facilities for hospital care

The programme aims to provide working capital and/or investment financing for the improvement of infrastructure and medical equipment in order to increase the volume and quality of medical services provided. The amount of loans is up to BGN 5 million. The maximum term is up to 10 years.

The target groups (regardless of form of ownership):

✓ Medical facilities for hospital care (hospitals for active treatment; for long-term treatment; for rehabilitation; for long-term treatment and rehabilitation);

✓ Multidisciplinary or specialized medical facilities

3.2.11.2 Green Energy Financing Programme

In 2024, BDB continued the initiative to finance the construction of photovoltaic facilities for the purpose of electricity production with a renewed programme for project financing of newly established micro, small and medium-sized enterprises for the construction of photovoltaic power plants for the purpose of selling the produced electricity. The programme is in line with the BDB’s strategy for supporting green projects and in the context of the EU's goals for achieving carbon neutrality.

The loans range from BGN 400,000 to BGN 5 million, with a term of up to 15 years, a grace period of up to 18 months and a repayment plan aligned with the production schedule. Since the start of the initiative in 2021, BDB has supported, through financing, a total of 54 projects for the construction of photovoltaic installations.

3.2.11.3 Programme for financing SMEs with approved projects under European and national programmes

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

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

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

3.3 FUNDING FROM INTERNATIONAL FINANCING INSTITUTIONS

The policy of the BDB is to attract mainly a long-term resource to finance its credit activity and thus create a natural balance between the term of the asset and the liability. Since its establishment, BDB has concluded more than 38 credit agreements with 16 international institutions at the amount of EUR 1,589 billion.

By decision of the Council of Ministers No. 554 of 29 July 2022 BDB EAD was approved as a recipient of loans with a state guarantee for EUR 350 million from the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). The decision is a consequence of the one provided for in art. 70, item 2 of the State Budget of the Republic of Bulgaria Act for 2022 possibility to issue state guarantees under new loan agreements of the Bulgarian Development Bank EAD in the amount of up to BGN 700 million or their currency equivalence in compliance with state aid legislation. The loans were ratified on 27 July 2023 (EIB) and 12 September 2024 (Council of Europe Development Bank).

3.3.1 European Investment Bank (EIB)

On November 18, 2016, BDB signed a third Agreement with the European Investment Bank (EIB) in the amount of EUR 150,000 thousand for financing projects of small and medium-sized enterprises. The funds are provided with the support of the EU through a guarantee from the EFSI (European Fund for Strategic Investments), part of the Investment Plan for Europe - the "Juncker Plan". The funds are intended for lending to SMEs, including for innovative projects, to support areas with high unemployment, for youth employment or for start-ups, through partner banks, other financial intermediaries or directly. The loan is unsecured.

As of 31 December 2024, the principal amount due on the loan is EUR 14,637 thousand with a BGN equivalent of BGN 28,627 thousand (As of 31.12.2023: EUR 16,728 thousand with a BGN equivalent of BGN 32,717 thousand). The interest rate is floating, based on six-month EURIBOR plus a margin.

On 11 July 2023, BDB signed a financing agreement with the European Investment Bank in the amount of EUR 175,000 thousand with a state guarantee. The guarantee agreement was signed on 19 July 2023 and subsequently ratified by the National Assembly of the Republic of Bulgaria on 27 July 2023.

The purpose of the loan is to finance small and medium-sized enterprises, innovation, green projects as defined by the EIB, including climate and environmental sustainability. The financing can be provided directly or through intermediaries approved by the EIB.

As of 31 December 2024, the first tranche of the loan funds in the amount of EUR 52,500 thousand (BGN 102,681 thousand) has been utilized. As of 31 December 2023, no loan funds have been utilized.

The interest rate is floating, based on six-month EURIBOR plus a margin.

3.3.2 Council of Europe Development Bank (CEB)

On 13 July 2023, the Bulgarian Development Bank signed a financial agreement with the Council of Europe Development Bank in the amount of EUR 175,000 thousand with a state guarantee. The guarantee agreement was signed on 20 July 2023, and the ratification was adopted by the National Assembly on 12 September 2024.

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

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

As of 31 December 2024, the first tranche of the loan funds in the amount of EUR 52,500 thousand (BGN 102,681 thousand) has been utilized. The interest rate is floating, based on six-month EURIBOR plus a margin.

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

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured.

As of 31 December 2024, the debt on the loan amounts to EUR 45,000 thousand equivalent to BGN 88,012 thousand (as of 31.12.2023: EUR 52,500 thousand equivalent to BGN 102,681 thousand). The interest rate is floating, based on six-month EURIBOR plus a margin.

3.3.4 The Export-Import Bank of China

On 5 December 2023 the BDB signed a new agreement with Export – Import Bank of China for the amount of EUR 50,000 thousand. The funds can be used to finance the overall lending activity of BBD. The interest rate is floating, based on the three-month EURIBOR plus margin. As of 31 December 2024, the funds have been fully utilized on the loan.

As of 31 December 2024, the principal amount due on the loan is EUR 50,000 thousand equivalent to BGN 97,792 thousand.

3.3.5 China Development Bank

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured.

As of 31 December 2024, the outstanding principal on the loan amounts to EUR 97,000 thousand equivalent to BGN 189,716 thousand (as of 31.12.2023: EUR 227,500 thousand equivalent to BGN 444,951 thousand). The interest rate is floating, based on six-month EURIBOR plus a margin.

3.4 HUMAN RESOURCES

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

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

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

3.5 INFORMATION TECHNOLOGIES

3.5.1 Main highlights, activities and projects in 2024

The IT infrastructure is 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 and a Help Desk system was configured through the same application.

Over the past year, a number of business processes in the Bank and subsidiaries have been automated and the following projects related to the development and updating of software applications were successfully completed:

- Implementation of additional functionalities in the AML module to the main BrightOS banking system, with which new reports and scenarios were parameterized, according to the requirements of the BNB
- Implementation of changes related to the migration of ISO 20022 XML-based messages used in SEPA schemes to version 2019 of the ISO 20022 standard. BDB was included in the mandatory national tests for the changes to the BISERA7 payment system and BDB was successfully certified on 31 January 2024;
- Implementation of a project for inclusion of BDB to STEP 2 through BNB, with which we reached full SEPA accessibility;
- Implementation of functionality for issuing and processing transfers from/to the budget in XML format and their inclusion in BULK package payments, according to the ISO 20022 XML standard;
- Development and technical implementation of functionality for implementing ReLIF requirements in the BrightOS banking information system;
- Development of a tool for generating mass translation files to automate the activities in the Accounting division.
- Digitalization of processes in the DocuWare document management system, optimization of Workflow processes, as well as implementation of new file cabinets in the DocuWare document management system for the “Legal” division;
- Implementation of the IFRS9 project in a real environment. Reconfiguration of the test environment and construction of an environment for working in real conditions;

- Implementation of changes, jointly with Borica AD, to refine functionalities in the PSD2 interface for BDB in XS2A Gateway, in accordance with mandatory requirements from the BNB under the regulation

In relation to the Bank's infrastructure, the following projects were initiated and activities were carried out:

- Purchase and installation of network devices for CISCO ISE;
- Preparation of solutions for replacing network devices;
- Installation of test servers for Bright OS;
- Migration of a file server;
- Server operating system updates;
- Exchange server updates;
- CISCO ESA updates;
- Disk replacement in a disk array;
- Integration of CISCO Duo with CISCO ISE;
- Preparation of a solution for replacing network devices in a data center;
- Optimization of the Help Desk system;
- Adding servers to Backup;
- Reconfiguring network addresses;
- Building a test virtualization environment.

The Bank has increased the level of security of the networks and information systems it uses, as well as brought its security management framework into full compliance with the new legislative requirements (DORA) concerning:

- monitoring the behaviour of network and information systems;
- threat detection based on behavioural analysis of network traffic data;
- real-time threat detection on monitored networks;
- taking appropriate and proportionate measures to the threats;
- dynamic risk assessment of individual users in the organization's network based on their behaviour over time;
- detecting threats and identifying potential malicious activities or compromises that have already taken place;
- automatic detection of events that may affect the security of network and information systems important for the organization's activities, by analysing information flows, protocols and files passing through key devices, positioned so that they can analyse all flows exchanged between their own information and communication systems, as well as with the information and communication systems of third parties;
- storage and archiving of system records for application servers that support critical activities, servers of the system infrastructure, servers of the network infrastructure, security facilities, stations for engineering and maintenance of industrial systems, network equipment and workplaces of administrators are automatically logged all events that are related at least to user authentication, account management, access rights, changes in the rules for security and functioning of information and communication systems and stores them for a period of not less than twelve months.

In connection with the work and preparation for DORA, the following systems have been implemented:

- Security information event management system (SIEM) – Rapid7;
- Network Detection & Response (NDR) Threat Detection System – Vectra.

3.5.2 Information, communication and telecommunication systems used

The information, communication and telecommunication technologies used include:

- Basic banking information system: As the main core system, the Bank uses BrightOS - new version: VCSBank v40, developed by C Soft OOD. The main banking system is also connected to a Web banking system, as well as an integrated AML module;
- TURBO SWIFT system, a software product for working with SWIFT: The Bank uses the SWIFT service provided through the SWIFT Service Bureau of BORICA AD. A working automated connection between BrightOS and SWIFT is available;
- Real-time gross settlement system RINGS: Based on the internal BrightOS system (VCSBank v40), module "Payments" for BISERA 6 and RINGS;
- System for working with BISERA: Maintained by the employees in the Information Technology Division. Regarding the operation of the system, organizational and information procedures have been created and are maintained for protection when working with the BISERA system. To work with SWIFT, the Bank uses the SWIFT Alliance software product. Through it, communication and payments are made through TARGET2 and through a correspondent. An automated connection between BrightOS and the SWIFT Alliance works. For foreign currency payments, the main banking system "BrightOS" is used, the "Foreign Currency Payments" module for the payment systems TARGET2, BISERA;
- Docuware 6.10 system for document flow;
- Bloomberg Information System;
- XETRA system (for connection to the stock exchange);
- Comanc Broker System;
- Soyal Information System for processing information for physical access control - rights and for physical access to premises and systems;
- Dow Jones – a system for checking and integrating sanctions lists into the AML-module of the main banking system;
- APIS – Legal Information System;
- Style – HR and payroll management, etc.

3.5.3 Management of ICT risks

BDB's ICT and security risk management framework includes certain procedures in accordance with the requirements of the EBA Guidelines, and the process of managing these risks includes a wide range of internal rules and procedures for its identification and management, taking into account the emerging changes in the software and hardware environment, as well as due to the risk arising from the daily operational activities of the Bank.

This single risk management framework is duly documented and updated with documented experience gained in the course of its implementation and monitoring, it consists of the following main policies, rules and procedures:

- Plan for business continuity and actions in case of disasters and accidents;
- Network and Information Security Policy of the Bulgarian Development Bank EAD;

- Rules and procedures for reporting incidents and weaknesses related to network and information security in the Bulgarian Development Bank EAD;
- Internal procedures of the Bulgarian Development Bank EAD for actions in emergency situations during work with BISERA;
- Internal procedures for dealing with emergencies at work TARGET2;
- Internal procedures for emergency actions while working with RINGS;
- Internal procedures for emergency actions while working with SWIFT;
- Methodology for analysis and assessment of risk in the field of ICT in the Group;
- Rules for management and control of accounts and access rights to the information systems in the BDB Group;
- Rules and procedures for operational risk management, incl. procedure for self-assessment of the operational risk and the control applied in the BDB Group and Procedure for managing the operational risk related to BDB’s activities as a payment service provider (PSP);
- Procedure for identification and assessment of material risks for the BDB Group;
- Policy for outsourcing activities in the group of Bulgarian Development Bank EAD;
- ICT mitigation procedure;

The Bank, as a payment service provider, is exposed to external risks and force majeure circumstances that may lead to situations of short-term or longer-term inability to carry out single or larger number of activities. These could be natural disasters, technical accidents, system failures, malicious human actions, etc. In this regard, the Bank has identified and evaluated all its business functions, key roles, support processes in relation to the provision of payment services in the “Business Continuity Plan and actions in case of disasters and accidents”, including the activities related to ensuring the security of the systems related to them and the corresponding access control. The business continuity plan is subject to annual review and update. In it, payment services, as well as activities and related processes, are classified as critical business processes and are treated as activities and processes with a defined maximum critical response time, respectively cancellation and subsequent recovery.

The occurrence of emergencies in the performance of daily activities related to the provision of payment services while working with TARGET2, RINGS, BISERA and SWIFT are ensured by relevant internal emergency procedures.

In the BDB Group, all employees of the Information Technology Department manage the monitored risks related to ICT, and in cases related to the proper and continuous functioning of the operating ICT, they immediately apply and comply with the procedure for their elimination during the daily operation of the systems, by:

- backup files with data, programs, operating systems and accompanying documentation are stored outside the Bank's building in accordance with the application;
- a permanent mechanism of rules for access control and passwords has been introduced and maintained;
- procedures for protection against viruses are defined;
- a hardware module (IRONPORT) is used for antivirus and anti-spam protection of mail traffic;
- an order for use has been introduced and antivirus software products are automatically updated;
- virus protection is provided on all personal computers;

- log files are checked daily for events in the operation of all servers and applications;
- Identification names and passwords are administered when users leave the institution (or are absent for an extended period of time).

The employees of the Information Technology Division regularly participate in forums and presentations related to the management of information systems, banking information technologies, antivirus protection, protection against unauthorized access, organized by the leading IT companies.

Outsourced ICT-related activities are described in Note 21.

Prior to concluding a contract for the assignment of activities, the Bank applies the "Policy for Outsourcing of Activities in the Group of Bulgarian Development Bank EAD".

Given the specifics of the ICT activity related to the provision of communication channels, the Bank has ensured the duplication of the main communication elements of the system.

3.6 MARKETING AND PUBLIC RELATIONS

In 2024, one of the key transformations of the Bulgarian Development Bank took place. In the middle of the year, the Council of Ministers adopted **the new strategy for the Bank**'s **activities** (2024-2026), developed in close cooperation with the leading representatives of business, trade unions and local authorities. For the first time in the 25-year history of the financial institution, the process of creating its strategy was fully open, with the media and the general public being informed in detail about the short-term and long-term priorities set.

As a result**, a complete repositioning** of the Bank was carried out. It was included in the government program as a leading instrument for the implementation of state policies and was assigned a role that went beyond standard bank lending. In all public and media events, it was pointed out that BDB will intervene in key sectors such as healthcare, military-industrial complex, export promotion and innovation. The Bank's priorities for reducing regional imbalances through the construction of industrial parks and the financing of strategic infrastructure throughout the country were communicated.

The year 2024 was marked by a key event for the institution – its **25th anniversary**. The anniversary was marked with a conference entitled *"Development Banks – A Tool for Better Use of Public Funds"* and was attended by Executive Directors from the EC, EIB, EIF, Directors of promotional and export banks from 20 European countries, as well as Chief Executive Directors of leading Bulgarian banks.

The conference on the occasion of BDB's 25th anniversary was preceded by **hosting the high-level meeting of the Network of European Financial Institutions for SMEs (NEFI)** in Sofia. It was attended by representatives of funding institutions from Austria, Croatia, Estonia, Finland, France, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Slovakia, Slovenia, Spain, Croatia, as well as representatives of the European Association of Public Banks (EAPB) and European Long-term Investors Association (ELTI). Both events received a wide positive media response, and some of the foreign representatives made a series of media appearances in the national print and electronic media.

During the year, BDB participated in two **key exhibitions** - AGRA at the Plovdiv Fair, as well as the exhibition "Meatmania" at Inter Expo Center.

The Bank **hosted meetings** with companies from the military-industrial complex, as well as with state and municipal hospitals. The institution was represented during the global climate conference COP29, as well as at business forums in Singapore and Vietnam.

Representatives of BDB took **part in a series of events**, including: Green Transition, a round table dedicated to the Draghi Report, the forum "Attracting Investments and Financing for Municipalities", the accelerator program of the Bulgarian Stock Exchange BeamUp Lab, meetings of BCCI, the financial forum of the Capital newspaper, the forum "Banking Today", organized by Investor Media Group, the event "Building sustainability" of SEE Next, the conference "Sustainable and Efficient Energy System for a Stable and Secure Economy", organized by BICA, etc.

During the year, the Bank presented and promoted **its new financial products**: the program for working capital financing of builders renovating buildings with state and municipal institutions, the on-lending program for households investing in renewable energy sources, the financing of green energy, the programs for support of hospitals, groups and organizations of farmers, the program for financing export-oriented companies, the program of BDB Leasing in partnership with the NGF. Advertising materials were developed for the programs, digital campaigns were carried out and materials were published in print and electronic media. Success stories of companies supported by the banking group were presented.

The communication of BDB's partnership with the EC under the **Invest EU** programme continued in 2024. The Guarantee Agreement signed in Brussels with the EC was widely covered. The market consultations held were communicated, as well as the invitation to commercial banks for financing with a guarantee under the programme.

The practice of communicating the activities of the Capital Investment Fund (CIP) continued. During the year, a special project was implemented together with the Capital newspaper, dedicated to the investments and activities of the CIP. The Fund's new deals with the companies Quendoo and Fly the Earth were also subject to increased communication.

4 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2024

4.1 ECONOMIC ENVIRONMENT

In 2024, the global economy was marked by the shocks of the war in Ukraine and the subsequent energy and other economic problems in Europe. The slowdown in inflation has stabilised European economies, with interest rates expected to fall in 2025 and their stabilisation in the medium term after the 2024 increase, giving further impetus to economic growth on the continent. Access to natural and technological resources, as well as significant bureaucracy, are the main challenges faced by united Europe.

In 2024, the real growth of Bulgaria's gross domestic product was 2.8%, with an expected growth of 2.2% in the autumn forecast of the Ministry of Finance (MoF). According to the BNB, the expected GDP growth for 2024 amounts to 2.3%.

In 2024, there is a downward trend in the annual inflation rate according to the HICP, and at the end of the year it was 2.6%. The slowdown in inflationary processes in the country is largely due to the decline in international prices of energy commodities and other raw materials. The projected increase in labour costs and strong consumer demand are expected to exert inflationary pressures over the medium term. Based on the current inflation forecast in Bulgaria, as well as the European Commission's forecast for inflation in other EU member states, Bulgaria is expected to be able to meet the convergence criteria for price stability in January 2025 and continue to meet it thereafter.

In 2024, employment and unemployment rates were stable. For 2025, employment is expected to follow the growth of the Bulgarian economy and labour productivity.

In 2025, the BNB expects real GDP to grow by 2.5% and in 2026 - by 3%. This dynamic is mainly driven by the shift in investments and exports of goods and services from a decline in 2024 to growth in 2025 and 2026. Private consumption is expected to grow at a high rate in the period 2024-2026 and contribute to GDP growth to the greatest extent, which in turn is in line with the projected increase in employment and real disposable income of households.

4.2 BANKING SECTOR

In 2024, Banks in Bulgaria operated in conditions of ongoing geopolitical uncertainty in the external environment, which, combined with possible political changes in countries, may lead to changes in macro-financial conditions. The domestic environment is relatively favourable and is characterized by the contribution that private consumption, which remains at good levels, has to economic growth.

As of 31 December 2024, there are 23 banks operating in Bulgaria, six of which are branches of foreign banks, and at the end of the fourth quarter of 2024, the market share of the five largest banks in terms of assets reached 68.6%. In the fourth quarter of 2024, the assets of the banking system increased by BGN 9.2 billion (5%) and at the end of December amounted to BGN 191.6 billion.

As of 31 December 2024, the profit of the banking system amounted to BGN 3.7 billion, by BGN 277 million (8.1%) more than the realized profit as of 31 December 2023. In 2024, BGN 5.6 billion is the net interest income, which is BGN 723 million (14.9%) higher than that reported for 2023.

The equity in the balance sheet of the banking system at the end of the fourth quarter of 2024 amounted to BGN 21.0 billion, by BGN 91 million (0.4%) more than at the end of September.

At the end of December 2024, gross non-performing loans and advances amounted to BGN 3.8 billion (compared to BGN 3.5 billion at the end of September 2024), and their share in the total amount of gross loans and advances was 2.5% (compared to 2.9% at the end of September 2024).

When presenting the indicator in a broad range (including cash balances with central banks and other deposits at sight), the share of gross non-performing loans and advances was 1.3% at the end of the fourth quarter of 2024 (compared to 1.5% at the end of the third quarter). The net value of non-performing loans and advances (after deduction of their inherent impairment) at the end of December 2024 was BGN 1.9 billion (compared to BGN 1.67 billion at the end of September 2024), and its share in the total net value of loans and advances was 1.3% (compared to 1.5% at the end of September 2024).

In 2024, there is a gradual increase in average interest rates on newly contracted deposits. The average interest rate for newly contracted deposits with agreed maturity for non-financial corporations increased from 1.11% to 1.88% for deposits in BGN, and increased from 1.45% to 1.50% for deposits in EUR. The average interest rates on newly granted loans to non-financial entities decreased slightly – from 3.90% to 3.85% for those in BGN, and for those in EUR they decreased from 5.76% to 5.01%.

In 2024, the main challenge in terms of regulations in the banking sector in Bulgaria was the adoption by the Central Bank of restrictions on lending for the purchase of real estate. The activity of the banking system in 2025 is expected to be influenced by banks' preparation for the expected introduction of the euro from 1 January 2026.

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.

Results of activity for 2024 and 2025:

Comprehensive income	2024	2023	YoY change
Net interest income	69,222	66,908	3.5%
Net fee and commission income	402	1,850	(78.3%)
Net gain from foreign exchange transactions	269	258	4.3%
Net loss from financial assets at fair value through other comprehensive income	(85)	(11)	672.7%
General and administrative expenses	(29,370)	(27,739)	5.9%
Other operating income, net	14,783	7,646	93.3%
Operating profit before impairment and provisions	**55,221**	**48,912**	**12.9%**
Reintegration of /(expenses for) impairment and provisions on non-financial assets	1,171	(381)	(407.3%)
Expenses for impairment and provisions on financial assets	(21,114)	(16,870)	25.2%
Profit before income tax	**35,278**	**31,661**	**11.4%**
Income tax expense	(496)	(81)	512.3%
Profit for the year	**34,782**	**31,580**	**10.1%**
Actuarial loss on defined benefit plans, net of taxes	(69)	(12)	475.0%
Net change in fair value of equity instruments at fair value through other comprehensive income	37,224	24,448	52.3%
Net change in fair value of debt instruments at fair value through other comprehensive income	10,482	13,721	(23.6%)
Total comprehensive income	**82,419**	**69,737**	**18.2%**

The interest income for the financial year 2024 amounted to BGN 123,757 thousand (for 2023: BGN 117,940 thousand). Interest expenses increased to BGN 54,535 thousand compared to BGN 51,032 thousand for the same period in 2023. The growth in both interest income and expenses is mainly due to the increased interest rate benchmark as well as to the elimination of negative interest rates on balances in the BNB and on placements with commercial banks.

As a result of the realized interest income and expenses in 2024, net interest income was reported by 3.5% higher compared to 2023.

Fee and commission income for the twelve months of 2024 amounted to BGN 2,322 thousand and decreased by 50.8% compared to the same period of 2023. The net result of accrued fees and commissions for 2024 was positive and amounted to BGN 402 thousand compared to BGN 1,850 thousand for 2023. The result was mainly affected by the reduced revenue from guarantee fees under the COVID-19 portfolio guarantees for legal entities, as well as by the reduced costs for co-management commissions to commercial banks in connection with the issued portfolio guarantees under the guarantee programme for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic.

For the financial year 2024, a net loss on financial assets measured at fair value through other comprehensive income of BGN 85 thousand was incurred compared to a loss of BGN 11 thousand for the previous year.

In 2024, general and administrative expenses and depreciation & amortization and personnel costs amounted to BGN 29,370 thousand, an increase of 5.9% compared to 2023 mainly due expenses for remuneration and hired services.

In 2024 the Bank reported a negative result from accrued impairments and provisions of loans, receivables and off-balance-sheet commitments – a net expense of BGN 21,114 thousand (for 2023: BGN 16,870 thousand). The reported negative result for 2024 is determined by both (1) the accrued impairment charges to cover expected credit losses in the Bank's portfolio, as well as (2) reintegrating provisions for off-balance sheet commitments - issued portfolio guarantees to commercial banks under the two guarantee programmes "Programme to guarantee interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic" and "Programme to support the liquidity of enterprises affected by the emergency situation and the COVID-19 epidemic", with which the Bank has been mandated by the Government of the Republic of Bulgaria to provide financial assistance to support the economy and to overcome the consequences of the pandemic, as well as by (2) the accrued impairment costs to cover expected credit losses in the Bank's portfolio.

The financial result of Bulgarian Development Bank EAD for 2024 is profit after tax in the amount of BGN 34,782 thousand (2023: BGN 31,580 thousand).

Financial position as of 31 December 2024 and 31 December 2023:

	As of 31.12.2024	As of 31.12.2023	YoY change
Assets			
Cash in hand and balances in current accounts with Central Banks	341,153	128,662	165.2%
Financial assets at amortized cost - Receivables from banks	848,674	513,867	65.2%
Financial assets at amortized cost – Loans and advances to customers, Receivables from the State budget and Securities	1,013,462	1,398,517	(27.5%)
Financial assets at fair value through other comprehensive income – Debt and Equity instruments	504,622	486,458	3.7%
Investments in subsidiaries	166,968	166,968	-
Non-current assets	240,648	80,111	200.4%
Other assets	8,194	12,810	(36.0%)
Total assets	**3,123,721**	**2,787,393**	**12.1%**
Liabilities			
Borrowings from international institutions	611,158	581,931	5.0%
Deposits from customers other than credit institutions	865,717	650,167	33.2%
Deposits from credit institutions	246,578	209,918	17.5%
Other borrowings	17,106	16,818	1.7%
Lease liabilities	112	208	(46.2%)
Provisions	92,419	119,043	(22.4%)
Other liabilities	4,202	5,299	(20.7%)
Total liabilities	**1,837,292**	**1,583,384**	**16.0%**
Equity			
Share capital	1,135,500	1,135,500	-
Accumulated loss	(196,807)	(179,789)	9.5%
Revaluation reserve on financial assets at fair value through other comprehensive income	(9,580)	(57,286)	(83.3%)
Reserves	357,316	305,584	16.9%
Total equity	**1,286,429**	**1,204,009**	**6.8%**
Total liabilities and equity	**3,123,721**	**2,787,393**	**12.1%**

As of 31 December 2024, Bank's assets amounted to BGN 3,123,721 thousand (as of 31 December 2023: BGN 2,787,393 thousand), showing an increase of 12.1%% compared to the previous year, which is mainly due to:

- Increase in Financial assets carried at amortized cost;
- Increase in Financial assets carried at fair value through other comprehensive income;
- Increase in assets acquired from collateral;
- Increase in balances with central banks and deposits with commercial banks.

The decrease in the loan portfolio is due to fewer loans granted compared to those repaid: interest rates on newly granted loans are currently not competitive in the market, except for the riskiest clients, which leads to prepayment of loans or non-utilization of already agreed ones. Additionally, as a result of decisions at the political level, a large client from the State Government sector fully repaid its exposure, and a large exposure in the Trade sector was settled by acquiring the assets with which it was secured.

The securities portfolio is managed within the framework of established rules and its volume is a function of the funds required for lending activities and the opportunities for generating profitability.

A significant increase in fixed assets compared to 2023 is due to newly acquired property, plant and equipment that served as collateral against debt settlement from large borrowers.

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

5.2 LENDING AND GUARANTEE ACTIVITY

In 2024, the Bank continued to develop its activities, supporting Bulgarian business, while continuing to maintain diversification of the industry structure of its loan portfolio. The Bank recorded a significant decline in volumes in some sectors compared to 2023 – "Industry – Machinery and Equipment Manufacturing" (by 39.2%), "Construction" (by 20.0%) and "Transport" (by 17.4%) – as well as an increase in others – "Industry – Food Manufacturing" (by 31.9%), "Agriculture" (by 60.6%) and "Other Industries" (by 10.5%).

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

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

5.3 FUNDING

The attracted funds from international institutions at the end of 2024 represent 33.3% in the liability structure and amount to BGN 611,158 thousand compared to BGN 581,931 thousand at the end of 2023. The change for 2024 compared to the end of 2023 is due to scheduled repayments under signed financial agreements, including full early repayment of loan to China Development Bank, as well as new utilized loans from EIB, Council of Europe Development Bank, China Export–Import Bank.

6 DEVELOPMENT STRATEGY AND GOALS OF THE BDB

BDB's activities aim to create a sustainable and full-fledged market of financial products and services for businesses and SMEs, complementing the activities of commercial banks through various financial programs and instruments: project financing, loans for micro and SMEs (working capital and for investments), individual guarantees and guarantees on commercial banks' portfolios of loans for SMEs, on-lending for commercial banks, operating lease, equity capital, etc.

BDB EAD's 2024-2026 Strategy was adopted by Decision 389/07.06.2024 of the Council of Ministers. The Strategy defines the business priorities and investment directions for the next three years and indicates the path for the Bank to participate in resolving key challenges faced by the state: how to increase the competitiveness of businesses and strengthen the economy by providing access to diverse financing, guarantee instruments and support for public policies. With its activities, the Bank aims to promote investments and economic growth to achieve energy efficiency and decarbonization and build a modern industrial infrastructure against the backdrop of increasing geopolitical and geoeconomic risks.

The strategy is based on three pillars:

- Support the implementation of public investments and projects, priority for the sustainability of the state's economy, including in partnership with the public sector and local authorities;
- A new approach to business competitiveness that combines support for industrial policies, innovation, decarbonisation and investments with a general vision for the modernisation of the state;
- Support for the accelerated use of national and EU funds, in partnership with the state administration.

Each of the pillars defines strategic goals for the achievement of which business programs have been developed in accordance with the circumstances at a national level and the needs of business and economy. Strategy 2024 - 2026 was defined in response to the socio-economic and regional challenges faced by the state. For the first six months of implementation of the Strategy (June-December 2024) we can draw three main conclusions:

- Timely addition of new strategic objectives– for partnership with the public sector and for funding strategic sectors for the economy;
- Facilitating the access to business financing through co-financing of industries that receive resources under EU and national policies;
- Timely increasing the limit over 5 million leva for priority areas and projects, as well as of the individual limit to financial institutions under Art. 3a of the LCI, for the purpose of indirect financing of SMEs, which can reach 15 million leva.

In its activities, BDB follows a business model that combines financing of investments in support of public policies, direct lending to SMEs and the public sector, provision of portfolio guarantees and on-lending financing in partnership with banks and non-bank financial institutions, including implementation of the instrument assigned to BDB under indirect management of the EC within the meaning of Art. 62 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council, namely the Invest EU Programme. The main features of the business model are achieving long-term financial stability of the Bank, integration of ESG (Environmental, Social and Governance) aspects and commitment to the goals for sustainable economic growth (the so-called Sustainable Development Goals).[3]

In 2024, BDB launched a process for assessing the impact of its activities by reporting the non-financial results and effects of the financed projects and programs. The assessed effects show the effectiveness, the addressed market challenges and the achieved strategic goals. The impact assessment methodology is based on data collection from the Bank's Business Units, on the basis of the Methodology for Reporting Indicators for the Effect and Impact of BDB EAD's Activities, approved by the Management Board in July 2024.

To support public control on its activities, BDB maintains a regular dialogue with national employers' representative organisations, leading unions and the National Association of the Municipalities in Republic of Bulgaria, advising on the process of creating new financial instruments and sharing knowledge and good practices in support of business. The Bank maintains good relationships with leading print and electronic media, non-governmental organisations in the entrepreneurship area, as well as with the academic community.

When implementing the strategic goals, BDB analyses the economic environment and actively suggests the necessary target instruments, following the principles defined in the strategy, so as to contribute to:

- Sustainable economic development using countercyclical measures and instruments;
- More investment in the economy by ensuring the necessary co-financing of public policies and public investments and projects;
- Low-carbon economy by supporting business and the public sector in the transition to decarbonization;
- Territorial cohesion by (co)financing national and regional priority projects and those aimed at addressing regional imbalances.

The enhanced strategic direction and expanded lending opportunities are expected to lead to a more stable financial position as of 31 December 2024.

7 BUSINESS MODEL AND KEY INTANGIBLE ASSETS

The implementation of the strategy and the resulting business model depend primarily on the effective use of tangible and intangible assets. The organisational development focuses on the versatility of human resources, efficiency and flexibility of processes, effective development and implementation of new products and programs, and sustainable information and communication technologies to support the development of the activity and organisational development.

Since 2022, BDB EAD successfully integrates sustainable development and ESG principles into the main aspects of its activities, taking into account the importance of intangible assets as a key factor in creating value for the Bank. The main intangible assets include: excellent corporate culture and ethical standards, technological optimisation of processes, improvement of employee qualifications and engagement, as well as the established partnership and trust with clients and partners.

[3] With the updated Strategy 2021-2023 BDB agrees to carry out its activities in the context of the UN Global Sustainable Development Goals (SDG).

The Bank's business model will increasingly depend on its ability to effectively manage these intangible assets, turning them into a competitive advantage through digital solutions, speeding up processes, creating and implementing sustainable credit programs that meet market gaps and the needs of BDB's target segment. In the past year (2024), significant investments were made in modern technologies, process automation and digital channels for customer service. They increase efficiency and customer satisfaction, while optimizing the use of natural resources.

A particular focus in lending activities are projects aimed at ecological and resource economy, including support for sustainable agriculture, renewable energy sources and resource efficiency. These activities strengthen BDB's position as a development bank, which creates a positive image to attract clients and makes a long-term effect and impact on the economy. The Bank develops the ESG competencies of its employees and promotes a culture of responsibility, implementation of the Green Code principle, which contributes to the sustainable activities of the Bank.

7.1 VERSATILITY OF HUMAN RESOURCES

The Bank's organisational structure is as flat as possible, which facilitates direct communication both horizontally (between departments) and vertically (between employees, heads of departments and governing bodies). Polyvalence - the capacity of an employee to perform more than one function and to ensure replaceability and continuity - is key to the success of the business model. In this regard, the Bank provides multiple trainings - in 2024, 72% of the Bank's employees underwent various types of individual and group trainings, specific to banking activities, which are directly related to employees' duties and responsibilities - in order to increase competence and the ability to undertake tasks and projects, building on and developing the scope of the Bank's activities, processes, and the competence of specific employees and the units they work for. As a result of the constantly changing regulatory framework, our employees participated in training programs to ensure compliance with the requirements and the implementation of established good practices in the banking sector.

The key training topics over the past year were: anti-money laundering and counter-terrorist financing measures, data privacy and cybersecurity, digital and operational resilience of the banking sector, ESG and sustainable financing, risk management, measurement of financial assets and financial institutions, collateral valuations, the plan for Bulgaria's accession to the eurozone, successful management of problematic receivables, credit analysis, structuring a loan proposal, etc. Recognising the role of soft skills in building strong, adaptable and customer-oriented teams, our employees also received training in effective communication, leadership, conflict resolution, adaptability and emotional intelligence, which are essential for fostering cooperation and teamwork. Investing in these skills not only enhances individual employee performance but also strengthens organisational culture.

The attestation model for employee evaluation and self-assessment encourages their appetite for independent goal setting and achieving results in additional tasks and goals set by themselves.

7.2 EFFICIENCY AND FLEXIBILITY OF PROCESSES

The Bank is constantly improving its internal processes and procedures in order to be able to respond more effectively to business, regulatory, social or environmental challenges that arise in the course of its activities.

The flat organisational structure, as well as the operating efficiency of the governing bodies, facilitate rapid adaptations of internal rules, procedures and processes, triggered both by the necessity to implement new business development activities, and by regulatory changes, social demands or activities related to environmental impact.

Due to the specifics of its activities, defined in Article 4, paragraph 1 of the BDB Act, the Bank saves significantly from the volume of its activities and increases its efficiency against the backdrop of increasing public expectations for the achieved results and fulfilment of the assigned mandates.

7.3 EFFECTIVE IMPLEMENTATION OF NEW PRODUCTS AND PROGRAMS

The implementation of the tasks defined in the Strategy requires the development of targeted products and programs to overcome the market challenges faced by some economic entities, to provide accessible financing for innovation and development, and to support the implementation of state policies through financial instruments. As a result, the Bank is speeding up the development and implementation of specific programs (see section 3.2) to meet to the emerging challenges faced by sectors or groups of entrepreneurs due to market or structural shocks or related external events.

7.4 SUSTAINABLE INFORMATION AND COMMUNICATION TECHNOLOGIES

The development of the Bank without a branch network leads to additional requirements regarding the sustainability and flexibility of the information and communication technologies used. By using target management in the development of the ICT infrastructure (see section 3.5), the Bank aims to optimise business and reporting processes, customer relations and effective management of ICT risks.

8 INTERNAL CONTROL

The internal control processes in the Bank are detailed in sections 8 and 9 of this report, 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.

9 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.

9.1 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.

9.2 MARKET RISK

Market risks are associated with adverse changes in interest rates, currency exchange rates, credit spreads and other factors affecting the prices of securities and other financial assets. These movements may have an impact on the Bank's financial position and profitability.

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 on Interest Rate Risk in the Banking Book (IRRBB) 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 financial position of the counterparty, type of financial instrument, maturity of the transaction, 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 the investments are in government securities and securities issued by reliable institutions with high liquidity and credit quality. In 2024, 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.

9.3 LIQUIDITY RISK

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining an adequate liquidity buffer and 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.

9.4 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.

9.5 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 72/29.10.2024 and by a decision of the SB under Protocol No 45/31.10.2024. The Recovery Plan complies with the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Intermediaries, adopted in the middle of 2015, Guidelines on recovery plan indicators and technical recommendations on the definition of critical functions and key business lines (Technical advice on critical functions and core business lines) of the European Banking Authority (EBA).

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

The Recovery Plan is updated once a year and proposed for validation by the MB and SB of BDB. Furthermore, the Recovery Plan is updated in the event of a change in the legal management structure or economic activity, or financial position of the Bank, which may have a significant impact on the plan or require a change thereto, and also by the request of the supervisory authority.

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

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

The calculation of the indicators is carried out on monthly for the indicators on an individual basis, and on quarterly for the indicators on a consolidated 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.

10 CONTROL ENVIRONMENT

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

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

The first line of defence covers risk management by business and risk-taking units - divisions Corporate Clients, Investment Banking and Project Financing, Financial Instruments, Problem Receivables and Treasury. Their activities are supported by the divisions Legal, Loan Administration, Security, Finance, Operations and IFI and European Funds, that evaluate and analyse the implementation of internal and regulatory constraints and support the decision-making activity in taking and managing risks. At this level, risk management is carried out by setting appropriate controls and procedures

The second line of defence provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk, Regulatory Compliance and Control and Prevention of money laundering and fraud perform activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting their implementation in accordance with the approved escalation procedures. The Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Division controls the prevention of money laundering and terrorist financing and compliance with sanctions regimes. The second line of defence is organizationally independent of the first and exercises preventive and ongoing control.

The third line of defence is performed by the Internal Audit of the Group (IAG). It independently reviews all activities in the BDB, subject to independent evaluation, compared to the established system of internal rules and their adequacy, compared to the external regulatory environment, internal control mechanisms and risk management systems covering the activities of the Bank.

The weaknesses and deficiencies identified by it supports the functions of other levels of protection in the process of developing of internal rules and procedures in order to improve the effectiveness of risk management. IAG provides assurance to senior management on the effectiveness of risk management, internal control and governance, and the way in which the first and second lines achieve the objectives of risk management and control. The Internal Audit of the Group Division provides overall assurance from the position of the highest level of independence in the organization, through direct subordination of the Supervisory Board.

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

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

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

The Audit Committee of the Bank informs the Bank's governing bodies with management and control functions about the results of the statutory financial audit and explains how the statutory audit has contributed to the financial reporting reliability and, where applicable, the sustainability reporting, as well as the role of the Audit Committee in this process; monitors the financial reporting process and gives recommendations and suggestions to ensure the reliability of the prepared and issued financial statements; it monitors the efficiency of the internal control system, the risk management system and the internal audit activity in the Bank's Group with regard to financial reporting and, where applicable, with regard to sustainability reporting; it monitors the statutory audit of the annual financial statements and, where applicable, the statutory sustainability assurance engagement, taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors (CPOSA) on the application of Article 26, paragraph 6 of Regulation (EU) No 537/2014; it controls the establishment and changes to accounting policies by the Bank and the subsidiaries of the Group related to the audit of the Group's consolidated financial statements; it monitors the timely and reliable provision of financial information by subsidiaries for the preparation of the Bank's annual consolidated financial statements; it discusses and approves the annual report on the activities during the internal audit and, if necessary, reviews and makes statements on separate audit reports from audit engagements performed, as well as on all significant internal audit related issues. Also, the Audit Committee coordinates the strategic plan of the Bank's Group Internal Audit; it monitors the statutory audit of the annual financial statements (separate and consolidated), taking into account CPOSA's findings and conclusions on the application of Art. 26, paragraph 6 of Regulation (EU) No. 537/2014; it reviews the statutory audit's strategy and plan as well as the arguments in support of important decisions and choices made in the planning stage; it monitors the implementation of the audit plan, giving recommendations to the Bank's governing bodies and the auditors to eliminate any difficulties that may arise; it reviews the draft auditors' reports under Art. 59 and Art. 60 of the IFAASRA and the identified key audit matters, the findings made and the auditors' opinion; it discusses the additional auditor's report (prepared in accordance with Art. 11, item 2 of Regulation (EU) No. 537/2014), and gives recommendations to the Bank's governing bodies to eliminate the significant weaknesses and deficiencies identified in the report; it verifies and monitors the independence of registered auditors in accordance with the requirements of Chapters Six and Seven of the Independent Financial Audit and Assurance of Sustainability Reporting Act (IFAASRA), as well as with Article 6 of Regulation (EU) No. 537/2014, including the appropriateness of the provision of non-audit services under Article 5 of the same Regulation; it approves in advance the provision of non-audit services by an auditor of the Bank, and within 7 days from the date of the decision notifies CPOSA, as well as the Management and Supervisory Boards of the Bank of any approval granted under Article 64, paragraph 3 and Article 66, paragraph 3 of the IFAASRA; it is responsible for the registered auditors' selection procedure and recommends their appointment, except in cases where the Bank has a committee for the selection procedure; where the Bank has a selection procedure committee, the Audit Committee monitors its work, and based on its results suggests assignment of an audit engagement in accordance with the requirements of Art. 16 of Regulation (EU) 537/2014 to the sole owner of the capital (SOC); it prepares an annual report on the activities and presents it to SOC once a year together with the annual financial statement. The Audit Committee (AC) informs SOC upon the establishment of circumstances of material importance for the Bank or its financial condition and reporting;

AC prepares the annual report on the activities and its chairman presents it to CPOSA by 31 May. The report's form and content are prepared in accordance with the regulation adopted by the Commission.

11 BANK SUPERVISION AUTHORITIES PURSUANT TO BULGARIAN AND EUROPEAN LEGISLATION

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2024, 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 (effective 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.

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 2024 is 52.40% (31.12.2023: 46.19%). The values of asset coverage with capital buffers exceed many times the statutory levels. Respectively, the aggregated data for the capital adequacy banking system are: 21.65% as of 31.12.2024 and 21.65% as of 31.12.2023. BDB continues to maintain a good level of liquidity. As of 31.12.2024, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the Bank is 391.90% (compared to a value of 355.76% at the end of 2023). For the banking system, the aggregated liquidity coverage ratio was 241.0% (as of 31.12.2024) and 246.7% (as of 31.12.2023).

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 2024, the aggregate level of NSFR for the banking system was 165.2% and for BDB EAD it was 123.98%.

12 INTERNATIONAL COOPERATION

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

BDB has been a shareholder in the European Investment Fund (EIF) since 2003. As of 31.12.2024 BDB holds five shares in EIF.

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

Since 2007, BDB is a member of the Network of European Financial Institutions (NEFI), which includes representatives from 20 institutions from 19 EU member states and the UK.

In 2024, 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 64 institutions and organizations from 34 countries.

In 2024, BDB continued its participation in the Interbank Association of China and the countries of Central and Eastern Europe.

13 BANK GOVERNANCE

There were no charges in the main BDB corporate governance principles in 2024.

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

The changes in the Management Board, the Supervisory Board, the Statute of the Bank and the Bulgarian Development Bank Act, which have occurred in 2024 and until the date of approval of this report are described in section 2.2.1.

As of 31 December 2024, the BDB’s management and supervisory boards have the following composition:

13.1 SUPERVISORY BOARD OF BDB IN 2024, AS OF 31.12.2024 AND AS OF THE DATE OF APPROVAL OF THIS REPORT:

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

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

Rosen Karadimov was a legal consultant and attorney of a number of credit institutions, including BDB.

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

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

Stamen Stamenov Yanev – member of the SB from 26 August 2020.

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

Dimitar Ivanov Mitev– member of the Supervisory Board from 7 November 2024.

Dimitar Mitev is a proven expert with 32 years of experience in the banking sector. He is Master of Finance from the University of National and World Economy, holding numerous additional qualifications. He holds a CFA degree - Certified Financial Analyst. He has been working at the Bulgarian Development Bank since 2011, successively leading the Planning, Analysis and Regulations, Compliance and Finance departments. He was also member of the Board of Directors of the National Guarantee Fund which part of the BDB Group. Dimitar Mitev's career includes HVB Bank Biochim (currently part of UniCredit Bulbank), EIBank, Eurobank Bulgaria (PostBank) and Deloitte Bulgaria.

13.2 BDB MANAGEMENT BOARD IN 2024, AS OF 31 DECEMBER 2024 AND AS OF THE DATE OF APPROVAL OF THIS REPORT

Ivaylo Angelov Moskovski – Chairman of the Management Board and Executive Director from 5 November 2024.

Ivaylo Moskovski holds a Master's degree in Financial Management from the Dimitar A. Tsenov Academy of Economics and a Bachelor's degree in Public Finance from the University of National and World Economy. In the period 2018-2022, he was Vice President of Operating Activities at Black Sea Trade and Development Bank focusing on risk management. Mr. Moskovski was Minister of Transport, Information Technology and Communications in three governments in the period 2011-2018, and Deputy Minister of Transport in the period 2009-2011. Member of Parliament in the 42nd and 44th National Assembly, member of the Transport Committee and the Energy Committee.

Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director from 7 July 2021.

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management. His main responsibilities were related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc.

Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds.

Tsanko Arabadzhiev graduated in International Economic Relations at the University of National and World Economy and holds a Master's degree in Finance.

Teodora Petrova Pesheva – member of MB from 25 March 2024

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

Teodora Pesheva holds a Master's degree in Planning from the University of National and World Economy. Ms. Pesheva has over 20 years of experience in management positions commercial banks in the area of corporate lending, with her professional career going through DSK Bank, Commercial Bank of Greece (Emporiki Bank), and UBB. Ms. Pesheva also has experience as a financial director and auditor.

In 2024, the following members also participated in the composition of the Management Board:

Iliya Zapryanov Karanikolov - Chairman of the Management Board and Executive Director as of 20 January 2023 to 27 February 2025.

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 to 10 June 2024

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. 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.

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.

13.3 CONTRACTS SIGNED WITH RELATED PARTIES, INVOLVED IN THE MANAGEMENT AND PARTICPATION OF THE MEMBERS OF MB AND SB OF THE BANK IN OTHER COMPANIES

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

In 2024, there are no concluded transactions or offers between BDB and related parties for concluding such transactions that are outside the usual activity or materially deviate from the market conditions to which BDB or its subsidiary is a party.

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

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

A participation, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31.12.2024 and the date of approval this report):

13.3.1 Supervisory Board

With regard to members of the SB of the Bank, who participated in its composition in 2024 and as of the date of approval of this report:

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

Participation in the management of other companies: none

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

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

Participation in the management of other companies: none

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

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

Participation in the management of trade companies: none.

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

Dimitar Ivanov Mitev– member of the Supervisory Board of Bulgarian Development Bank EAD from 7 November 2024.

Participation in the management of trade companies: none.

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

13.3.2 Management Board

With regard to members of the MB of the Bank, who participated in its composition in 2024 and as of the date of approval of this report:

Ivaylo Angelov Moskovski – Chairman of the MB and Executive Director of Bulgarian Development Bank EAD from 5 November 2024.

Participation in the management of trade companies: none.

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

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;
- Three Seas Investment Fund – member of the Supervisory Board from 22 September 2021

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

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

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 10 June 2024.
- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 24 March 2024;

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

Iliya Zapryanov Karanikolov – Chairman of the Management Board and Executive Director of Bulgarian Development Bank EAD from 20 January 2023 to 27 February 2025.

Participation in the management of other companies:

- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 10 June 2024 to 27 February 2025;

Participation in the capital of commercial companies or cooperatives:

- IntelArt EOOD, 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 to 10 June 2024.

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 17 March 2023 to 10 June 2024;
- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 17 March 2023 too 10 June 2024.

Participation in the capital of commercial companies or cooperatives:

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

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.

13.4 AUDIT COMMITTEE IN 2024, AS OF 31 DECEMBER 2024 AND AT THE DATE OF APPROVAL OF THIS REPORT:

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

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

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

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

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

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

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

14 TRANSACTIONS WITH COMPANIES UNDER COMMON CONTROL OF THE STATE

The owner of BDB is the Bulgarian state. Transactions with related parties and companies under the common control of the state are disclosed in Note 39 to the separate financial statements of BDB for 2024.

15 EVENTS AFTER THE REPORTING PERIOD

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

Amendments to the Bulgarian Development Bank Act

The 2025 State Budget Law of the Republic of Bulgaria was promulgated in State Gazette (SG) 26/27.03.2025. The Law amends the Bulgarian Development Bank Act, according to which the rights of the State in the General Meeting of the Bank's shareholders are exercised by the Minister of Finance. The amendment is effective from 31 March 2025.

Changes to the Articles of Association of Bulgarian Development Bank EAD

By decision under Protocol No. RD-02-17-1 of 14.01.2025 of the Minister of Innovation and Growth, in the capacity of exercising the rights of the State as the sole owner of the capital of BDB, amendments and appendixes to the Articles of Association of the Bulgarian Development Bank EAD approved by the Bulgarian National Bank were adopted. The amendments and appendixes and entered in the Commercial Register and the Register of Non-Profit Legal Entities and are effective from 19 February 2025.

Changes in the Management Board of Bulgarian Development Bank EAD

By decision of the Supervisory Board under Protocol No. 8 of 20.02.2025, Iliya Zapryanov Karanikolov was dismissed as member of the Management Board of Bulgarian Development Bank EAD and Executive Director. The decision was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 27 February 2025.

16 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 2024, in accordance with the legislation in force. An appropriate accounting policy has been applied consistently. When preparing the annual financial statements, the necessary estimates have been made, in accordance with the conservatism principle. Management consistently uses the applicable accounting standards, and the annual financial statements are drawn up on a going concern basis.

The management of the Bank is committed to maintaining an appropriate accounting system that meets the accounting standards in force. The annual separate financial statements disclose the financial position of the Bank to a reasonable degree of accuracy.

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

This activity report was adopted by the Management Board of Bulgarian Development Bank EAD with Protocol No. 31 of 20 May 2025 and with Protocol No. 24 of the Supervisory Board of the Bank of 22 May 2025, and was signed by:

IVAYLO MOSKOVSKI	TSANKO ARABADZHIEV	TEODORA PESHEVA
CHAIRMAN OF THE MB AND EXECUTIVE DIRECTOR	MEMBER OF THE MB AND EXECUTIVE DIRECTOR	MEMBER OF THE MB

APPENDIX 1: BDB 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. BDB GROUP

As of the end of 2024, the Financial Group of the Bulgarian Development Bank (the "Group", the "BDB Group" or the "Financial Group") includes Bulgarian Development Bank EAD ("BDB", the "Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), "BDB Microfinance" EAD, "Capital Investment Fund" AD ("CIF") and "BDB Leasing" EAD ("BDB Leasing")[4].

3. BULGARIAN DEVELOPMENT BANK EAD

3.1. COMPANY PROFILE

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.

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 adopted by the Bank in the BDB Group, the Code of Ethics of the Internal Audit of the BDB Group, as well as the good corporate and banking practices.

Bulgarian Development Bank EAD holds a license for investment intermediary, by virtue of which it can provide investment services and carry out investment activities under Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, para. 3 of the MFIsA 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 MFIsA – organization of a multilateral trading system and an organized trading system.

The head office of Bulgarian Development Bank EAD is 1000 Sofia, Sredets district, Sredets District, 1, Dyakon Ignatij Street.

As of 31 December 2024, the Bulgarian Development Bank EAD has no branches.

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[4] As of the end of 2024 the Bank is sole owner of the capital of TC Maritsa EOOD (TCM), and the company is not part of the strategic business model of the Financial Group of BDB.

As of the end of 2024 the Bank exercises control over Roadway Construction AD, by virtue of exercised rights under a pledge of a commercial enterprise. Roadway Construction exercises control over Patstroyengineering AD. Both companies are not part of the strategic business model of the Financial Group of BDB.

As of the end of 2024, the Bank exercises control over Kohoferm AD by virtue of exercised rights under a pledge of a commercial enterprise. The company is not part of the strategic business model of the Financial Group of BDB.

As of 31 December 2024, the number of employees of the Bank is 213.

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

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

As of 31 December 2024, 100% of the capital is owned by the Republic of Bulgaria, and the rights of the state as the sole owner of the capital are exercised by the Minister of Innovation and Growth. With an amendment to the Bulgarian Development Bank Act, effective March 31, 2025, the rights of the state as the sole owner of the Bank's capital are exercised by the Minister of Finance.

As of 31 December 2024, the capital of the Bank amounts to BGN 1,135,500,000 and consists of 11,355,000 ordinary registered shares with voting rights with a nominal value of BGN 100 each. The shares of the BDB are not traded on a regulated market.

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

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

BDB is governed in accordance with Article 5 of BDBA, according to which the Bank has a two-tier management system and the rights of the state as the sole owner of the Bank's capital are exercised by the Minister of Innovation and Growth – as of the date of preparation of this declaration.

At the end of 2024, BDB has no obligations under existing or new securities issues.

As of 31 December 2024, there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of BDB at the amount of 10% or more of equity.

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

- Pre-export and export financing of small and medium-sized enterprises (SMEs);
- lending through intermediary banks or directly to other types of activities of small and medium-sized enterprises;
- 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, as well as in the financing of categories of clients defined in the Statute of BDB, 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;
- activities for the provision of media services;
- 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.

By decisions of the Minister of Innovation and Growth of 7 June 2024 and 18 June 2024, amendments to the Statute of the Bulgarian Development Bank EAD have been adopted, which have been approved by the Bulgarian National Bank and have been entered in the Commercial Register and the Register of Non-Profit Legal Entities, which have been in force since 12 July 2024.

By decision under Protocol No. RD-02-17-1 of 14 January 2025 of the Minister of Innovation and Growth, in the capacity of exercising the rights of the state as the sole owner of the capital of BDB, amendments and supplements to the Statute of Bulgarian Development Bank EAD have been adopted, which have been approved by the Bulgarian National Bank, and have been entered in the Commercial Register and the Register of Non-Profit Legal Entities, which have been in force since 19 February 2025.

The amendments to the Statute are in accordance with the Strategy for the Activities of Bulgarian Development Bank EAD for the period 2024 – 2026, approved by the Council of Ministers.

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-lending programs, export financing and funding under assigned mandates.

As of 31 December 2024, and 31 December 2023, there is no exposure to a client or group of related clients that is greater than 25% of the Bank's regulatory equity.

The largest credit exposure of the Bank provided to a group of related parties (other than banking institutions) amounts to BGN 126,897 thousand (including BGN 126,897 thousand gross carrying amount of debt) at amortised cost (31.12.2023: BGN 161,416 thousand[5]), which represents 11.60% of the equity/eligible equity of the Bank according to Regulation 575/2013/EC (31.12.2023: 15.36%).

An analysis of the structure of the loan portfolio by sectors is presented in Note 19 in the Bank's separate financial statements.

Given the specific activity of the Bank, as of 31 December 2024, the funds attracted from 20 largest non-bank depositors represent 87.95% of the total amount of liabilities to other clients (31 December 2023: 84.16%). The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 23.17% (31 December 2023: 21.57%).

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 programme 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 Programme - The programme 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 under this programme has expired. The deadline for inclusion of loans under BDB's guarantee program expired on 30 June 2022.

In view of its specific activity BDB utilizes significant external funding from international financial institutions. Detailed information on the received external credit lines is disclosed in note 30 to the annual separate financial statements.

In July 2024, the **international rating agency Fitch Ratings** confirmed the outlook for the Bank's long-term credit rating - **BBB**, **with a positive outlook**.

The Bank's rating is equal to the Bulgarian State rating and practically it is the highest possible credit rating for BDB. The assessment is based on the good capital position of BDB, the return

[5] From which, for the purposes of net exposure, the recognized highly liquid collaterals – blocked deposits in the Bank, guaranteeing letters of credit in the same amount, have been subtracted

to profit and the fact that the Bank is 100% owned by the Bulgarian state, which can support it if necessary. Its financing is stable, with a significant part of it being either sourced from the public sector or guaranteed by the state. The rest of the attracted resource is mainly from international development institutions.

3.2. BUSINESS HIGHLIGHTS IN 2024

In the first quarter of 2024, the Financing of Medical Facilities for Hospital Care was launched, which aims to provide working capital and/or investment financing for improving infrastructure and medical equipment in order to increase the volume and quality of medical services provided. Under the program, BDB provides loans of up to BGN 5 million and a maximum term of up to 10 years. The target groups are hospitals (hospitals for active treatment; for long-term treatment; for rehabilitation; for long-term treatment and rehabilitation); Multidisciplinary or specialized (created by the state, municipalities, other legal entities or individuals).

The deadline for utilization of working capital financing is 12 months with an agreed number of options for revolving according to the specific borrower, each for a subsequent period of 12 months, and for investment financing - up to 24 months, depending on the specifics of the investment.

The investment programme for the construction of photovoltaic plants was successfully adopted and renewed.

- The Bulgarian Development Bank offers project financing to newly established micro, small and medium-sized enterprises for the construction of photovoltaic plants with the aim of selling the electricity produced in the amount of BGN 400 thousand up to BGN 5 million, with a term of up to 15 years and a grace period of up to 18 months, and there is also an option for a seasonal repayment plan. The programme is in line with BDB's strategy to support green projects and in the context of the EU's goals for achieving carbon neutrality.
- Green policies to reduce the carbon footprint. BDB sets a long-term goal to support the green transition of the Bulgarian economy and increase the share of environmentally friendly energy sources, as 25 percent of greenhouse gas emissions globally come from electricity production. The construction of green energy capacities is part of the package of measures of the European Commission, included in the so-called “Green Deal”, which aims to reduce the carbon footprint by 2050.

In the third quarter of 2024, an additional agreement was signed to the Agreement between BDB and the EU on the issuance of a guarantee under the InvestEU Regulation. The agreement is to supplement the EU guarantee with a new EUR 40 million under EU Section, which filled all tranches taken by the EU and enabled BDB to enter the market with InvestEU products. This month, BDB also held market consultations with a view to finalizing the package of documents for the selection of financial intermediaries and raising market awareness. The market consultations were conducted with 10 potential financial intermediaries. In September, a package of documents containing the conditions for the selection of financial intermediaries was finalized, and the invitation for expressions of interest from potential financial intermediaries was announced in early October.

The trend continues that the most actively used programmes are “Direct Financing with an InvestEU Guarantee” and “SME Financing Programme with Project Proposals under European and National Programs”, and in September there is an intensification of the demand for working capital under the Programme for financing companies with a contract for the implementation of construction and installation works with counterparties, a party to a contract for receiving grants.

Due to the expressed interest of the healthcare sector, in August 2024 the Bank approved additions to the Hospital Financing Programme, which expanded the scope and possibilities for financing amounts over BGN 5 million. Thus, it provided an opportunity for adequate support to all participants in the sector.

Changes and additions have been made to the Program for financing companies with a contract for the execution of construction and installation works with contractors, a party to a contract for obtaining a grant (working capital financing of builders). A programme for financing enterprises whose activity is the production and distribution of feature films, documentaries, animations, debut films and series has also been approved in principle.

In the fourth quarter of 2024, the two new programs “Defence Industry Support Program” and the “Export-Pre-Export and Post-Export Financing” program were finalized and officially announced in line with BDB's strategy for the period 2024-2026.

In the fourth quarter of 2024, the two new programs “Defence Industry Support Program” and the "Export-Pre-Export and Post-Export Financing" program were finalized and officially announced in line with BDB's strategy for the period 2024-2026.

- A program to support the defence industry – military-industrial complex, which supports the strategic defence sector and the military-industrial complex, which in recent years have had difficult access to banking services. The program aims to provide the necessary working capital to the companies in the sector, as well as financial assistance for the implementation of their planned investments. The program provides for the provision of working capital through various instruments and financing of investments through a bank loan or lease, in accordance with the parameters of the specific project.
- The Export-Pre-Export and Post-Export Financing Programme, which is aimed at companies registered in Bulgaria that produce products or services sold outside the country. In the Bank's Strategy, export support is highlighted as a separate priority. The focus is on Bulgarian companies that plan or are already exporting their products or services, and companies can benefit from support for working capital necessary for the production of export products or services through the revolving credit line. BDB also offers financing through a loan for investment purposes/lease to export-oriented enterprises, leading to stabilization or expansion of production for export.

The principle framework for supporting the development of industrial zones, parks and similar territories financed under national, European and other programs was also outlined and agreed.

4. RISK MANAGEMENT

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

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

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

The policy is applicable to Bulgarian development Bank EAD and its subsidiaries National Guarantee Fund EAD, BDB Microfinancing EAD and Capital Investment Fund AD and BDB Leasing EAD.

4.1. MAIN RISKS /AS OF 31 DECEMBER 2024/

The main risks to which the Group is exposed are credit, market, liquidity and operational.

4.1.1. Credit Risk

The credit risk is the main risk, to which BDB and its subsidiaries in the Group 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 a rating model, regulated in the internal banking regulations. The rating of a company is based on a cumulative assessment of the quantitative and qualitative indicators of the client. Credit rating is an essential element of the credit process and is at the heart of the credit decision-making assessment and the process of estimating expected credit losses on financial assets.

An essential element in credit risk management is the application of credit risk mitigation instruments. The Bank's strategy requires adequate collateral to be provided for the provision of loans. The percentage and composition of the collateral provided shall be subject to the comprehensive credit risk assessment of each individual counterparty and project and shall be approved by the competent authority of the Bank. The types of collateral and guarantees acceptable to the Bank are regulated in the internal banking regulations.

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

In the management of credit risk, BDB complies with internal rules set by the Bank, with a system of limits set by internal regulations of the Bank by economic sectors, by regions, by instruments, as well as other credit and concentration limits, and the results of the monitoring of their compliance are reported to the competent authorities. The system of limits is reviewed and updated periodically. The assessment of credit risks is accompanied by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of the BDB Group.

4.1.2. Market Risks

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

Foreign exchange positions are not formed for speculative purposes but are the result of foreign exchange operations arising in the ordinary course of business of the Bank. In the management of assets and liabilities, due to its specific financing, the Bank 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 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 rates on the assets and liabilities of the Bank. Management and control of interest rate risk is carried out through a system of limits on the maximum acceptable (quantitative) impact of various shock scenarios concerning the change in market interest rates on net interest income on a one-year horizon and the economic value of the Bank's capital. The internal limit framework limits the potential risk to expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the Bank.

The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement based on the economic value of capital, analysis of discrepancies, interest rate stress scenarios. Regular reports and analyses are prepared for the financial assets and liabilities of the BDB distributed at time intervals, according to their sensitivity to changes in interest rates.

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

The portfolio of securities formed by the Bank 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 2024, the Bank did not maintain a trading portfolio and was not subject to capital requirements for market risk from commercial activities, according to regulatory regulations.

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between incoming and outgoing cash flows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios.

For liquidity risk management and control purposes, the Bank applies internal rules and procedures through which a system of liquidity indicators including limits and early warning indicators is established. The liquidity of the Bank is managed by closely monitoring ratios indicating the liquidity position by period. Liquidity risk is measured by applying additional cash flow scenarios. The 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 the Bank. 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 the Bank.

4.1.3. Operational Risk

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

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 BDB Group 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 of the companies in 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 the BDB Group.

4.2. STRUCTURE OF RISK MANAGEMENT

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

- **Supervisory Board** - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is supported by specialized committees as follows:
  - Audit Committee (AC)
  - Risk Management Committee (RMC)
  - Remuneration committee
  - Recruitment committee
  - Advisory committee
- **Management Board (MB)** – is responsible for the general approach to risk management and approves strategies, principles and specific methods, techniques and procedures for risk management. The Management Board has the following ancillary bodies, which function as specialised committees:
  - Assets and Liabilities Management Committee (ALCO)
  - Committee on Impairments and Provisions (CIP)
  - Credit Committee for classified exposures
  - Operational Risk Committee (RICO)
  - Change Management Committee (CMC)
  - Sustainability Committee

Detailed description of the functions of the committees at the SB and MB is presented in Part 5 Management of the Bulgarian Development Bank EAD.

- **Executive Directors and Members of the MB** - exercise current operating control on maintaining and observing the specified limits for the particular types of risk and the application of the established procedures;

- **Risk Management Division -** provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks. The Division carries out activities related to identification, management, measurement, risk control and reporting, stress tests, monitoring limits and reporting their implementation in accordance with established escalation procedures, as well as providing opinions on risk management proposals and solutions for their compatibility with the Bank's risk tolerance;
- **Regulatory Compliance and Control Division –** Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in BDB to the current and future changes. Money Laundering and Fraud Prevention Division supervises the prevention of money laundering and terrorist financing. In accordance with the Rules and Procedures for Compliance Regulation at Bulgarian Development Bank the Regulatory Compliance and Control Department provides information to the Management of BDB through regular compliance reports to the Management Board/Supervisory Board. If deficiencies are identified, it proposes remedy measures and drafts progress reports on their implementation. The internal regulatory documents at Group level are agreed by the Regulatory Compliance and Control Department, thus limiting the possibility of potential conflict with the applicable regulatory framework.
- **Finances Division** – performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, including risks at operational, business, reporting and strategic level;
- Business units that take a risk apply the established rules and procedures for the management of risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation, and informed decision-making. Their activities are supported by the divisions Legal, Credit Administration, Security, Finances, Operations and MFI and European Funds.

5. 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 2024, 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.

Effective from 1 October 2020 Bulgaria joined the Single Restructuring Mechanism together with the Single Supervisory Mechanism and gave a start to close cooperation between the Bulgarian National Bank and European Central Bank.

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

6. CONTROL ENVIRONMENT

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

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

The first line of defence covers risk management by business and risk-taking units - divisions "Corporate Clients", "Investment Banking and Project Financing", "Financial Instruments", "Problem Receivables" and "Treasury". Their activities are supported by the divisions "Legal", "Credit Administration", "Security", "Finance", "Operations" and "MFI and European Funds", which evaluate and 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 defence provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk and Regulatory Compliance and Control and Prevention of Money Laundering and Fraud. Risk Division performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting their implementation in accordance with the approved escalation procedures.

Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB Group to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Division controls the prevention of money laundering and terrorist financing and compliance with sanction regimes. The second line of defence is organizationally independent of the first and exercises preventive and ongoing control.

The third line of defence 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 management bodies with management and control functions of the Bank of the results of the statutory financial audit and explains how the statutory audit has contributed to the reliability of the financial reporting and, where applicable, sustainability reporting, as well as the role of the Audit Committee in this process; monitors the financial reporting process and makes recommendations and suggestions to ensure the reliability of the reports prepared and issued; monitors the effectiveness of the Bank's internal control system, risk management system and internal audit activities in the Bank Group with regard to financial reporting and, where applicable, with regard to sustainability reporting; monitors the performance of statutory audits of annual financial statements and, where applicable, the mandatory engagement for sustainability assurance, taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors on the application of Art. 26, paragraph 6 of Regulation (EU) No 537/2014;supervises the creation and amendment of accounting policies by the Bank and the subsidiaries of the Bank Group in connection with the audit of the consolidated financial statements of the Group; monitors the timely and reliable provision of financial information by the subsidiaries in the preparation of the annual consolidated financial statements of the Bank; discusses and adopts the annual report on internal audit activities and, if necessary, familiarizes itself with and gives opinions on audit reports of audit engagements carried out, as well as on all significant issues related to internal audit. Also, the Audit Committee agrees on the strategic plan of the Bank's Group internal audit; monitors the performance of the statutory audit of the annual financial statements (separate and consolidated), taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors on the application of Article 26(6) of Regulation (EU) No 537/2014; familiarizes itself with the audit strategy and audit plan of the statutory audit and the arguments in support of important decisions and choices made at the planning stage; monitors the implementation of the audit plan, giving recommendations to the management bodies of the Bank and the auditors for elimination of difficulties encountered; reviews the draft auditors' reports under Art. 59 and Art. 60 of the IFAASRA and the identified key audit issues, the findings made and the expressed auditors' opinion; discusses the auditor's additional report (prepared in accordance with Article 11, item 2 of Regulation (EU) No 537/2014) and makes recommendations to the management bodies of the Bank to eliminate the significant weaknesses and deficiencies identified in the report; verifies and monitors the independence of the registered auditors in accordance with the requirements of Chapters Six and Seven of the Independent Financial Audit and Assurance of Sustainability Reporting Act, as well as Article 6 of Regulation (EU) No 537/2014, including the appropriateness of the provision of non-audit services under Article 5 of the same Regulation; preliminarily approves the provision of non-audit services by an auditor of the Bank, and within 7 days from the date of the decision, notifies the Commission for Public Oversight of the Statutory Auditors, as well as the Management and Supervisory Board of the Bank of each approval granted under Art. 64, para. 3 and Art. 66, para. 3 of the Independent Financial Audit and Assurance of Sustainability Reporting Act; is responsible for the selection procedure of the registered auditor and recommends their appointment, except for the cases when the Bank has a selection committee; when the Bank has a selection committee, the Audit Committee monitors its work; and on the basis of its results, proposes to the SOC the assignment of an audit engagement in accordance with the requirements of Art. 16 of Regulation (EU) 537/2014; prepares an annual report and reports its activities to the SOC once a year; together with the adoption of the annual financial statements. The Audit Committee shall inform the SOC when it identifies important circumstances of material importance to the Bank or its financial position and reporting; prepares and, through its Chairman, submits to the Commission for Public Oversight of Statutory Auditors an annual report on its activities by 31 May. The report is prepared in form and with content in accordance with an ordinance adopted by the Commission.

7. 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 2024, the management bodies have the following composition:

7.1. SUPERVISORY BOARD OF BDB IN 2024, AS OF 31 DECEMBER 2024 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

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

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

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

In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of a caretaker government (promulgated in State Gazette No. 32 of April 9, 2024), Mr. Rosen Karadimov temporarily stopped and did not exercise his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD for the period in which he was appointed caretaker Minister of Innovation and Growth.

In connection with Decree No. 222 of 27 August 2024 of the President of the Republic of Bulgaria on the appointment of a caretaker government (SG No. 73/2024), Mr. Rosen Karadimov temporarily stopped and did not exercise his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD for the period in which he was appointed caretaker Minister of Innovation and Growth.

By decision of the 51st National Assembly of 16 January 2025 on the election of the Council of Ministers of the Republic of Bulgaria (Promulgated, SG No. 5 of 17.01.2025), the powers of the caretaker government appointed by Decree No. 222 of the President of the Republic of Bulgaria of August 27, 2024 (SG No. 73/2024) have been terminated. As of 17 January 2025, Mr. Rosen Karadimov continued to exercise his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD.

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

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

Stamen Stamenov Yanev – member of the SB from 26 August 2020.

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

Dimitar Ivanov Mitev– member of the Supervisory Board from 7 November 2024

By decision under protocol No РД-02-17-17 of 31 October 2024 of the Minister of Innovation and Growth in its capacity of sole owner of the capital of BDB, Dimitar Ivanov Mitev was elected as member of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 November 2024.

Dimitar Mitev is a proven expert with 32 years of experience in the banking sector. He is Master of Finance from the University of National and World Economy, holding numerous additional qualifications. He holds a CFA degree - Certified Financial Analyst. He has been working at the Bulgarian Development Bank since 2011, successively leading the Planning, Analysis and Regulations, Compliance and Finance departments. He was also member of the Board of Directors of the National Guarantee Fund which part of the BDB Group. Dimitar Mitev's career includes HVB Bank Biochim (currently part of UniCredit Bulbank), EIBank, Eurobank Bulgaria (PostBank) and Deloitte Bulgaria.

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.

- <u>Audit Committee</u> – consists of three members elected by the sole owner of the Bank's capital. The Bank's Audit Committee informs the management bodies with management and control functions of the Bank about the results of the statutory financial audit and explains how the statutory audit has contributed to the reliability of the financial statements, and, where applicable, sustainability reporting, and the role of the Audit Committee in this process; monitors the financial reporting process and makes recommendations and suggestions to ensure the reliability of the financial statements and reports prepared and issued; monitors the effectiveness of the Bank's Group's internal control system, risk management system and internal audit activities with regard to financial reporting; monitors the performance of the statutory audit of the annual financial statements, taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors on the Implementation of Art. 26, paragraph 6 of Regulation (EU) No 537/2014; supervises the creation and modification of accounting policies by the Bank and the subsidiaries of the Bank 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 internal audit activities and, if necessary, familiarizes itself with and gives opinions on reports from audit engagements carried out, as well as on all significant issues related to internal audit. Also, the Audit Committee agrees on the strategic plan of the Bank's Group Internal Audit; monitors the performance of the statutory audit of the annual financial statements (separate and consolidated),Taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors on the application of Art. 26, paragraph 6 of Regulation (EU) No 537/2014; familiarizes itself with the audit strategy and audit plan of the statutory audit and the arguments in support of important decisions and choices made at the planning stage; monitors the implementation of the audit plan, giving recommendations to the management bodies of the Bank and the auditors for the elimination of difficulties that have arisen; reviews the draft auditors’ reports under Art. 59 and Art. 60 of the IFAASRA and the identified key audit issues, the findings made and the expressed auditors’ opinion; discusses the auditor's additional report (prepared in accordance with Article 11, item 2 of Regulation (EU) No 537/2014) and makes recommendations to the management bodies of the Bank to eliminate the significant weaknesses and deficiencies identified in the report; verify and monitor the independence of registered auditors in accordance with the requirements of Chapters Six and Seven of the Independent Financial Audit and Assurance of Sustainability Reporting Act, as well as Art. 6 of Regulation (EU) No 537/2014, including the appropriateness of the provision of services outside the audit under Art. 5 of the same Regulation; approves in advance the provision of services outside the audit by an auditor of the Bank, and within 7 days from the date of the decision, notifies the Commission for Public Oversight of the Statutory Auditors, as well as the Management and Supervisory Board of the Bank for each approval granted under Art. 64, para. 3 and Art. 66, para. 3 of the Independent Financial Audit and Assurance of Sustainability Reporting Act; is responsible for the selection procedure of the registered auditor and recommends their appointment, except in cases where the Bank has a selection committee to conduct a selection procedure; when the Bank has a selection committee, the Audit Committee monitors its work and, on the basis of its results, proposes to the SOC the assignment of an audit engagement in accordance with the requirements of Art. 16 of Regulation (EU) 537/2014; prepares an annual report and reports its activities to the SOC once a year; together with the adoption of the annual financial statements. The Audit Committee informs the SOC when it identifies important circumstances of material importance to the Bank or its financial position and reporting; prepares and, through its Chairman, submits to the Commission for Public Oversight of Statutory Auditors an annual report on its activities by 31 May. The report is prepared in form and with content in accordance with an ordinance adopted by the Commission.

Remuneration Committee – comprising four 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; reviews 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 and Control 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 and Control Division.

- Recruitment Committee – comprising four 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; analyse 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; analyses 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 2024 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
Dimitar Ivanov Mitev	Member	Member	Member

In addition, within the framework of the Bank's cooperation with the state and representative organizations, there is also an Advisory Committee - with the participation of representatives of nationally representative employers' organizations, nationally representative organizations of workers and employees, and the National Association of Municipalities in the Republic of Bulgaria. In 2024, four meetings of the Advisory Committee held.

The Advisory Committee performs the following functions:

- supports the process of interaction between BDB and its participating organizations;

- supports the public control over the activities of BDB in connection with the successful implementation of its goals and tasks;
- provides preliminary opinions to the Sole owner of the capital on changes in the Supervisory Board.

7.2. AUDIT COMMITTEE IN 2024, AS OF 31 DECEMBER 2024 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

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

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

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

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

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

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

7.3. MANAGEMENT BOARD OF BDB IN 2024, AS OF 31 DECEMBER 2024 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

Ivaylo Angelov Moskovski – Chairman of the Management Board and Executive Director from 5 November 2024.

By decision of the Supervisory Board under protocol No 41 of 29 October 2024, Ivaylo Angelov Moskovski was elected as new member of the Management Board of BDB. This circumstance was entered into the Commercial Register and the register of non-profit legal entities on 5 November 2024. By decision of the Management Board under protocol No 73 of 29 October 2024, approved by decision of the Supervisory Board under protocol No 42 of 29 October 2024, Mr. Ivaylo Angelov Moskovski was authorized to represent and manage the Bank as executive director. This circumstance was entered into the Commercial Register and the register of non-profit legal entities on November 2024.

Ivaylo Moskovski holds a Master's degree in Financial Management from the Dimitar A. Tsenov Academy of Economics and a Bachelor's degree in Public Finance from the University of National and World Economy. In the period 2018-2022, he was Vice President of Operating Activities at Black Sea Trade and Development Bank focusing on risk management. Mr. Moskovski was Minister of Transport, Information Technology and Communications in three governments in the period 2011-2018, and Deputy Minister of Transport in the period 2009-

2011. Member of Parliament in the 42*nd* and 44*th* National Assembly, member of the Transport Committee and the Energy Committee.

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 was responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated International Economic Relations at the University of National and World Economy and holds a Master's degree in Finance.

Teodora Petrova Pesheva – Member of the MB from 25 March 2024

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

Teodora Pesheva has a Master's degree in Planning from the University of National and World Economy. Mrs. Pesheva has over 20 years of experience in commercial banks, in management positions in the field of corporate lending, with her professional career spanning DSK Bank, Commercial Bank of Greece, UBB. Mrs. Pesheva also has experience as a financial director and auditor.

In 2024 the following members also participated in the composition of the Management Board:

Iliya Zapryanov Karanikolov - Chairman of the Management Board and Executive Director from 20 January 2023 until 27 February 2025.

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 from 20 January 2023 to 10 June 2024.

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. He 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.

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.

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

In 2024, there were no changes in the basic principles of governance in the BDB Group.

7.4. COMMITTEES OF THE MB

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

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

of risk monitoring and management by MB, to carry out effective identification, measurement, assessment and control of risks by MB and to create a sustainable organizational structure, in accordance with the principle of proportionality and the risk management framework in the BDB Group (the Bank and its subsidiaries).

- **Change Management Committee (CMC)** – The committee approves and/or rejects the launch of each application/initiated change request and defines the strategic framework and guiding principles for each project, as well as its main priorities. Designates a Manager for each project, as well as the roles and responsibilities of all participants in the implementation of the change/project, approves project plans and monitors the progress of implementation until their final approval.

- **Sustainability Committee** – The Sustainability Committee provides strategic guidance on the Bank's sustainable development issues, implementation of the ESG framework (principles and characteristics) and related reporting and reporting activities. Monitors the implementation of the Bank's goals and policies in the field of sustainable development and advises the Bank's Management Board on issues in the field of sustainable development, including the introduction of "green" lending practices and monitoring the implementation of goals in relation to sustainable development.

The committees of the MB have the following composition as of the date of preparation of this declaration:

MB Committees	Operational Risk Committee (ORC)	Assets and Liabilities Management Committee	Credit Committee for classified exposures	Committee on Impairments and Provisions	Change Management Committee	Sustainability Committee
Ivaylo Moskovski	Chairman[6]	Member	Chairman	-	-	-
Iliya Karanikolov	Chairman[7]	Member[8]	Chairman[9]	-	-	-
Teodora Pesheva	Member[10]	Member	Member	-	-	-
Tsanko Arabadzhiev	Member[11]	Chairman	Member	-	-	-
Head of Finance division	Member	Member	-	Chairman	Member	Member
Head of Reporting, Finance Division	Member	-	-	-	-	-
Head of Corporate Clients Division	Member (advisory function)	Member	Member (advisory function)	Member	-	Member

[6] With adoption of updated Rules of the operating risk committee at BDB, approved under protocol No12/28.02.2025.

[7] Chairman from 27 February 2025 until the date of deletion in the Commercial Register and the register of non-profit legal entities

[8] Member from 27 February2025 until the date of deletion in the Commercial Register and the register of non-profit legal entities

[9] Chairman from 27 February 2025 until the date of deletion in the Commercial Register and the register of non-profit legal entities

[10] With adoption of updated Rules of the operating risk committee at BDB, approved under protocol No 12/28.02.2025.

[11] With adoption of updated Rules of the operating risk committee at BDB, approved under protocol No 12/28.02.2025.

MB Committees	Operational Risk Committee (ORC)	Assets and Liabilities Management Committee	Credit Committee for classified exposures	Committee on Impairments and Provisions	Change Management Committee	Sustainability Committee
Head of Monitoring Department, Corporate Clients Division	-	-	Member (advisory function)	-	-	-
Head of Investment Banking and Project Financing	Member (advisory function)	Member	-	Member	-	-
Head of Risk Division	Member	Member	Member (advisory function)	Member	Member (advisory function)[12]	Member
Head of Risk Control, Risk Division	Member	-	-	-	-	-
Head of Market, liquidity and operational risk department, Risk Division	Member	Member	-	-	-	-
Head of Problem Receivables Division	Member (advisory function)	-	Member	Member	-	-
Head of Treasury Division	Member (advisory function)	Member	-	-	-	-
Head of International Financial Institutions and European Funds Division	-	Member	-	-	-	-
Head of Legal Division	Member (advisory function)	-	Member (advisory function)	-	-	Member

[12] With adoption of the updated Rules of change management, approved under protocol No 1 от 7.01.2025.

MB Committees	Operational Risk Committee (ORC)	Assets and Liabilities Management Committee	Credit Committee for classified exposures	Committee on Impairments and Provisions	Change Management Committee	Sustainability Committee
Head of Financial Instruments Division	Member (advisory function)	Member	-	Member	-	-
Head of Regulatory Compliance and Control Division	Member	-	-	-	-	-
Head of Security Division	Member (advisory function)	-	-	-	-	-
Head of Operations Division	Member (advisory function)	-	-	-	-	-
Head of IT Division	Member (advisory function)	-	-	-	Member	-
Head of Methodology and Project Management Division	-	-	-	-	Chairman	-
Head of Information security Department	Member (advisory function)[13]	-	-	-	Member (advisory function)[14]	-
Head of Strategic Development and Green Policies Division	-	-	-	-	-	Chairman

[13] With adoption of updated Rules of the operating risk committee at BDB, approved under protocol No 12/28.02.2025 г.

[14] With adoption of the updated Rules of change management, approved under protocol No 1 of 7.01.2025.

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

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

In 2024, there are no concluded transactions or proposals to conclude such transactions between BDB and related parties that are outside the usual business or materially deviate from the market conditions to which BDB or its subsidiary is a party.

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

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

Participation within the meaning of Art. 247, para. 2, item 4 of the Commercial Law of members of the SB and the MB in commercial companies as general partners, owning more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers or members of boards is as follows (as of 31 December 2024 and as of the date of approval of this declaration):

With regard to the members of the Supervisory Board of the Bank who have participated in its composition as members in 2024 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 in trade companies or cooperations, including as general partner: none.

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

Participation in the management of other companies: none

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

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

Participation in the management of trade companies: none

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

Dimitar Ivanov Mitev – Member of the Supervisory Board of Bulgarian Development Bank EAD from 7 November 2024.

Participation in the management of trade companies: none

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

With regard to the members of the Management Board of the Bank who have participated in its composition as members in 2024 and as of the date of approval of this declaration:

Ivaylo Angelov Moskovski – Chairman of the MB and Executive Director of Bulgarian Development Bank EAD from 5 November 2024.

Participation in the management of trade companies: none.

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

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;

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

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

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

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 10 June 2024.
- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 24 March 2024;

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

Iliya Zapryanov Karanikolov – Chairman of the Management Board and Executive Director of Bulgarian Development Bank EAD from 20 January 2023 to 27 February 2025.

Participation in the management of other companies:

- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 10 June 2024 to 27 February 2025;

Participation in the capital of commercial companies or cooperatives:

- IntelArt EOOD, 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 to 10 June 2024.

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 17 March 2023 to 10 June 2024;
- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 17 March 2023 too 10 June 2024.

Participation in the capital of commercial companies or cooperatives:

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

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 paid by the issuer and its subsidiaries.

8. TRANSACTIONS WITH COMPANIES UNDER COMMON CONTROL OF THE STATE

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

In 2024, BDB has no material contracts that are effective, amended or terminated due to a change in control or as a result of a mandatory tender offer, and no such contracts are expected to occur.

9. DEVELOPMENT STRATEGY AND BUSINESS GOALS OF THE BDB

BDB EAD’s 2024-2026 Strategy was adopted by Decision 389/07.06.2024 of the Council of Ministers. The Strategy defines the business priorities and investment directions for the next three years and indicates the path for the Bank to participate in resolving key challenges faced by the state: how to increase the competitiveness of businesses and strengthen the economy by providing access to diverse financing, guarantee instruments and support for public policies. With its activities, the Bank aims to promote investments and economic growth to achieve energy efficiency and decarbonization and build a modern industrial infrastructure against the backdrop of increasing geopolitical and geoeconomic risks.

The strategy is based on three pillars:

- Support the implementation of public investments and projects, priority for the sustainability of the state's economy, including in partnership with the public sector and local authorities;
- A new approach to business competitiveness that combines support for industrial policies, innovation, decarbonisation and investments with a general vision for the modernisation of the state;
- Support for the accelerated use of national and EU funds, in partnership with the state administration.

Each of the pillars defines strategic goals for the achievement of which business programs have been developed in accordance with the circumstances at a national level and the needs of business and economy. Strategy 2024 - 2026 was defined in response to the socio-economic and regional challenges faced by the state. For the first six months of implementation of the Strategy (June-December 2024) we can draw three main conclusions:

- Timely addition of new strategic objectives – for partnership with the public sector and for funding strategic sectors for the economy;
- Facilitating the access to business financing through co-financing of industries that receive resources under EU and national policies;
- Timely increasing the limit over 5 million leva for priority areas and projects, as well as of the individual limit to financial institutions under Art. 3a of the LCI, for the purpose of indirect financing of SMEs, which can reach 15 million leva.

In its activities, BDB follows a business model that combines financing of investments in support of public policies, direct lending to SMEs and the public sector, provision of portfolio guarantees and on-lending financing in partnership with banks and non-bank financial institutions, including implementation of the instrument assigned to BDB under indirect management of the EC within the meaning of Art. 62 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council, namely the Invest EU Programme. The main features of the business model are achieving long-term financial stability of the Bank, integration of ESG (Environmental, Social and Governance) aspects and commitment to the goals for sustainable economic growth (the so-called Sustainable Development Goals).[15].

In 2024, BDB launched a process for assessing the impact of its activities by reporting the non-financial results and effects of the financed projects and programs. The assessed effects show the effectiveness, the addressed market challenges and the achieved strategic goals. The impact assessment methodology is based on data collection from the Bank's Business Units, on the basis of the Methodology for Reporting Indicators for the Effect and Impact of BDB EAD's Activities.

To support public control on its activities, BDB maintains a regular dialogue with national employers' representative organisations, leading unions and the National Association of the Municipalities in Republic of Bulgaria, advising on the process of creating new financial instruments and sharing knowledge and good practices in support of business.

When implementing the strategic goals, BDB analyses the economic environment and actively suggests the necessary target instruments, following the principles defined in the strategy, so as to contribute to:

- Sustainable economic development using countercyclical measures and instruments;
- More investment in the economy by ensuring the necessary co-financing of

[15] With the updated Strategy 2021-2023 BDB agrees to carry out its activities in the context of the UN Global Sustainable Development Goals (SDG). This commitment continues with the Strategy2024-2026.

public policies and public investments and projects;

- Low-carbon economy by supporting business and the public sector in the transition to decarbonization;
- Territorial cohesion by (co)financing national and regional priority projects and those aimed at addressing regional imbalances.

The enhanced strategic direction and expanded lending opportunities are expected to lead to a more stable financial position as of 31 December 2024.

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 ecology, education, entrepreneurship and healthcare.

10.1. ENTREPRENEURSHIP

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

In 2024, BDB continued its active participation in events aimed at developing the entrepreneurial ecosystem, including the forums **Attracting Investments And Financing – Opportunities For The Municipalities** (organised by the Bulgarian Investment Agency), **Banking Today** (organised by Investor Media Group), **Financial Summit** (organised by Capital Newspaper), the **Resilient and Efficient Energy for a Future-proof and Secure Economy** conference (organized by the Bulgarian Industrial Capital Association), etc. The Bank was also represented at the **UN Climate Change Conference (COP29)**, as well as at business events in **Singapore** and **Vietnam**.

On its 25th anniversary, BDB hosted the **NEFI High-Level Meeting** and the **Development Banks - a Tool for Better Use of Public Funds** conference.

In the context of the need to establish high professional standards, ethics and moral principles in the business environment in our country, BDB also supported the **Integrity At Work** Conference, organised by the **Transparency International Bulgaria Association**.

10.2. CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

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

10.3. VULNERABLE GROUPS

As part of its corporate social responsibility, BDB has helped a number of foundations and causes, created partnerships with organizations, prospects and chances for a better future, and has built a reputation over the years for its commitment to issues important to our society. As a continuation of this practice, in 2024 it supported **For Our Children** Foundation, which for three decades brings together early childhood development professionals, psychologists, physiotherapists, speech therapists, rehabilitators, special educators and people dedicated to the mission of supporting children's development.

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

BBR participated also as a donor in **UNICEF**'s Christmas campaign, which focused on three causes: foster care in a family environment, protection from violence, and inclusive education for every child.

The Bank also has a long-standing partnership with **SOS Children's Villages** - an institution that has been caring for 35 years for children separated from their families and children at risk of abandonment through SOS Family Homes, SOS Advisory Centers and SOS Foster Care Centers. In 2024, BDB once again supported their *Beginning of an Independent Life* campaign, aimed at assisting young people who are coming of age and looking for work and housing.

Traditionally, the Bank provides not only monetary but also **material donations**, as in 2024 the institution donated 40 desktop and laptop computers and a multimedia projector to the **Together in Class Foundation**, **a home for children deprived of parental care** in Plovdiv, a nursing home in Plovdiv, as well as to 28 DCC - Sofia.

10.4. HEALTH CARE

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

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

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

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

10.5. ECOLOGY

Environmental protection and the fight against climate change are fundamental for corporate values and an emphasis in the work of the Bulgarian Development Bank. During the year, it was an active participant in events dedicated to green transformation and sustainable investments such as **The Green Transition** (Dir.bg), **Building Sustainability** (SEE Next), **Energy of Tomorrow** (Investor Media Group) and other conferences.

BDB initiated also cooperation with the Ministry of Environment and Water by recognising the **Scaling up finance for climate change adaptation** forum. The initiative aims to facilitate a dialogue between Bulgarian and international financial institutions on how to provide accessible and cost-effective financing for achieving carbon dioxide reduction measures in every sector of the economy.

In line with its "green" vision, BDB strives to reduce its own impact on the environment and over the past year the Bank has managed to reduce its **carbon emissions** by 15 tons compared to the previous year. This is proved by a report prepared in partnership with the consulting company Denkstatt-Bulgaria, which includes full annual inventory of all categories of emissions generated by BDB (direct and indirect), as well as identifying next steps for their further reduction.

This Corporate Governance Statement is **signed by**:

IVAYLO MOSKOVSKI	**TSANKO ARABADZHIEV**	**TEODORA PESHEVA**
CHAIRMAN OF THE MB AND EXECUTIVE DIRECTOR	MEMBER OF THE MB AND EXECUTIVE DIRECTOR	MEMBER OF THE MB

BULGARIAN DEVELOPMENT BANK EAD

INDEPENDENT AUDITORS' REPORT AND

ANNUAL SEPARATE FINANCIAL STATEMENTS

31 December 2024

Unofficial translation from Bulgarian

Deloitte. Grant Thornton

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian original shall prevail.

INDEPENDENT AUDITORS' REPORT

To the sole owner of Bulgarian Development Bank EAD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of Bulgarian Development Bank EAD (the Bank), which comprise the separate statement of financial position as at December 31, 2024, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2024, and its separate financial performance and its separate cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	*How our audit addressed the key audit matter*
Expected credit loss on loans and advances to customers	
The assessment of the expected credit losses from impairment of loans and advances to customers requires Bank management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Bank applies statistical models and separate analyses with input parameters obtained from internal and external sources. As disclosed in note 19 to the separate financial statements, the Bank has recorded as at December 31, 2024 loans and advances to customers at the gross amount of BGN 1,257,509 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 256,152 thousand. Key assumptions, estimates and parameters in determining the expected credit losses on collective basis are related to development of quantitative and qualitative indicators for following up a significant increase in credit risk for allocation of the separate customers' credit exposures to phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with significant increase in credit risk, but without objective evidence for impairment and Phase 3: Exposures with existing objective evidence for impairment); for determining "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD), as well as for inclusion of information about future development of macro-economic factors in the context of various scenarios in determination of the estimates for expected credit losses. A high degree of uncertainty is inherent in the assessment of expected credit losses for loans and advances to customers assessed on collective basis and depends on whether the Bank has sufficient historical information to test the assumptions used and calibrate the accuracy of the parameters PD and LGD in the impairment model. The determination of expected credit losses for loans and advances assessed on individual basis is also related to the application of significant estimates and assumptions by management, in particular on the timing and value of expected future cash flows under the exposure, including those from realisation of collateral.	During our audit, we obtained understanding of the processes for calculation of expected credit losses for loans and advances, applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area. We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances on individual and portfolio basis. We tested the design, implementation and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes. The testing focused on controls related to: - timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages, - regular client creditworthiness review processes, - creation and regular review of watch-lists, - approval of experts' collateral valuation, - management review and approval of the impairment assessment results. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment based on the risk parameters resulted from the models. We evaluated appropriateness of impairment methodologies and their application. We performed detailed substantive procedures on a risk-based sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic

The current economic and geopolitical environment has increased the uncertainty regarding the economic outlook and has increased the complexity of assessing and monitoring customers' financial position, which requires an increased level of judgement when calculating the impairment of loans and advances. Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We assessed the adequacy of the Bank's assumptions and estimates related to the current economic and geopolitical environment on the assessment of expected credit losses and all aspects of the process of their determination. We involved auditors' experts in the areas which required specific expertise. We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers.
Impairment of financial guarantee contracts related to COVID-19 pandemic response programmes	
The Bank is an issuer of financial guarantee contracts which require the Bank to make certain payments in order to reimburse the holder of the guarantee for the loss he has suffered in the event that a debtor has not made a payment when it was due, in accordance with the initial or modified terms of a debt instrument. As of December 31, 2024, the Bank measures financial guarantee contracts at the value of the loss allowance as determined in accordance with IFRS 9. The financial guarantee contracts issued by the Bulgarian Development Bank EAD under the COVID-19 pandemic response programmes are credit risk guarantees that are analysed and impaired according to an impairment model developed by the Bank, based on the present value of the expected future cash flows under the programs and taking into account their specifics. As disclosed in note 32 to the separate financial statements, the calculated provisions as of December 31, 2024, amount to BGN 90,289 thousand for guarantees on loans to companies and loans to individuals. The assessment of losses from financial guarantees requires the Bank's management to apply a significant level of judgement, especially with regard to their quantification.	During our audit, we obtained understanding of the processes for determining the expected credit losses from financial guarantee contracts applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process in order to design our further audit procedures in such way as to be able to address the identified risks of material misstatement related to the recognized expected credit losses from financial guarantee contracts. We assessed the adequacy of the methodology used by the Bank to identify impairment losses and calculate expected credit losses from financial guarantee contracts. We tested the design and implementation of key controls management of the Bank has established over the impairment assessment processes for financial guarantee contracts. We have also reviewed the quality of the data used in the calculation of the expected credit losses and recomputed the impairment based on the parameters resulted from the models. We involved auditors' experts in the areas which required specific expertise. We performed detailed substantive procedures on all financial guarantee contracts in order to verify their proper classification and to identify any indications for impairment and whether additional

Because of the significance of the assessment of the losses from the financial guarantees for the separate financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates, we identified expected credit loss from financial guarantees as a key audit matter.	allowances for impairment should be recorded. We applied our professional judgment to assess the assumptions used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We have considered the impact of the current economic conditions and other factors that may affect the expected credit losses. We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the expected credit losses from financial guarantee contracts.

Information Other than the Separate Financial Statements and Auditor's Report Thereon

The Management Board of the Bank ("Management") is responsible for the other information. The other information comprises the separate report on the activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAASRA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017, by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters Required to be Reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section *Information Other than the Separate Financial Statements and Auditor's Report Thereon*, with respect to the separate report on the activities and the corporate governance statement, we have also performed the procedures, together with the required under ISAs, in accordance with the Guidelines regarding new extended reports and communication by the auditor of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion under Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the separate report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The separate report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.

Additional Reporting Related to Ordinance 58/2018 of the Financial Supervisory Commission (FSC)

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

Based on the performed audit procedures and the acquired knowledge for and understanding of the activity of the Bank (Investment intermediary) in the context and the course of our audit of its separate financial statements as a whole, the established and applied organization related to the keeping of clients' assets complies with the requirements of Art. 3-10 of Ordinance 58 of FSC and Art. 92-95 of Markets in Financial Instruments Act regarding the Investment intermediary's activity.

Reporting in Accordance with Art. 10 of Regulation (EU) No 537/2014 in Connection with the Requirements of Art. 59 of the Independent Financial Audit and Assurance of Sustainability Reporting Act

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

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2024, by a decision of the sole shareholder taken on October 10, 2024, for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2024 represents sixth total consecutive statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Company's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit and Assurance of Sustainability Reporting Act.

- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit and Assurance of Sustainability Reporting Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our statutory joint audit refers, Deloitte Audit OOD and Grant Thornton OOD jointly have provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in Bank's separate report on the activities or separate financial statements:

Professional services on the application of BNB Ordinance 10 for the period January 1 – December 31, 2024, in accordance with the requirements of the Law on Credit Institutions.

Deloitte Audit OOD
Registration number: 033

Deloitte Audit OOD

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

Grant Thornton OOD
Registration number: 032

Silvia Dinova
Registered Auditor, in charge of the audit

Mariy Apostolov
Statutory Manager

4, Mihail Tenev Str.
1784 Sofia, Bulgaria

26, Cherni Vrah Blvd.
1421 Sofia, Bulgaria

May 29, 2025

Ref.: 64780A50AEB20256E0B60EC591039A27

BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2024

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2024	As of 31.12.2023
Assets			
Cash in hand and balances in current accounts with Central Banks	17	341,153	128,662
Financial assets at amortized cost - Receivables from banks	18	848,674	513,867
Financial assets at amortized cost – Loans and advances to customers	19	1,001,357	1,382,633
Financial assets at amortized cost - Receivables from the State budget	20	10,786	14,262
Financial assets at amortized cost – Securities	21	1,319	1,622
Financial assets at fair value through other comprehensive income – Debt instruments	22	346,340	365,458
Financial assets at fair value through other comprehensive income – Equity instruments	22	158,282	121,000
Investments in subsidiaries	23	166,968	166,968
Property, plant and equipment and intangible assets	24	30,857	36,034
Investment property	25	5,553	5,351
Assets held for sale	26	-	-
Assets, acquired from collateral foreclosure	27	204,238	38,726
Other assets	27	5,992	4,812
Deferred tax assets	15	2,202	7,998
Total assets		**3,123,721**	**2,787,393**
Liabilities			
Borrowings from international institutions	30	611,158	581,931
Deposits from customers other than credit institutions	29	865,717	650,167
Deposits from credit institutions	28	246,578	209,918
Other borrowings	31	17,106	16,818
Provisions	32	92,419	119,043
Lease liabilities	33	112	208
Other liabilities	34	4,202	5,299
Total liabilities		**1,837,292**	**1,583,384**
Equity			
Share capital	35	1,135,500	1,135,500
Accumulated loss		(196,807)	(179,789)
Revaluation reserve on financial assets at fair value through other comprehensive income	22, 36	(9,580)	(57,286)
Reserves	36	357,316	305,584
Total equity		**1,286,429**	**1,204,009**
Total liabilities and equity		**3,123,721**	**2,787,393**

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 20 May 2025.

Ivaylo Moskovski	**Tsanko Arabadzhiev**	**Teodora Pesheva**	**Ivan Lichev**
Executive Director	*Executive Director*	*MB Member, Proxy*	*Chief Accountant*
			Preparer

Auditors' report on the separate financial statements issued on 29 May 2025.

Deloitte Audit OOD, auditing company
Registration number: 033

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

Grant Thornton OOD, auditing company
Registration number: 032

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

***Mariy Apostolov**, Manager*

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2024

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2024	2023
Interest income	6	123,757	117,940
Interest expense	6	(54,535)	(51,032)
Net interest income	6	**69,222**	**66,908**
Fee and commission income	7	2,322	4,719
Fee and commission expense	7	(1,920)	(2,869)
Net fee and commission income	7	**402**	**1,850**
Net gain from foreign exchange transactions	8	269	258
Net loss from financial assets at fair value through other comprehensive income	9	(85)	(11)
Other operating income	10	20,602	29,561
Other operating expenses	11	(5,819)	(21,915)
Operating profit before impairment, personnel expenses, administrative expenses, depreciation and amortization		**84,591**	**76,651**
Expenses for impairment and provisions on financial instruments	12A	(21,114)	(16,870)
Expenses for impairment and provisions on non-financial assets	12B	(2,400)	(448)
Reintegrated provisions for lawsuits	12C	3,571	67
Operating profit before personnel expenses, administrative expenses, depreciation and amortization		**64,648**	**59,400**
Employee benefits expenses	13	(17,706)	(16,157)
General and administrative expenses	14	(9,285)	(8,850)
Depreciation and amortization expenses	24	(2,379)	(2,732)
Profit before income tax		**35,278**	**31,661**
Income tax expense	15	(496)	(81)
Net profit for the year		**34,782**	**31,580**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial loss on defined benefit plans, net of taxes	34	(68)	(12)
Net change in fair value of equity instruments at fair value through other comprehensive income	16, 22	37,224	24,448
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value of debt instruments at fair value through other comprehensive income	16, 22	10,482	13,721
Total other comprehensive income for the year, net of tax		**47,638**	**38,157**
Total comprehensive income for the year		**82,420**	**69,737**

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 20 May 2025.

Ivaylo Moskovski	**Tsanko Arabadzhiev**	**Teodora Pesheva**	**Ivan Lichev**
Executive Director	*Executive Director*	*MB Member, Proxy*	*Chief Accountant*
			Preparer

Auditors' report on the separate financial statements issued on 29 May 2025.

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

***Mariy Apostolov**, Manager*

BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2024

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Accumulated loss	Total
As of 1 January 2023	**1,441,774**	**-**	**(677)**	**(95,455)**	**(211,369)**	**1,134,273**
Net profit for the year	-	-	-	-	31,580	**31,580**
Other comprehensive income, net of taxes	-	-	(12)	38,169	-	**38,157**
Total comprehensive income for the year	**-**	**-**	**(12)**	**38,169**	**31,580**	**69,737**
Decrease of share capital	(306,274)	-	306,274	-	-	-
Total transactions with the sole owner	**(306,274)**	**-**	**306,274**	**-**	**-**	**-**
Other changes in equity	-	-	(1)	-	-	**(1)**
As of 31 December 2023	**1,135,500**	**-**	**305,584**	**(57,286)**	**(179,789)**	**1,204,009**
Net profit for the year	-	-	-	-	34,782	**34,782**
Other comprehensive income, net of taxes	-	-	(68)	47,706	-	**47,638**
Total comprehensive income for the year	**-**	**-**	**(68)**	**47,706**	**34,782**	**82,420**
Supplementing legal reserves	-	51,800	-	-	(51,800)	**-**
As of 31 December 2024	**1,135,500**	**51,800**	**305,516**	**(9,580)**	**(196,807)**	**1,286,429**

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 20 May 2025.

Ivaylo Moskovski
Executive Director

Tsanko Arabadzhiev
Executive Director

Teodora Pesheva
MB Member, Proxy

Ivan Lichev
Chief Accountant
Preparer

Auditors' report on the separate financial statements issued on 29 May 2025.

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BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2024

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	**2024**	**2023**
Cash flows from operating activities			
Profit for the year before taxes		35,278	31,661
Adjustments for:			
Dividend income	10	(2,360)	(2,588)
Impairment loss on loans	12	32,325	21,884
Expenses for guarantee provisions and unutilized credit commitments	12	(12,964)	(4,544)
Gains on reintegrated provisions of non-financial assets		(3,571)	(67)
Impairment (gains)/losses on financial assets at fair value through other comprehensive income	12	1,787	(445)
Impairment (gains) on financial assets at amortized cost	12	(34)	(25)
(Gains)/losses on revaluation of investment properties	10, 11	(201)	16
Gain on sale of properties, acquired from collateral foreclosure	10	(16,944)	(3,116)
Impairment loss and sale of other assets	12	2,400	448
Net (gain)/loss on revaluation of foreign currency assets and liabilities	8	(3)	3
Depreciation and amortization expenses	24	2,379	2,732
Carrying amount of written-off assets		4,962	21,136
		43,054	**67,095**
Changes in:			
Financial assets at amortized cost – Receivables from banks		14,023	12,209
Financial assets at amortized cost – Loans and advances to customers		349,303	98,613
Financial assets at amortized cost – Receivables from the State budget		3,460	9,167
Financial assets at fair value through other comprehensive income		33,134	135,118
Assets acquired from collateral foreclosure		(186,076)	(1,613)
Other assets		(2,765)	710
Deposits from credit institutions		36,660	207,277
Deposits from customers other than credit institutions		215,550	(343,901)
Provisions		(10,089)	(9,341)
Other liabilities		(1,261)	(209)
Net cash flows from operating activities		**494,993**	**175,125**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2024	2023
Cash flows from investing activities			
Cash payments for purchase of property, plant and equipment, and intangible assets		(2,288)	(1,104)
Proceeds from sale of property, plant and equipment and intangible assets		124	-
Proceeds from sale of investment properties		-	4,570
Proceeds from sale and improvements of collateral assets		36,692	3,865
Dividends received form subsidiaries	10	2,282	2,515
Net cash flows from investing activities		**36,810**	**9,846**
Cash flows from financing activities			
Cash received from international institutions	38	303,221	-
Cash repayment of borrowings from international institutions	38	(273,994)	(197,566)
Cash received from other borrowings	38	588	330
Cash repayment of other borrowings	38	(300)	(120)
Net cash flows from/(used) in financing activities		**29,515**	**(197,356)**
Net change in cash and cash equivalents for the period		**561,318**	**(12,385)**
Cash and cash equivalents at the beginning of the year	38	596,756	609,141
Cash and cash equivalents at the end of the year	**38**	**1,158,074**	**596,756**

Operating cash flows related to interest

Interest received		103,682	101,287
Interest paid		(51,945)	(49,287)

The accompanying notes from 1 to 40 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 20 May 2025.

Ivaylo Moskovski	**Tsanko Arabadzhiev**	**Teodora Pesheva**	**Ivan Lichev**
Executive Director	*Executive Director*	*MB Member, Proxy*	*Chief Accountant Preparer*

Auditors' report on the separate financial statements issued on 29 May 2025.

Deloitte Audit OOD, auditing company
Registration number: 033

Rositsa Boteva
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Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company
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***Silvia Dinova**, Registered Auditor, in charge of the audit*

***Mariy Apostolov**, Manager*

1. ORGANISATION AND OPERATING POLICY

The separate financial statements of Bulgarian Development Bank EAD ("BDB", "the Bank") for the year ending 31 December 2024 are approved for issue according to a decision under Protocol No 31 of the Management Board of 20 May 2025 and Protocol No 24 of the Supervisory Board of 22 May 2025.

Bulgarian Development Bank EAD is a solely owned joint-stock company registered with the Commercial register and register of non-profit legal entities under UIC 121856059, with a seat in the city of Sofia, Sofia City Region, Bulgaria, and management address 1, Dyakon Ignatij Str. The financial year of the Bank ends on 31 December.

Bulgarian Development Bank was established on 11 March 1999 as a joint-stock company in Bulgaria under the name Encouragement Bank AD.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank's activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuant to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

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

The Bank holds a full banking license, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009 and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the Republic of Bulgaria by financing the development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bank's lending activity includes:

- pre-export and export financing of SME;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad;
- participation in public and public-private projects or partnerships of strategic, national and/or regional importance.

The main objectives of the Bank are:

- to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance;
- drawing in and management of medium and long-term local and foreign resources needed for fostering the economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are designated as priority for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional imbalances in the country;
- financing of projects of local companies that export, innovate, create employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development;
- Financing of companies operating in priority sectors of the economy, in accordance with the adopted government economic development policy, as well as such implementing strategic projects and/or projects of national and/or regional importance.

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

As of 31 December 2024, the members of the Supervisory Board of BDB are: Rosen Andreev Karadimov – Chairman of SB, Delyana Valerieva Ivanova – Deputy Chairman of SB, Stamen Stamenov Yanev – Deputy Chairman of SB, Dimitar Ivanov Mitev – Member of SB.

As of 31 December 2024, the Management Board of BDB comprises: Iliya Zapryanov Karanikolov– Member of the MB and Executive Director; Tsanko Rumenov Arabadzhiev - Member of MB and Executive Director, Ivaylo Angelov Moskovski - Member of MB and Executive Director and Teodova Petrova Pesheva - Member of MB.

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

As of 31 December 2024, the Bank does not have an appointed procurator.

As of 31 December 2024, the Bank’s employees were 213 (31.12.2023: 201).

As of 31 December 2024, Bulgarian Development Bank EAD has no branches.

These financial statements are separate financial statements. The Bank also prepares consolidated financial statements in accordance with IFRS Accounting Standards, issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) in which investments in subsidiaries are recognized and disclosed in accordance with IFRS 10 Consolidated Financial Statements.

Credit rating

In July 2024 the International rating agency Fitch Ratings confirmed the credit rating of Bulgarian Development Bank EAD – BBB, with positive outlook. The Bank’s rating is equal to the Bulgarian State rating and practically it is the highest possible credit rating for BDB.

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

Amendments of the Law on the Bulgarian Development Bank in 2025

The Law on the State Budget of the Republic of Bulgaria for 2025 was promulgated in issue 26 of the State Gazette of 27.03.2025. The law amended the Law on the Bulgarian Development Bank, according to which the rights of the state in the general meeting of the shareholders of the Bank are exercised by the Minister of Finance. The amendment is effective from 31 March 2025.

Significant changes in the management bodies and structure of the Bank in 2024 and 2025

In 2024 and 2025 the following changes in the management and structure of the Bank were made:

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

As of 31 December 2024, there are no changes in the share capital of the Bulgarian Development Bank EAD compared to prior year 2023. The share capital amounts to BGN 1,135,500,000 comprising own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each.

By Decisions of the Minister of Innovation and Growth dated 7 June 2024 and 18 June 2024 changes in the Statute of the Bulgarian Development Bank EAD were adopted, which were approved by the Bulgarian National Bank. These changes were entered into the Commercial Register and the Register of Non-Profit Legal Entities and became effective from 12 July 2024.

By decision under Protocol No. РД-02-17-1 of 14.01.2025 of the Minister of Innovation and Growth, in his capacity of exercising the rights of the state as the sole owner of the BDB’s capital, amendments and supplements to the Statute of Bulgarian Development Bank EAD were adopted, which were approved by the Bulgarian National Bank, entered into the Commercial Register and the Register of Non-Profit Legal Entities and became effective from 19.02.2025.

The changes to the Statute are in accordance with the Strategy for the Activities of the Bulgarian Development Bank EAD for the period 2024 - 2026, approved by the Council of Ministers.

Changes in the Audit Committee of Bulgarian Development Bank EAD in 2024

On 1 January 2023 the Audit Committee of Bulgarian Development Bank EAD has the following members – Svetlana Hristova Kourteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova. There are no changes in the composition of the Audit Committee in 2024 and as of the date of issuance of these financial statements.

Changes in the Supervisory Board of Bulgarian Development Bank EAD in 2024 and 2025

By decision as per Protocol No. РД-02-17-17 of 31.10.2024 of the Minister of Innovation and Growth, in his capacity of sole owner of the BDB's capital, Dimitar Ivanov Mitev was elected as a member of the Bank's Supervisory Board. This was recorded in the Commercial Register and the Register of Non-Profit Legal Entities on 7 November 2024.

Changes in the Management Board of Bulgarian Development Bank EAD in 2024 and 2025

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

By decision of the Supervisory Board under Protocol No 22 dated 28 May 2024 Ivan Valentinov Cerovski was dismissed as member of the Management Board and Executive Director of Bulgarian Development Bank EAD. The decision was recorded in the Commercial register and register of non-profit legal entities on 10 June 2024.

By decision of the Supervisory Board under Protocol No 41 dated 29 October 2024 Ivaylo Angelov Moskovski was elected as new member of the Management Board of BDB. This was recorded in the Commercial register and register of non-profit legal entities on 5 November 2024.

By decision of the Management Board under Protocol No. 73 of 29 October 2024, approved by decision of the Supervisory Board under Protocol No. 42 of 29 October 2024, Mr. Ivaylo Angelov Moskovski is authorized to represent and manage the Bank as Executive Director. This was recorded in the Commercial Register and the Register of Non-Profit Legal Entities on 5 November 2024.

By decision of the Supervisory Board under Protocol No 8 dated 22 February 2025 Iliya Zapryanov Karanikolov was dismissed as member of the Management Board and Executive Director of Bulgarian Development Bank EAD. The decision was recorded in the Commercial register and register of non-profit legal entities on 27 February 2025.

Changes in the Bank's structure

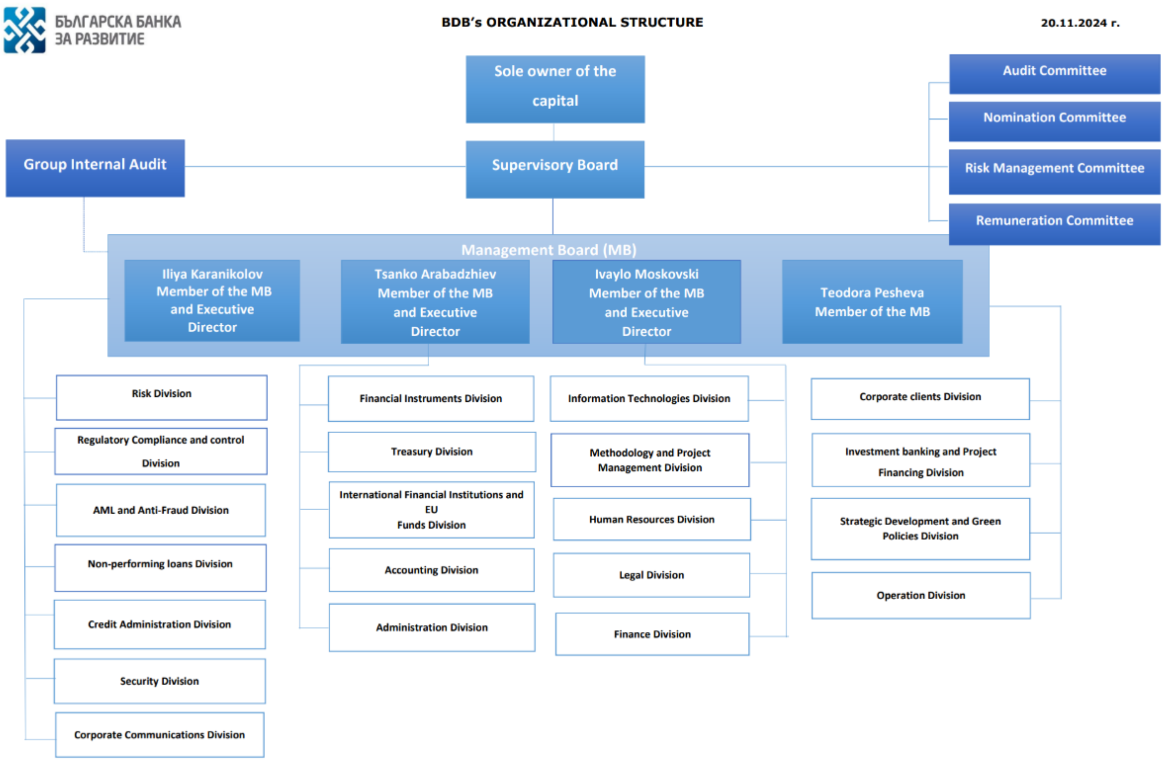
In 2024 and until the approval of these separate financial statements the following changes have occurred in the organizational structure of the Bank:

There are no significant changes in the allocation of responsibilities among the members of the Board of Directors in 2024, except for:

- ✓ By decision of the Management Board under Protocol No. 18/27 March 2024, approved by decision of the Supervisory Board under Protocol No. 14/29 March 2024, a reallocation of the responsibilities of the Management Board was carried out, in connection with the increased composition of the MB including a new member - Ms. Teodora Pesheva.
- ✓ By decision of the Management Board under Protocol No. 34/30 May 2024, approved by decision of the Supervisory Board under Protocol No. 23/03 June 2024, a new reallocation of the responsibilities of the Management Board was made in connection with the dismissal of Mr. Ivan Cerovski as a member of the Management Board.

- ✓ By decision of the Management Board under Protocol No. 77/18 November 2024, approved by decision of the Supervisory Board under Protocol No. 49/20 November 2024, a new reallocation of the responsibilities of the Management Board was carried out, in connection with the election of Mr. Ivaylo Moskovski as a new member of the Management Board.
- ✓ As of 1 December 2024, the Management Board performs its activities without a chairman.

The diagram below presents the organizational structure as of 31.12.2024:

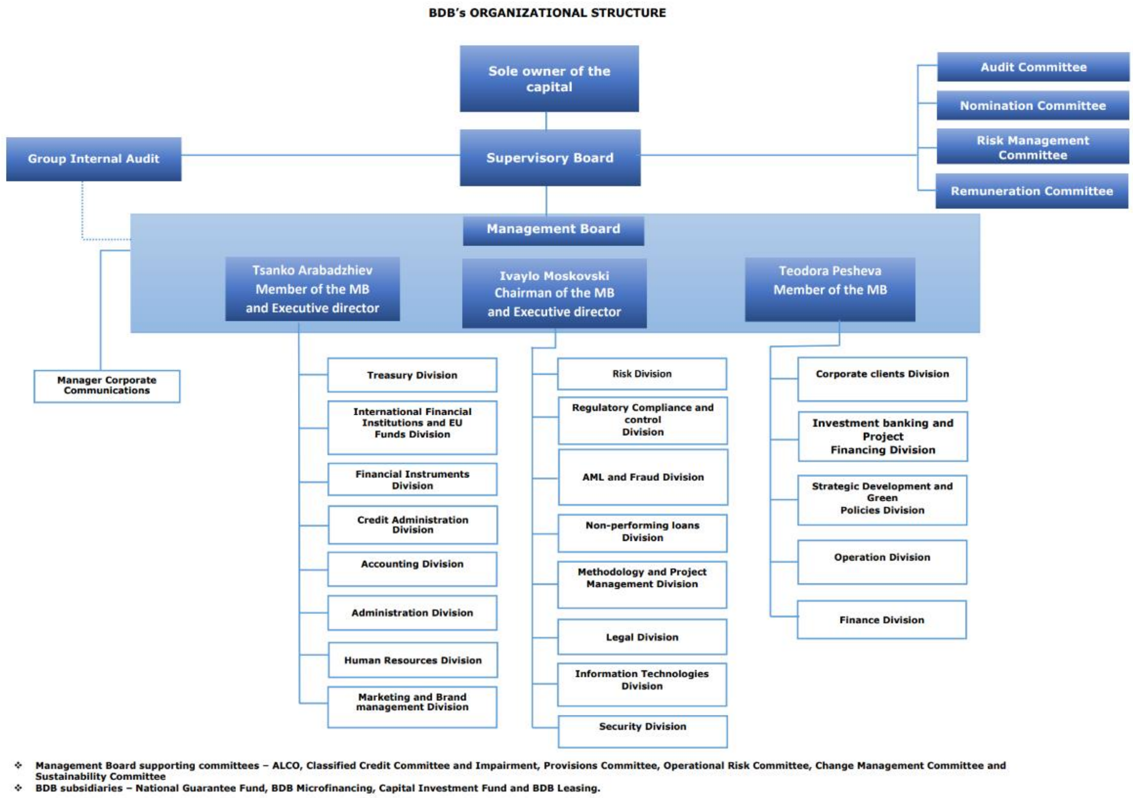


- Management Board supporting committees – ALCO, Classified Credit Committee and Impairment, Provisions Committee, Operational Risk Committee, Change Management Committee and Sustainability Committee.
- BDB subsidiaries – National Guarantee Fund, BDB Microfinancing, Capital Investment Fund and BDB Leasing.

- ✓ By decision of the Management Board under Protocol No. 6/4 February 2025, due to the need to strengthen the Bank's marketing activities, the "Public Relations" function was separated from the "Corporate Communications" Department, and the position of Public Relations Manager was created, directly subordinate to the Management Board, and the name of the "Corporate Communications" Department was changed to "Marketing and Brand Management". The Public Relations Manager reports directly to the Management Board.
- ✓ By decision of the Management Board under Protocol No. 7/11 February 2025, approved by decision of the Supervisory Board under Protocol No. 5/11 February 2025, in connection with the departure of Mr. Iliya Karanikolov and in order to ensure business continuity, the units of the department headed by him were transferred to the other members of the Management Board.

- ✓ By decisions of the Management Board under Protocol No. 8/14 February 2025, approved by decisions of the Supervisory Board under Protocol No. 6/14 February 2025, Mr. Ivaylo Moskovski was elected Chairman of the Management Board of the Bank, and the decision is also reflected in the organizational structure.

The diagram of the BDB current organizational structure (effective as of 20 March 2025) is as follows:



2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

Statement of compliance

The separate financial statements of the Bank have been prepared in accordance with IFRS Accounting Standards, as adopted by the European Union ("IFRS Accounting Standards as adopted by the EU"). The reporting framework "IFRS Accounting Standards as adopted by the EU" is substantially the approved national accounting basis International Accounting Standards ("IAS") as adopted by the EU, regulated by the Accountancy Act and defined in item 8 of its Additional Provisions.

These separate financial statements have been prepared on the historical cost basis except for the following items:

- Financial instruments, measured at fair value through other comprehensive income;
- Financial instruments, measured at amortized cost;
- Investment property, carried at fair value;
- Assets held for sale carried at the lower of their carrying amount and their fair value less costs of sale;
- Assets acquired from collateral foreclosure carried at the lower of their acquisition cost and their net realizable value.

Going concern

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

Level of liquidity and maturity structure

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

Presentation currency

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

Key estimates and assumptions and sources of high estimation uncertainty

The preparation of the financial statements in accordance with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent receivables and liabilities at the date of the financial statements. These estimates are made on the basis of information available as of the date of the financial statements and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the separate financial statements, are disclosed in the notes below.

a) Expected credit losses on financial assets at amortised cost

Monthly, the Bank reviews its loan portfolio and other financial assets carried at amortised cost in order to determine the amount of the impairment of expected credit losses. When assessing the amount of the impairment loss in the separate statement of comprehensive income, the Bank's management considers the quantitative effect of the observable indicators and data, which indicate that there is a measurable reduction in the expected cash flows from the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic, or other conditions that are associated with a particular risk for a given group/type of loans.

The main indicators for determining the risk groups are the debtor's financial position and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the European Investment Fund (EIF), the impairment loss is recognised after deduction of the portion borne by EIF (Note 4.1).

In determining the future cash flows pattern, the Bank's management uses estimates, judgments and assumptions based on its historical loss experience, adjusted with European statistical data for assets with similar credit risk characteristics, as well as objective evidence for impairment or expected impairment of the portfolio from unrealised loss in a particular component thereof. A similar approach is used for assessments of individual credit exposures, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes 12 and 19).

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

Equity instruments not quoted on stock markets

The Bank classifies as financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 20% of their capital), which have been acquired with the aim to establish and develop business relations of interest to the Bank. Management measures these financial assets at fair value using methods that are allowed under IFRS 13, except in cases where it has judged that the cost of acquisition (cost) better reflects their fair value, namely:

- When there is no sufficient and up-to-date information to enable it to measure the fair value; or
- When there is a large scope of eligible methods and/or resultant valuations of the fair value and the cost approximates most closely the fair value within a range of values calculated (Notes 9 and 22).

Equity and debt instruments quoted on stock markets

As of 31 December 2024, the Bank conducted a detailed comparative analysis of the movements on the national and foreign stock markets of the stock market prices of public companies' shares and bonds listed for dealing held by it.

For investments in securities that are listed for dealing at stock exchange markets, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the separate financial statements. (Notes 9, 16, 22).

c) Provisions for bank and loan guarantees issued

The Bank has formed provisions for a portfolio of contingent liabilities for payment. The Bank reviews its contingent liabilities for the purpose of establishing whether any events have occurred, that would confirm to a large extent the probability that a commitment will be paid to settle an obligation. If such events occur, the Bank provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to the guarantee user or third parties (Notes 12 and 32).

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount recognised initially less, where appropriate, cumulative amortisation of recognised revenue.

d) Actuarial calculations

In assessing the present value of the long-term liabilities to employees upon retirement, actuarial methods and calculations are used based on assumptions for mortality rate, staff turnover rate, future salary levels and a discount factor considered by management as reasonable and relevant to the Bank (Note 34).

e) Valuation of investment property

The fair value of investment property, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers. The valuations are conducted by using various valuation techniques, such as the recoverable amount method, the method of income capitalisation, the method of market analogues, where for each method a weight is set for the purposes of achieving the final fair value of investment property at the end of the reporting period (Note 25).

f) Assets acquired from collateral foreclosure

Assets acquired from collateral foreclosure include assets acquired by the bank as a result of non-performing loans. These assets are measured at the lower of at cost and net realisable value. The net realisable value, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers (Notes 26 and 27).

g) Fair value of financial instruments

Where the fair values of financial assets and liabilities on the separate statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from the Bank's historical observations and observable financial market indicators, where possible. However, where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions include liquidity factors, volatility for longer derivatives and discount rates, early payments and assumptions for non-performance in connection with securities for which assets have been provided as collaterals (Note 5).

New amendments to existing standards effective for the reporting period

For the current financial year, the Bank has adopted all new and/or revised standards and interpretations issued by the IASB, as adopted by the EU and/or by the IFRS Accounting Standards Interpretations Committee, which were relevant to its activities.

The following amendments to the existing IFRS accounting standards issued by the IASB and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 Presentation of Financial Statements**: Classification of Liabilities as Current or Non-current, Classification of Liabilities as Current or Non-current - postponement of the effective date of Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Supplier Finance Arrangements** (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IFRS 16 Leases** - Lease Liability in a Sale and Leaseback, issued by the IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024).

Since the adoption of these standards and/or interpretations, effective for annual periods beginning on January 1, 2024, no material changes have occurred in the financial statements of Bulgarian Development Bank EAD.

Standards issued but not yet effective and not early adopted

Standards issued but not yet effective or not early adopted up to the date of issuance of the Bank's separate financial statements are listed below.

Amendments to the existing IFRS accounting standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendment to the existing IFRS accounting standards that has been issued by IASB and adopted by EU but is not yet effective has not been applied:

- **Amendments to IAS 21: The Effects of Changes in Foreign Exchange Rates -** Lack of Exchangeability (effective for annual periods beginning on or after 1 January 2025).

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

- At present, IFRS accounting standards as adopted by the EU do not significantly differ from IFRS Accounting Standards adopted by the IASB except for the following new accounting standards and amendments to the existing accounting standards, which were not endorsed for use in EU as at the date of authorization of these financial statements (the effective dates stated below is for IFRS Accounting Standards as issued by IASB):
  - **IFRS 18 - Presentation and Disclosures in Financial Statements** (effective for annual periods beginning on or after 1 January 2027);
  - **IFRS 19 - Subsidiaries without Public Accountability: Disclosures** (effective for annual periods beginning on or after 1 January 2027);
  - **Amendments to IFRS 9 and IFRS 7** - Amendments to the Classification and Measurement of Financial Instruments (effective for annual periods beginning on or after 1 January 2026);
  - **Amendments to IFRS 9 and IFRS 7** - Amendments to Contracts Referencing Nature-dependent Electricity (effective for annual periods beginning on or after 1 January 2026);
  - **Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7 -** Annual Improvements to IFRS Accounting Standards - Volume 11 - effective for annual periods beginning on or after 1 January 2026;
  - **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
  - **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred by IASB indefinitely but earlier application permitted).

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

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

3. MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Financial instruments: classification and measurement (IFRS 9)

Financial assets

Recognition of assets

The Bank recognises a financial asset or financial liability in the statement of financial position, when and only when it is part of an existing contractual relationship regulating the instrument.

The Bank classifies financial assets as subsequently measured at amortised cost, at fair value in other comprehensive income or at fair value through profit or loss, as the case may be, on the grounds of:

1) a business model of the Bank for financial assets management; and
2) the features of the contractual cash flow of the financial asset.

Regardless of its election with regard to the reporting approach, the Bank has the option, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A financial asset is measured at amortised cost, if both of the following two criteria are met simultaneously:

1) The financial asset is held within a business model with the objective to collect their contractual cash flows (Hold to Collect business model); and
2) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates (SPPI).

A financial asset is measured at fair value through other comprehensive income, if both of the following two criteria are met simultaneously:

1) The financial asset is held within a business model with the objective to collect the contractual cash flows and sell the financial asset; and
2) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value in other comprehensive income in accordance with the above criteria.

Upon initial recognition, the Bank may make an irrevocable choice to include in fair value through other comprehensive income subsequent changes to an investment in an equity instrument that is not held for trading or is not a contingent remuneration recognised by a transferee in a business combination to which IFRS 3 applies.

Reclassification of financial assets

When and only when the Bank changes its business model for financial asset management, it reclassifies all financial assets affected, in line with the asset classification requirements. If the Bank applies such reclassification to financial assets, it shall apply it in the future, from the first day of the first reporting period following the change in business model that results in reclassifying the financial assets. The Bank does not recalculate previously recognised profits, losses (including gains or impairment losses) or interest.

Measurement and reporting

Upon initial recognition, in the case of a financial asset or financial liability not stated at fair value through profit or loss, the Bank measures a financial asset or a financial liability at fair value, taking into account as a probable increase and/or decrease the transaction costs which are directly related to the acquisition or origination of the financial asset or financial liability.

Determination of a business model

The Bank defines the "business model with the objective to collect their contractual cash flows (Hold to Collect business model)" as a business model where the Bank's financial assets are managed with the objective to generate cash flows through collection of contractual cash flows over the instrument's lifetime. The Bank may use this business model in the event of converting the sale of assets with increased credit risk or in order to reduce the concentration risk.

These financial assets are carried at amortised cost if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Bank defines the "business model with the objective to collect the contractual cash flows and sell the financial asset" as a business model where the Bank's key management staff have decided that the collection of contractual cash flows and the sale of financial assets are an integral part of the achievement of the business model's objective and includes much more frequent and of higher value sales of financial assets than a business model with the main purpose of holding financial assets to collect contractual cash flows. These assets are reported as financial assets at fair value through other comprehensive income, if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Bank defines "other business models" as a business model that does not include the holding of financial assets for the purpose of collecting contractual cash flows or for the simultaneous collecting of contractual cash flows and selling financial assets. Typically, this process involves actively buying and selling financial assets. These assets are reported as financial assets at fair value through profit or loss.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and renegotiation or modification does not result in the write-off of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and recognises profit or loss from modification in profit or loss. The gross carrying amount of the financial asset shall be restated as the present value of renegotiated or modified contractual cash flows discounted at the initial effective interest rate on the financial asset (or the credit loss-adjusted effective interest rate for purchased or originated credit impaired financial assets) or, where applicable, the revised effective interest rate, calculated in accordance with paragraph 6.5.10 of IFRS 9.

The carrying amount of the modified financial asset shall be adjusted for any incurred costs and charges that are depreciated for the remaining duration of the modified financial asset.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset, which is created or retained by the Bank, is recognised as a separate asset or liability.

In certain circumstances, renegotiating or modifying the contractual cash flows of a financial asset may result in the write-off of the existing financial asset in accordance with the standard. Where the modification of a financial asset results in the write-off of the existing financial asset and subsequent recognition of the modified financial asset, the modified asset shall be considered a "new" financial asset for the purposes of IFRS 9.

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Bank has the following non-derivative financial assets:

- financial assets at fair value through other comprehensive income;
- financial assets at amortised cost;

Financial assets at amortized cost

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

Financial assets measured at amortised cost are financial assets which are held within a "held to collect" business model and that are 'solely payments of principal and interest (SPPI)'. The Bank holds such financial assets within a business model with the objective to hold financial assets in order to collect contractual cash flows within the life of the asset. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, these financial assets are measured at their amortised cost using the effective interest rate, less any impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

In calculating the effective interest rate, the expected cash flows are estimated taking into account all contractual terms and conditions under the financial instrument (for example early repayment options, extension options, call options and similar), excluding expected credit losses. The calculation includes all fees and other considerations paid or received by the contract counterparties that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include equity and debt instruments, and certain cases of loans.

Financial assets measured at fair value through other comprehensive income are assets acquired under a business model with the objective of both holding to collect contractual cash flows and selling the financial assets.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

a) the financial asset is held within a business model whose objective is both collecting contractual cash flows and selling the financial assets; and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. When an investment is derecognised, the accumulated gains or losses through other comprehensive income are reclassified to profit or loss.

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised through other comprehensive income and accumulated in the revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment. Upon disposal of equity instruments from this category each amount recognized in the revaluation reserve of the instruments is reclassified to retained earnings.

Assets under trust management

The Bank provides trust management services that include holding of or investing in assets on behalf of customers. Assets held under trust management, unless certain recognition criteria have been met, are not included in the Bank’s financial statements since they are not assets of the Bank.

Bulgarian Development Bank EAD performs services in its capacity as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Bank is obliged to comply with certain requirements in order to protect its customers’ interests in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). Moreover, the Bank should also observe the requirements of Directive 2014/65/EC on the Markets in Financial Instruments (MiFID II) and Regulation 600/2014 of the EU on the Markets in Financial Instruments (MiFIR).

The Bank has developed and implements organization relating to the conclusion and performance of contracts with customers, the requirement of information from customers, keeping records and storage of client’s assets, in compliance with the provisions of the above-mentioned National and European legal acts. The Bank has implemented a system of in-house internal control rules and procedures aiming at ensuring its full compliance with the bodies of legislation mentioned above.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Initially, they are stated at fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability.

The financial liabilities reported by the Bank as deposits, borrowings and securities issued are stated at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of financial asset or to the amortised cost of financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

1) the contractual rights to receive cash flows from the financial asset have expired;
2) the contractual rights to receive cash flows from the financial assets have been transferred, or contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement, and either:
   - the Bank has transferred substantially all the risks and rewards of the financial asset; or
   - the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset but has transferred control of the asset.

When the Bank has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the asset, the transferred financial asset is recognised to the extent of the Bank's continuing involvement in the asset. In this case, the Bank recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations, which the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

A financial liability is derecognised from the separate statement of financial position when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the separate statement of comprehensive income – in profit or loss.

Full or partial write-off of receivables is initiated in the presence of the respective amount set aside for the specific exposure and at the discretion of the Non-performing Loans Division for their uncollectibility, respectively incomplete collection, within the usual period, which assessment is based on some the following circumstances:

1. The court actions taken under the Civil Procedure Code, the PPA and the CA have been exhausted and / or the initiation of court actions (respectively the continuation of such actions already taken) is pointless and this has been confirmed by the Legal Department;
2. All collateral has been realized in the course of the court actions;
3. There are no additional discovered properties or other assets owned by the debtor and/or the guarantors and severally liable debtors;
4. Additionally discovered properties or other assets owned by the debtor and/or the guarantors and severally liable debtors are non-sequestrable, i.e. the Bank cannot undertake executive actions towards them, or they are of insignificant value compared to the residual debt;
5. The Bank is not expected to collect amounts from foreclosures of shares of the main debtor and/or of the guarantors and severally liable debtors (if any) in companies and subsequent liquidation of these companies (in case it makes economic sense to initiate such liquidation);
6. There are no reasonable expectations for receiving cash flow from the initiation/ continuation of legal actions in respect of the remaining collateral established in favour of the Bank, as it is determined on the basis of relevant legal opinion as unrealizable or difficult to implement due to insurmountable problems of legal nature, or there are real encumbrances in favour of another creditor in sequence prior to the established collateral in favour of the Bank;
7. The costs for compulsory sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) of the debtor's property and/or of the guarantors and severally liable debtors (if any) would exceed the Bank's expected proceeds from the sale or the reduced value acceptable for the Bank;
8. As a result of an analysis of the security and the possibilities for repayment of the exposure, it has been established that it is not expected to be collected in full;
9. An order has been issued to initiate insolvency proceedings and their suspension, following a court finding that their assets are insufficient to cover the insolvency costs and, at the same time, no severally debtors are available.

In accordance with its Receivables Write-Off Procedure, the Bank also writes off receivables on the basis of a final assessment of bad debts, regardless of the delay in the normal period for the procedure undertaken, which assessment is caused by the fulfilment of any of the following circumstances:

1. For borrowers, severally liable debtors and guarantors who are legal entities - when traders are written off.

2. For borrowers, severally liable debtors and guarantors who are natural persons - a deceased person without accepted inheritance, or without heirs.
3. If the following circumstances are present (cumulative):
   - all possible enforcement actions for collection of the receivable have been exhausted, or in case there is property owned by any of the liable persons, the costs for its forced sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) would exceed the expected revenues of the Bank from the sale or the reduced value acceptable for the Bank.
   - no more income is expected for repayment of debts - both from enforcement actions and from voluntary repayments.
   - the costs related to taking action to write off the company from the Commercial Register are an expense that is not expected to be reimbursed.

Impairment of financial assets

IFRS 9 requires the recognition of a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of the impairment depends on the probability of default of the debtor over the next 12 months after initial recognition, unless there has been a significant increase in credit risk, which requires the estimation of expected credit losses (ECL) over the lifetime of the financial asset.

The estimate of ECLs is based on all available, reasonable, and justified information at the reporting date for past events, the current situation and the use of relevant macroeconomic indicators and reliable forecasts of future economic conditions. Every year, the Bank analyses the impact of various measurable macroeconomic factors on the behaviour of loans in the portfolio and integrates into the models for calculating expected credit losses those that historically show statistically significant correlations - positive or negative - with cases of default and loss volumes. For the years ended 31 December 2024 and 31 December 2023, based on the analysis of correlations between various macro factors and the level of non-performing loans, the Bank updated its impairment models, including GDP growth (Bulgaria). the unemployment rate and oil prices. The weights of the last two factors are optimized for maximum correlation.

The expected credit losses are measured on the basis of three macroeconomic scenarios – realistic, negative and optimistic, which are used in the calculation of the impairment by applying different weights. For exposures that exceed BGN 5,000 thousand at related party group level or exposures classified in Stage 3, the determination of the impairment amount required for expected credit losses is made on an individual basis and, for the others, on a portfolio basis. The results obtained can be further adjusted and expected credit losses increased or reduced to reflect future risks that cannot be modelled (mainly, legislative or regulatory). The existence of such risks is established in the periodic analyses of the exposures carried out by the Bank. The prepared individual impairment tests are reported by the responsible business units and "Risk" division to the Impairment and Provisions Committee, which reports to the competent bodies in the Bank in order to decide on a change of classification, to establish the existence of a restructuring and/or the amount of the impairment provision required.

The Bank has drawn up a methodology that introduces criteria for classifying financial assets in three categories (the so-called "stages"), transfer criteria between them and setting an impairment amount depending on the stage in which the underlying asset is classified.

The stages and their characteristics are described below:

- Stage 1 – Standard - includes financial assets without a significant increase in credit risk after initial recognition. The impairment of those assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is shorter than one year;

- Stage 2 – On watch - includes financial assets with a significant increase in credit risk after initial recognition. Such an increase is presumed if the loan is past due for more than 30 days; the debtor is placed on watch; the debtor's credit rating has deteriorated at the reporting date compared to its rating on the date of recognition of the instrument, or the Bank expects the credit to be restructured. In this case, the expected credit losses are calculated for the entire lifetime of the asset;

- Stage 3 – Non-performing - includes assets, for which objective evidence exists that they are impaired, such as non-performing loans. The Bank has set specific criteria that determine when a debtor is in default. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, and this loss event has affected the expected future cash flows of that asset, which can be measured reliably. The expected credit losses for these instruments are also calculated for the entire lifetime of the instrument.

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Bank of the borrower concerned. The Bank has set a credit rating of 7 as a transition limit to move to Stage 2 and credit rating 8 to move to Stage 3. In addition, the Bank monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1.

Objective evidence a financial asset is impaired includes default or delinquency by a borrower, restructuring of a liability to the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of a borrower or issuer, economic conditions that lead to failures or the disappearance of an active market for a security. Any asset with default contractual payments over 90 days is categorized as "non-performing" and is classified in Stage 3.

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime expected credit loss since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change in the condition of such assets is stated a revaluation gain.

Financial assets measured at amortised cost

The Bank considers evidence for impairment of financial assets measured at amortised cost at both individual and collective level. Assets with similar risk characteristics are collectively assessed for impairment.

In assessing collective impairment, the Bank uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred.

Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

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

Currently, the Bank has designated as a portfolio for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) and all receivables below BGN 5 million which are not subject to individual measurement.

For the Bank, impairment on an individual basis means (again, as defined in the same Policy) an assessment of the expected credit losses based on the exposure's individual parameters:

1. When the exposure is in Stage 3, an individual model is applied to the expected future cash flows from collateral realisation.
2. When the exposure is in Stage 1 or 2 the Bank applies:
    a. a tool to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameter, sector specifics, etc., or
    b. an individual matrix for expected future cash flows from operations under going concern scenarios in several (at least two) scenarios with the respective weights with a total amount equal to the probability that no default will occur, as well as an individual matrix for the expected future cash flows from the disposal of collateral in a "gone concern" scenario with a weight equal to the probability of default.

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

Financial assets measured at fair value through other comprehensive income

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

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

Financial guarantees contracts and credit risk guarantees

Financial guarantee contracts are subject to analysis and impairment according to the expected credit loss analysis model. As far as no payment has occurred under these contracts, a conversion coefficient is applied, which may be between zero and one determined on the basis of historical experience, the Bank's understanding of the specific future financing needs of debtors and other relevant forward-looking information. Financial guarantee contracts under which payment on behalf of the Bank has occurred are impaired as loans to the respective beneficiary.

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programmes are analysed and impaired in accordance with a separate model developed by the Bank, taking into account the specifics of both the programmes (see subsection "Contingent commitments" in section 4.1 Credit risk, as well as notes 32 and 37) and the beneficiaries, as well as historical data on losses of similar credit products on the Bulgarian market. The calculated provision rates as of 31 December 2024 are 31.5% under the loan guarantee program for legal entities and 31.7% under the loan guarantee program for individuals and freelance (as of 31.12.2023: 27.6% and 34%, respectively).

As of the end of 2024 the provisions amount to BGN 90,289 thousand (as of 31.12.2023: BGN 111,845 thousand) (see notes 32 and 37).

Fair value of financial assets and liabilities (IFRS 13)

Definitions

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value.

The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Bank determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be précised by direct market participants. The Bank has established control environment with respect to the assessment of fair values.

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the Bank.

The fair value of equity instruments not traded on an organized exchange (shares and interests in companies) is measured using one or more eligible measurement methods under IFRS 13, except where the Bank has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

- The market method - using prices and other relevant information generated by market transactions that relate to similar or identical assets, liabilities or groups of assets and liabilities (businesses)
- The cost method - using the amounts that would currently be needed to replace a specific asset or build a similar capacity and functionality asset (present value of replacement)
- The income method - which converts future amounts (cash flows or income and expenses) into a single current (discounted) amount, reflecting current market expectations for these future amounts.

The choice of method used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction.

Upon subsequent measurement, the Bank takes into account the methods used in the initial / previous fair value measurement and analyses the differences in values between the periods. When changing methods and / or weights, the Bank provides justification as to why it is necessary and how the new approach reflects as much as possible the fair value, as well as its change over time.

The Bank measures these financial assets at fair value using eligible measurement methods under IFRS 13, except where it has considered that the cost of acquisition (cost) best reflects fair value.

Fair Value Hierarchy

The Bank applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The Bank maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents. They are presented in the separate statement of financial position at amortised cost.

For the purposes of preparation of the separate cash flow statement, bank overdrafts payable on demand and forming an integral part of the Bank's cash management are included as a component of Cash and cash equivalents.

3.2 Other assets

Investments in subsidiaries (IAS 27)

Long-term investments, representing shares in subsidiaries are reported according to IAS 27 as far as IFRS 9 is not applicable. They are presented in the separate financial statements:

- at cost, which is the fair value of the consideration paid, including direct costs of acquisition of the investment; or
- At fair value of the contribution, determined by a valuation by a qualified appraiser, in cases where the fair value is lower than the acquisition cost.

The investments in subsidiaries held by the Bank are subject to impairment testing. If indications of impairment are found, the latter is recognized in the separate statement of comprehensive income.

Purchases and sales of investments are recognised on trade date.

Investments are derecognised when the rights originating from the investments have been transferred to third parties on the occurrence of the legal grounds to do so, and thus, the control on the business rewards of investments has been lost. Income from their sale is presented separately as part of other operating income/(expenses) in the separate statement of comprehensive income (in the profit or loss for the year).

Taxes (IAS 12)

Current income taxes are determined by the Bank in accordance with the Bulgarian legislation. The income tax due is calculated on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities on the grounds of which taxes are paid (reversed).

The tax effect relating to transactions and other events reported in the separate statement of comprehensive income is recognised also in the separate statement of comprehensive income and the tax effect relating to transactions and other events reported directly in equity is also recognised directly in equity.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (taxable loss).

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred taxes are recognised as income or expense and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in equity. Deferred taxes are charged to or deducted directly from equity, when they relate to items, which have been charged to or deducted from equity in the same or in a different period.

Property, plant and equipment (IAS 16)

Items of property, plant and equipment are presented on the separate financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses. The Bank recognises a fixed asset when its value is equal to, or exceeds, BGN 700.

Initial recognition

Upon their initial acquisition, items of property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition. Directly attributable costs include: costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, etc.

Subsequent measurement

The approach chosen by the Bank for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other operating income/expenses in profit or loss.

Depreciation method

The Bank applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets is as follows:

- buildings – 50 years
- bank equipment and computers – 5 years
- motor vehicles – 5 years
- fixtures and fittings – 7 years

The useful life by groups was not changed compared to 2023.

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

Subsequent costs

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements, and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly.

At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

Intangible assets (IAS 38)

Intangible assets are presented on the separate financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software products and software licenses.

The Bank applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

Impairment of property, plant and equipment and intangible assets

The carrying amount of property, plant and equipment and intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the separate statement of comprehensive income.

Derecognition of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are derecognised from the separate financial statements when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the groups of property, plant and equipment and intangible assets (defined as the difference between the net sales proceeds and the carrying amount of the asset at the date of sale) are recognized net in Other operating income / expenses in the statement of comprehensive income.

Investment property (IAS 40)

The Bank's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value. Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement) when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

Assets held for sale (IFRS 5)

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Bank's operations or through renting or lease. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement.

Usually, these assets have been initially accepted by the Bank as collateral and subsequently acquired as a result of a "debt against property" exchange by borrowers that do not perform their obligations in accordance with the agreed contractual terms.

Assets classified in this group are available for immediate sale in their present condition. Management is usually engaged actively and performs actions to realise a sale transaction within at least one year after the date of classification of the asset in this group.

Assets classified as held for sale are presented in the separate statement of financial position separately and measured at the lower of their carrying amount and their fair value less the estimated direct costs to sell. The assets within this classification group are not depreciated.

If these assets are not realised within 12 months, or within 24 months, provided that the requirements of IFRS 5 for extension are met, they are transferred to Assets, acquired from collateral foreclosure.

Assets acquired from collateral foreclosure (IAS 2)

Assets acquired from collateral foreclosure and initially classified as assets held for sale for which the requirements of IFRS 5 are not met are transferred to Assets acquired from collateral. They are measured at the lower of cost and net realisable value in compliance with the requirements of IAS 2 Inventories.

Cost of the assets acquired from collateral foreclosure is the sum of all direct costs incurred on the acquisition of the assets and other expenses incurred on bringing them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete the trade cycle and costs to sell.

The impairment of these assets is calculated in accordance with the Bank's accounting policy based on the expected realisation of the assets acquired from collateral foreclosure. The impairment of the assets acquired from collateral foreclosure is recognised in the statement of comprehensive income. The Bank's management is of the opinion that the carrying amount of the assets acquired from collateral foreclosure is the best estimate of their net realisable value at the date of the statement of financial position. Further details are provided in Notes 26-27.

Impairment of non-financial assets (IAS 36)

The carrying amounts of the Bank's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised with respect to CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

3.3. Other liabilities

Leases (IFRS 16)

The Bank as lessor

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

As of 31 December 2024, the Bank does not have contracts as lessor under financial lease.

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

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

The Bank as a lessee

BDB EAD assesses whether a contract is or contains a lease, at inception of the contract.

The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Pension and other payables to personnel under the social security and labour legislation (IAS 19)

According to the Bulgarian legislation, the Bank is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Bank, in its capacity of an employer, are based on the provisions of the Labour Code.

Short-term employee benefits

Short-term employee benefits of the Bank in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the separate statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Bank's obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Bank assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee's remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature, these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the separate financial statements, at which they are included in the separate statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

Past service, costs are recognised immediately in the separate statement of comprehensive income in the period in which they were incurred.

At the end of each reporting period, the Bank assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the separate statement of comprehensive income.

Termination benefits

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Bank recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months are discounted to and presented in the separate statement of financial position at present value.

Provisions and contingent liabilities (IAS 37)

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the separate statement of financial position but are subject to disclosure.

Financial guarantee contracts (IFRS 9)

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially measured at fair value, whereas it is accepted that the guarantee's fair value on the date of its issuance is the premium received at inception, if any. No receivables for the future premiums are recognized. Commission fee income is deferred on a straight-line basis over the period, to which such fees refer. Subsequently, the Bank's liabilities under financial guarantee contracts are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

The expected credit losses, related to the financial guarantees issued, are recognised in the statement of comprehensive income, under the heading Impairment of financial assets. The likelihood of an obligation for payment by the Bank under such contracts is estimated based on historical experience with similar instruments.

3.4 Capital

Share capital

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

Expenses directly relating to the issuance of new shares are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

Dividends

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Bank. The corresponding amount is written off directly from equity.

3.5 Income and expenses

Interest income and expenses (IFRS 9)

Interest income and interest expenses are recognised in the statement of comprehensive income on an accrual basis for all interest-bearing instruments, except for those at fair value through profit or loss, using the effective interest method based on the actual price of acquisition and the applicable interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on debt instruments measured at fair value through other comprehensive income, interest on deposits with other banks, interest on loans and advances to customers, fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

For exposures classified in Stages 1 and 2, the Bank recognizes interest income based on effective interest rate method accrued on their gross carrying amount. For exposures classified in Stage 3, the Bank recognizes interest income based on effective interest rate method accrued on their amortised cost, less impairment for expected credit losses.

The Bank also holds investments and assets in countries with negative interest rate levels. The Bank discloses the interest paid on such assets as interest expense with additional disclosure in Note 6.

Revenue from contracts with customers (IFRS 15)

Under IFRS 15 a five-step model is applied to account for revenue arising from contracts with customers, regardless of the type if transaction or industry, requiring the Bank (1) to identify the contracts with customers, (2) to identify the performance obligations in the contracts, (3) to determine the transaction price, (4) to allocate the transaction price to the performance obligations, and (5) to recognise revenue when each performance obligation is satisfied.

The Bank has identified the following performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. Due to the short time period of performance of the service revenue is recognised at the time of its provision. The fees for these services are based on the Bank’s tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff. Issuance of guarantees and letters of credit – revenue is recognized over time because the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time and thus, the Bank uses a straight-line method for measuring the progress of the contract, which in turn results in a straight-line amortisation of the fees over the contracted period. The fees for these services are fixed, calculated depending on the amount of the guarantee or the letter of credit.
- Deposit maintenance – revenue is recognised at a point in time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Bank’s Tariff and represent a fixed monthly amount corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff.
- Brokerage operations for which the Bank receives agent’s commissions - revenue is recognised at a point in time upon the provision of the brokerage service as the Bank operates as a broker. Considering the above circumstances, the Bank recognizes revenue that is equal to the amount of the commission fee for the performance of the brokerage service. The commission fee is the net amount to be withheld by the Bank after paying the portion due to the third party to which / whom the Bank has mediated to perform the services of that third party.

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Servicing of bond issue fees are fees for the Bank to perform the function of a trustee bank on a bond issue of a public interest entity. The fee is charged and paid periodically, in accordance with a contract.

Income from funds trusted in custody consists of fees for managing funds provided by the Ministry of Finance in relation to a loan from Kreditanstalt für Wiederaufbau extended to the Ministry of Finance. These fees are recognized when due under a contract.

The Bank – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted and current accounts is BGN 9,810 thousand (as of 31 December 2023: BGN 8,068 thousand). The Bank has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the separate financial statements are the following:

Foreign currency	31 December 2024	31 December 2023
USD	1.88260	1.76998
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0.

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the separate statement of comprehensive income in the period in which they have occurred.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Bank is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Bank's financial stability. These risks are identified, measured, and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Bank's profitability and existence.

The risk management within Bulgarian Development Bank EAD is a complex of methods and procedures used by the Bank for identifying, measuring, and monitoring its risk exposures. The Bank manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, Bulgarian Development Bank EAD applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

4.1. Credit risk

Credit risk is the risk of potential losses due to a failure of the Bank’s customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Bank, incl. country (sovereign) risk, contractor’s risk and settlement risk, and credit risk of concentration.

Credit risk is the main risk for the Bank and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the law for BDB and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS accounting standards.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Bank applies internal rating generation models. These internal rating models depend on the specifics of the object being rated. The so-developed rating models for credit risk assessment of corporate clients of the Bank are based on an analysis of historical data and the counterparty’s and its relating parties’ current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Bank, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within BDB.

Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. There is an „Early Warning Procedure for Credit Exposures“, which includes an early warning system of signals and actions.

In managing its credit risk, the Bank applies an intra-bank system of limits that is subject to periodic review and updating.

There is a specialized unit functioning within the Bank, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by applying the secured credit line technique through accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

The Bank forms impairment on exposures depending on the borrower’s and/or group of related clients’ risk profile based on conducted individual impairment tests.

The exposures in the Bank's corporate credit portfolio are classified mainly in three categories depending on the existence of indications of impairment – changes in the objective indicators on the basis of which the initial measurement and subsequent monitoring of exposure / customer are carried out, which would result in changes in cash flows from financial assets, including default in payment due by the borrower: Stage 1: „Standard", Stage 2 "Watch" or "Forborne" and Stage 3 „Problematic/Non-preforming". These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in this Note 4.1. Loans over BGN 5,000 thousand are reviewed for existence of these indicators on individual basis and amounts below this threshold, on a portfolio basis.

In the case of customers, for which there are currently no indications of increased risk, the Bank periodically (at least once a year) reviews the financial and legal status, including the collateral accepted, in order to establish the need for a change in the percentage of impairment for loss risk and/or change in the assessment of the degree of credit risk. Clients with a higher credit risk are subject to a review in every 6 months and those classified as „problematic/non-performing", in every three months. In follow-up of the recommendations of the Basel Committee and their transposition into regulations within the European Union and in particular, Regulation 575/2013/EU and Directive 2013/36/EU, the commercial banks are required to implement in their internal regulations an in-house rating system that allows them to achieve comparability with the borrowers' official crediting rating assigned by recognized external credit rating institutions, which adopts the scale, used worldwide, of ten credit rating categories, including two categories for non-performing loans.

The Bank has developed a detailed internal normative base, comprising Policy and rules for determining the impairment due to uncollectability of risk exposures, Methodology for credit risk analysis and assessment of Bulgarian Development Bank EAD, and Credit activity manual of BDB, ensuring full compliance of the policy and procedures for determining internal credit ratings with the above EU regulations.

The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Bank and its recoverable amount.

The Bank accrues impairment on a portfolio basis for its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

Aiming at minimizing and reducing the credit risk, the Bank accepts collateral in accordance with its in-house rules. It is a common practice of the Bank to require collateral from the borrowers that is equal to at least 100 per cent of the agreed loan amount, and valuations from accredited independent valuers are required.

Off-balance sheet commitments, primarily the unutilised portion of authorized loan facilities, letters of guarantee and letters of credit, which represent an irrevocable commitment of the Bank to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Bank and bear the same credit risk as the balance sheet loan exposures.

The Bank forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

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- Direct lending –portfolio of credit commitments with debtors-legal entities, other than bank financial institutions, and loans to individuals (loans to Bank's employees), as well as subjects from the public sector;
- Indirect lending or „on-lending" – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria;
- Financing by the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) in compliance with Council of Ministers decree No 18;

Beyond the credit portfolio, the Bank's activity is exposed to credit risk also with respect to exposures related to other activities of the Bank:

- portfolio of financial instruments, other than loans, formed in connection with the Bank's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria and other EU countries, classified as „ Financial assets at fair value through other comprehensive income";
- to banks in connection with money market transactions, placed term deposits and available balances in nostro accounts;
- exposure to receivables relating to the State budget.

The Bank applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios and currently monitors the credit risk of concentration of financial assets on the basis of industry criteria, and also by individual counterparty and insurance companies ensuring coverage. Regarding the Bank's direct lending activities, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

Maximum exposure to credit risk

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

	2024		2023	
Financial asset	**maximum**	**net**	**maximum**	**net**
Cash in hand and balances in current account with the Central Bank	341,153	341,153	128,662	128,662
Financial assets at amortized cost – Receivables from banks	849,071	848,674	514,568	513,867
Financial assets at amortized cost – Loans and advances to customers	1,257,509	1,001,357	1,620,386	1,382,633
Financial assets at amortized cost - Receivables from the State budget	10,971	10,786	14,431	14,262
Financial assets at fair value through other comprehensive income – Debt instruments	346,340	346,340	365,458	365,458
Financial assets at fair value through other comprehensive income – Equity instruments	158,282	158,282	121,000	121,000
Financial assets at amortized cost – Debt instruments	1,366	1,319	1,704	1,622
Other financial assets	1,074	1,074	2,645	2,645
	2,965,766	**2,708,985**	**2,768,854**	**2,530,149**

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Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounting to BGN 10,786 thousand (2023: BGN 14,431 thousand).

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

	2024		2023	
	maximum	**net**	**maximum**	**net**
Anti-COVID guarantees	286,226	195,937	373,894	262,049
Unutilised amount of authorized loans	227,485	227,472	184,384	184,378
Bank guarantees and letters of credit	88,013	85,787	98,455	92,471
Unpaid portion of shares in Three Seas Initiative	11,210	11,210	7,788	7,788
Participation in the SIA investment program	352	352	479	479
	613,286	**520,758**	**665,000**	**547,165**
Maximum exposure to credit risk	**3,579,052**	**3,229,743**	**3,433,854**	**3,077,314**

In assessing the net exposure, accrued impairment and provisions, highly liquid collaterals (government securities and cash), as also the net present value of liquid collaterals – real estate, have been taken into account.

Credit risk - concentration

The financial assets of the Bank (cash in current accounts and balances with the Central Bank, receivables from banks, financial assets at fair value through other comprehensive income, financial assets at amortized cost - loans and advances to customers, receivables from the State budget and securities at amortized cost and other financial assets), classified by industry sectors (at gross amount before impairment), are presented in the table below:

	2024	%	2023	%
Sectors				
Financial services	1,553,270	52.37%	970,494	35.05%
Government	314,333	10.60%	460,412	16.63%
Trade	247,839	8.36%	430,092	15.53%
Industry, total	272,827	9.20%	296,624	10.71%
Industry – manufacture of plant and equipment	*50,453*	*1.70%*	*83,035*	*3.00%*
Industry – energy generation and distribution	*84,183*	*2.84%*	*86,715*	*3.13%*
Industry – food and beverage	*60,633*	*2.04%*	*45,968*	*1.66%*
Industry – other industries	*77,558*	*2.62%*	*80,906*	*2.92%*
Tourist services	251,569	8.48%	262,532	9.48%
Construction	108,312	3.65%	129,984	4.69%
Transport	92,411	3.12%	111,883	4.04%
Real estate transactions	49,680	1.68%	51,564	1.86%
Agriculture	47,149	1.58%	29,357	1.07%
Other industries	28,376	0.96%	25,912	0.94%
	2,965,766	**100%**	**2,768,854**	**100%**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The concentration of client's portfolio (other than bank institutions) is presented in the following table:

	2024		2023	
	Net exposure**	***% of Equity***	**Net exposure ***	***% of Equity***
The biggest total exposure to a customer group	115,847	10.59%	161,416	15.36%
Total amount of the ten biggest exposures	589,192	53.88%	921,160	87.64%
Total amount of the twenty biggest exposures	756,135	69.15%	1,150,045	109.42%

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

The largest credit exposure of the Bank, granted to a group of related parties /other than bank institutions/ amounts to BGN 126,897 thousand (including BGN 126,897 thousand balance sheet debt) at amortized cost (31.12.2023: BGN 161,416 thousand[1]), which represents 11.60% of share capital (SC)/eligible capital (EC) capital of the Bank according to Regulation 575/2013/EC (31.12.2022: 15.36%).

As of 31.12.2024 and 31.12.2023 there is no exposure to client or group of related clients, which is greater than 25% of the equity of the Bank.

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

As of 31 December 2024	**Standard (Stage 1)**	**Watch (Stage 2)**	**Non-performing (Stage 3)**	**Total**
Cash in hand and balances in current account with Central Banks	341,153	-	-	341,153
Financial assets at amortized cost – Receivables from banks	849,071	-	-	849,071
Financial assets at amortized cost - Receivables from the State Budget	10,971	-	-	10,971
Financial assets at amortized cost – Loans for commercial property and construction	264,117	264,962	69,527	598,606
Financial assets at amortized cost – Trade loans	168,201	174,194	123,368	465,763
Financial assets at amortized cost – Consumer loans	2,578	2	-	2,580
Financial assets at amortized cost – Residential mortgage loans to individuals	1,983	-	-	1,983
Financial assets at amortized cost – Loans to other financial institutions	130,674	5,728	-	136,402

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2024	**Standard (Stage 1)**	**Watch (Stage 2)**	**Non-performing (Stage 3)**	**Total**
Financial assets at amortized cost – Debt instruments	1,366	-	-	1,366
Financial assets at amortized cost – Other loans and receivables	21,989	30,186	-	52,175
Financial assets at fair value through other comprehensive income – Debt instruments	329,511	-	16,829	346,340
Financial assets at fair value through other comprehensive income – Equity instruments	158,282	-	-	158,282
Other financial assets	1,074	-	-	1,074
Total financial assets	**2,280,970**	**475,072**	**209,724**	**2,965,766**

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The table below presents the types of collaterals, besides commercial enterprises, received by the Bank in relation to loans granted, at fair value determined by accredited independent valuers and confirmed by a Bank's employee holding the necessary license:

	2024		2023	
Type of collateral	**Fair value**	%	**Fair value**	**%**
Mortgages	689,592	68.60%	834,987	74.32%
Pledge of plant, machinery, equipment, and inventories	204,601	20.35%	217,662	19.37%
Restricted deposits	33,672	3.35%	42,965	3.82%
Securities listed on a stock market	7,461	0.74%	-	-
Credit risk insurance	11,758	1.17%	23,299	2.07%
Bank guarantees	58,250	5.79%	4,559	0.41%
Total collateral	**1,005,334**	**100%**	**1,123,472**	**100%**

Credit exposures could have more than one collateral, i.e. it could be included in more than one position. The amount of the collateral could exceed 100 per cent, as more than one collateral could be provided to secure one loan.

At the request of the contractors, the Bank is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favour of the debtor, as well whether this discount significantly modifies the cash flows and their current net amount and, respectively, the exposure should be accepted as modified/restructured and therefore, to be reclassified to Stage 2 or Stage 3.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures Impairment of BDB, the Bank monitors the exposures for indicators that may lead to impairment in the future. These indicators can be both market - a change in interest rates, spreads or other market movements, or changes in the regulatory environment - and specific - a change in the value of the collateral, a change in the company's development forecasts, expenses not foreseen in the business plan, the occurrence of incidents leading to a significant reduction in the capacity of the borrower.

The analysis should also determine whether the modification is material to the extent that gives reason to write-off the asset and recognize a new one.

In 2024 and 2023, the Bank analysed the effect of modifications on its portfolio exposures in order to determine whether any of them indicate a need to write off and recognize a new asset. As a result of the analysis, it was assessed that the effect of the modifications is insignificant.

The analysis of changes in the amounts of the main groups of financial assets and their impairment are presented in the subsection "ECL measurement" in this section.

Regarding the loans extended under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP), it should be noted that according to the programme's parameters the amount of the loan approved is subject to regular updating in order to ensure expenditure control. The signature of annexes to the loan contracts, by means of which the financial parameters are updated, is a result of those controls.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The table below presents data on the portfolio amount of the Bank’s financial assets by type of instrument:

	Financial assets at amortised cost														**Financial assets at fair value through other comprehensive income**	
	Non-financial enterprises and non-banking financial institutions		**State budget**		**Banks**		**Individuals**		**Cash in hand and balances in current account with the Central Bank**		**Securities at amortized cost**		**Other financial assets**		**Debt instruments**	
	2024	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Impaired on an individual basis																
------standard (Stage 1)	255,087	358,745	-	-	-	-	-	-	-	-	1,366	1,704	1,074	2,645	329,511	349,816
------watch (Stage 2)	415,426	420,341	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	186,763	415,101	-	-	-	-	-	57	-	-	-	-	-	-	16,829	15,642
Gross amount	**857,276**	**1,194,187**	**-**	**-**	**-**	**-**		**57**	**-**	**-**	**1,366**	**1,704**	**1,074**	**2,645**	**346,340**	**365,458**
Incl. renegotiated	800,974	1,166,502	-	-	-	-	-	6	-	-	-	-	-	-	-	-
Past due but not impaired	-	-														
------standard (Stage 1)	8,608	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------watch (Stage 2)	1,173	1,456	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	4,845	5,442	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**14,626**	**6,898**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	6,018	6,898	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Within 30 days	*2,689*	*1,456*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
From 30- 90 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 90 days	*3,329*	*5,442*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impaired on portfolio basis																
------standard (Stage 1)	259,868	233,914	10,971	14,431	21,458	31,391	4,561	3,757	-	-	-	-	-	-	-	-
------watch (Stage 2)	18,659	17,860	-	-			2	2	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	-	-	-	-			-	-	-	-	-	-	-	-	-	-
Gross amount	**278,527**	**251,774**	**10,971**	**14,431**	**21,458**	**31,391**	**4,563**	**3,759**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	154,054	143,480	-	-	10,747	18,359	338	227	-	-	-	-	-	-	-	-
Past due but not impaired																
------standard (Stage 1)	61,418	145,822	-	-	827,613	483,177	-	-	341,153	128,662	-	-	-	-	-	-
------watch (Stage 2)	39,812	3,238	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	1,287	14,651	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**102,517**	**163,711**	**-**	**-**	**827,613**	**483,177**	-	-	**341,153**	**128,662**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	95,551	163,007	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**1,252,946**	**1,616,570**	**10,971**	**14,431**	**849,071**	**514,568**	**4,563**	**3,816**	**341,153**	**128,662**	**1,366**	**1,704**	**1,074**	**2,645**	**346,340**	**365,458**
Incl. renegotiated	1,056,597	1,479,887	-	-	10,747	18,359	*338*	233	-	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The Bank classifies not past due and not impaired exposures to the above classes depending on their internal credit rating, as follows:

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

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

	2024	2023
Loans for commercial property and construction	264,962	280,409
Trade loans	174,194	115,840
Consumer loans	2	2
Loans of other financial institutions	5,728	1,779
Other loans and receivables	30,186	44,867
	475,072	**442,897**

When the initial terms of the agreement have been modified by the Bank by granting a concession (discounts) to a debtor experiencing difficulties in performing its financial obligations a loan is classified as "restructured" (Stage 2 or 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

	2024	2023
Loans for commercial property and construction	**147,452**	**240,416**
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*119,999*	*158,925*
Non-performing (Stage 3)	*27,453*	*81,491*
Trade loans	**137,963**	**326,116**
incl. Standard (Stage 1)	*7,913*	*9,549*
Watch (Stage 2)	*94,478*	*97,349*
Non-performing (Stage 3)	*35,572*	*219,218*
Loans of other FI	**-**	**777**
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	-	*777*
Non-performing (Stage 3)	-	-
Other loans and receivables	**29,690**	**60,925**
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*29,690*	*36,550*
Non-performing (Stage 3)	-	*24,375*
	315,105	**628,234**

Contingent commitments

Bank guarantees, letters of credit and unutilized loan commitments

The Bank assesses the credit quality of the contingent commitments through a methodology that assesses whether events that confirm to a large extent the likelihood that resources will outflow from the Bank.

These costs (losses) are determined on the basis of the Policy and Methodology for assessment of expected credit losses, and a Calculation Procedure of BDB based on a Conversion Factor (CCF) that is applied in the case of off-balance sheet exposures that are likely to turn into balance sheet exposures (payments on guarantees, utilisation of part of the allowed amount of the loan, etc.).

As of 31.12.2024 the Bank identified commitments under guarantees (apart from those, under the anti-Covid programs) amounting to BGN 88,013 thousand (2023: BGN 98,455 thousand), which are provided for in the amount of BGN 1,737 thousand (2023: BGN 3,242 thousand) (see Note 32).

Credit guarantees anti-COVID-19

In 2020, the Bank, based on decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic (see Note 37).

BDB adopted a special provisioning methodology for these programmes in view of the specifics of the programmes, customers profiles and structure of product-related inflow and cash outflow statements as follows:

Programme for companies – SME and intermediate enterprises

The main parameters of the programme and the guaranteed loans are:

- The obligation to pay under the guarantees is practically unconditional and in compliance with the agreed terms in the guarantee agreements (for loans admitted in the program).
- The guarantees are 80% of the principal on the loan. A maximum limit of payments was established – initially of 30%, and by decision of the Council of Ministers the limit was raised to 50% at the end of 2020.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 and in 2021 large enterprises were also included by the amendments made up to small mid-caps (Recovery Program).
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral of exposures is required initially), subsequently it was increased to 50 % - i.e. from 0% to 50%, and with the amendments under the Recovery Program the requirement for collateral was dropped, leaving only guarantees from beneficial owners and related parties, as well as pledges of accounts receivable permissible). Also, until the changes in the "Recovery Program" it was permissible to include a certain percentage of already formed exposures. The banks' self-participation was determined to be at least 20%. The terms predetermine a significantly higher risk than usual business guarantee programs.

As of 31 December 2024, BDB has assumed a commitment to commercial banks for guarantees (as a limit to payments or CAP) in the amount of 50% of the formed under the Program guaranteed portfolios. According to the final reports presented by the commercial banks, at the end of the year under the program were guaranteed 1,677 loans in the total in the total amount of BGN 281.2 million, for which guarantees amounting BGN 225.0 million have been provided.

The provision of guarantees under the program was completed at the end of June 2022. The maximum result of the program was reached (as aggregate data) with 2,842 guaranteed loans in the amount of BGN 630.3 million.

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

- Payments by the BDB will amount to 30% of the guarantee commitment and the remaining 70% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 35% of the amounts paid. This estimate shall take into account the recovery costs;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

At the beginning of 2025 the Bank performed an analysis of the behaviour of the portfolio of guarantees related to loans granted under this program. As a result of the analysis, the Bank decided to increase the provisioning rate for these exposures at 31.5% (2023: 27.6%).

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 3.33% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.51% for every 1% change.

Programme for individuals

- Payments under guarantees are virtually unconditional and in compliance with the agreed terms in the guarantee agreements (for loans admitted to the programme);
- The guarantees are for 100% of the principal amount of the loan;
- The selection of borrowers is based on the criterion "affected by the pandemic" and not on the usual criteria for providing funding to individuals. These are persons on unpaid leave or self-employed persons with reduced income. Borrowers' incomes are stressed and significantly lower than usual;
- The loan term is 5 years, including a possible grace period up to 24 months;
- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guaranteed commitment at maximum term of the loan. By Decision of the Council of Ministers (506/15.07.2021) an extension of the deadline was approved for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier".

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

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

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

- Payments by the BDB will amount to 40% of the guarantee commitment and the remaining 60% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 25% of the amounts paid. This estimate shall take into account the recovery costs;
- The payment of 1.5% to commercial banks is an irrevocable commitment of the BDB, which is included in the calculation;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

As of 31.12.2024 the BDB has guaranteed under the program 36,347 active loans, for which it has provided guarantee in the amount of BGN 58.1 million.

In the beginning of 2025, the Bank performed an analysis of the behaviour of the portfolio of guarantees related to the loans granted under the program. As a result of the analysis, the Bank decided to change the percentage of provisioning of these exposures as of 31.12.2024 from 34% to 31.7%.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 1.96% for each 1% change from the base value. Its sensitivity to the recovery rate on amounts already paid is 1.05% for every 1% change.

As of 31.12.2024 BDB has issued guarantees in total of BGN 286,226 thousand (31.12.2023: BGN 373,894 thousand) and has guaranteed exposures under the two programs in the total amount of BGN 339,246 thousand (31.12.2023: BGN 554,763 thousand) and has set aside provisions in the amount of BGN 90,289 thousand (31.12.2023: BGN 111,845 thousand).

Expected credit losses (ECL) measurement

For instruments measured at amortised cost, ECLs reduce the carrying amount in the statement of financial position.

For debt instruments measured at fair value through other comprehensive income, ECLs are part of the negative change in the fair value due to an increased credit risk. They continue to be presented at the fair value in the statement of financial position, and the accumulated adjustment for losses is recognized in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the accumulated adjustment is recognized in the profit or loss for the period.

Probability of default (PD)

PD is the probability of a counterparty not complying with contract clauses related to debt repayment. For each individual exposure or a portfolio of collectively assessed exposures, the Bank maintains historical information on the migration of exposures between different stages.

The value of 12- month probability of default (12-M PD) is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For exposures that are individually measured, the value of the 12M PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12M PD is calculated for each rating scale depending on the number of default cases found. The Bank adjusts the values of 12M PD to reflect the current or expected economic conditions that may differ from those during the analysed historical periods.

Exposure at default (EAD)

EAD is potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending on the type of loan, taking into account both the amount of utilized amounts and the agreed undrawn amounts according to the expectation of future drawdowns.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Loss Given Default (LGD)

LGD is the ratio of the exposure loss due to default to the amount of exposure at default. The Bank calculates the potential loss that would have arisen if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as a percentage of Exposure at Default (EAD).

The Bank has determined relative thresholds that are used also for the exposures for which the absolute thresholds are applied and for those, for which no such thresholds have been determined. They are based on matrixes covering the overall credit cycle (through-the-cycle, TTC) and the change in the probability of default on the respective exposures from the external aggregated data of Moody's (the Bank has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency), as well as the historical data on Bank's exposures.

Main groups of assets subject to impairment

The following tables present the movements in the main groups of assets subject to impairment between the different stages for the period 01.01-31.12.2024 and 01.01-31.12.2023:

Assets measured at amortised cost (except for Government and Receivables from Banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 1 January 2023	**925,781**	**477,498**	**345,197**	**1,748,476**
Transfers:				
Transfers from Stage 1 to Stage 2	(134,113)	134,113	-	**-**
Transfers from Stage 1 to Stage 3	(5,293)	-	5,293	**-**
Transfers from Stage 2 to Stage 3	-	(183,725)	183,725	**-**
Transfers from Stage 2 to Stage 1	9,549	(9,549)	-	**-**
Transfers from Stage 3 to Stage 2	-	45,871	(45,871)	**-**
Newly occurred and newly acquired exposures	77,684	3,850	2,233	**83,767**
Paid or transferred	(162,366)	(34,075)	(57,980)	**(254,421)**
Increased	32,701	8,914	2,653	**44,268**
Balance as 31 December 2023	**743,943**	**442,897**	**435,250**	**1,622,090**
Transfers:				
Transfers from Stage 1 to Stage 2	(23,013)	23,013	-	-
Transfers from Stage 1 to Stage 3	(8,286)	-	8,286	-
Transfers from Stage 2 to Stage 3	-	(41,851)	41,851	-
Transfers from Stage 2 to Stage 1	3,808	(3,808)	-	-
Transfers from Stage 3 to Stage 2	-	84,907	(84,907)	-
Newly occurred and newly acquired exposures	84,400	1,243	3,309	88,952
Paid or transferred	(250,431)	(36,343)	(216,670)	(503,444)
Increased	40,487	5,014	5,776	51,277
Balance as 31 December 2024	**590,908**	**475,072**	**192,895**	**1,258,875**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions are included in the above table.

Assets measured at amortised cost - Government	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as 1 January 2023	**23,598**	**-**	**-**	**23,598**
Paid or transferred	(13,234)	-	-	**(13,234)**
Increased	4,067	-	-	**4,067**
Balance as 31 December 2023	**14,431**	**-**	**-**	**14,431**
Paid or transferred	(5,060)	-	-	**(5,060)**
Increased	1,600	-	-	**1,600**
Balance as 31 December 2024	**10,971**	**-**	**-**	**10,971**

The Bank presents under the heading Government assets measured at amortised cost relating mainly to the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

Assets measured at amortised cost – Receivables from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as 1 January 2023	**140,689**	**-**	**-**	**140,689**
Newly originated and newly acquired exposures	459,443	-	-	459,443
Paid or transferred	(94,600)	-	-	(94,600)
Increased	9,036	-	-	9,036
Balance as 31 December 2023	**514,568**			**514,568**
Newly originated and newly acquired exposures	810,374	-	-	810,374
Paid or transferred	(477,813)	-	-	(477,813)
Increased	1,942	-	-	1,942
Balance as 31 December 2024	**849,071**	**-**	**-**	**849,071**

Loans to banks and financial institutions, presented in the previous table, include both transactions on an interbank market and deposits of different maturity.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Assets measured at fair value through other comprehensive income – debt instruments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as 1 January 2023	**480,234**	**-**	**14,685**	**494,919**
Paid or transferred	(144,188)	-	(24)	**(144,212)**
Increased	13,770	-	981	**14,751**
Balance as 31 December 2023	**349,816**	**-**	**15,642**	**365,458**
Newly originated and newly acquired exposures	70,173	-	-	70,173
Paid or transferred	(99,267)	-	(32)	(99,299)
Increased	8,789	-	1,219	10,008
Balance as 31 December 2024	**329,511**	**-**	**16,829**	**346,340**

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

Movement in the impairment of main groups of assets subject to impairment in 2024 and 2023.

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized loss given default (LGD) are the parameters employed in determining the provisioning rate and those parameters are determined on the basis of an individual review of the early warning signs that are homogeneous in terms of their credit characteristics and their relation to international and domestic macroeconomic variables that could affect them.

The movements of impairment in 2024 and 2023 are presented below:

Assets measured at amortised cost (except for Government and receivables from banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairments as of 1 January 2024	**22,968**	**66,020**	**154,883**	**243,871**
Transfers:	(3,111)	3,111	-	**-**
Transfer from Stage 1 to Stage 2	(346)	-	346	**-**
Transfer from Stage 1 to Stage 3	-	(23,398)	23,398	**-**
Transfer from Stage 2 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	9,815	(9,815)	**-**
New exposures	1,045	2,681	48,269	**51,995**
Paid or transferred	(6,938)	(14,002)	(54,936)	**(75,876)**
Increase of impairment of current exposures	480	13,646	3,719	**17,845**
Balance of impairment as of 31 December 2023	**14,098**	**57,873**	**165,864**	**237,835**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Assets measured at amortised cost (except for Government and receivables from banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Transfer from Stage 1 to Stage 2	(553)	553	-	-
Transfer from Stage 1 to Stage 3	(122)	-	122	-
Transfer from Stage 2 to Stage 3	-	(8,296)	8,296	**-**
Transfer from Stage 2 to Stage 1	345	(345)	-	**-**
Transfer from Stage 3 to Stage 2	-	64,054	(64,054)	
Newly originated and newly acquired exposures	792	4,271	31,489	**36,552**
Paid or transferred	(2,297)	(22,389)	(57,037)	**(81,723)**
Increased	1,081	34,574	27,880	**63,535**
Balance of impairment as of 31 December 2024	**13,344**	**130,295**	**112,560**	**256,199**

Assets measured at amortised cost - Government	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 1 January 2022	**61**	**-**	**-**	**61**
Net movement in impairment on EEMFRBNP	108	-	-	**108**
Balance of impairment as of 31 December 2023	**169**	**-**	**-**	**169**
Net movement in impairment on EEMFRBNP	16	-	-	**16**
Balance of impairment as of 31 December 2024	**185**	**-**	**-**	**185**

Assets measured at amortised cost– Receivables from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 1 January 2023	**1,384**	**-**	**-**	**1,384**
Increase/(decrease), net	(683)	-	-	**(683)**
Balance of impairment as of 31 December 2023	**701**	**-**	**-**	**701**
Increase/(decrease), net	(304)	-	-	**(304)**
Balance of impairment as of 31 December 2024	**397**	**-**	**-**	**397**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Assets measured at fair value through other comprehensive income – debt instruments	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 2023	**2,918**	**-**	**4,110**	**7,028**
Paid or transferred	(1,035)	-	-	**(1,035)**
Other movements	-	-	589	**589**
Balance of impairment as of 31 December 2023	**1,883**	**-**	**4,699**	**6,582**
Paid or transferred	(1,088)	-	-	(1,088)
Other movements	77	-	2,798	2,875
Balance of impairment as of 31 December 2024	**872**	**-**	**7,497**	**8,369**

Value of collaterals as of 31 December 2024

The value of the collaterals on secured assets is presented in the following table:

Type of collateral	Carrying amount of the loan	Value of the collateral
Mortgages	254,200	689,592
Pledge of plant, equipment and inventories	71,071	204,601
Restricted deposits	71,312	33,672
Credit risk insurance	6,202	11,758
Securities listed on a stock market	4,996	7,461
Bank guarantees	50,794	58,250
Other collaterals	541,225	1,940,494
Non-secured	6,553	-
Total	**1,006,353**	**2,945,828**

Value of collaterals as of 31 December 2023

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

Country (sovereign) risk

The Bank has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising only government securities issued by the Republic of Bulgaria, other EU countries and USA. The Bank's exposure to sovereign debt is BGN 298,379thousand as of 31 December 2024 and BGN 319,521thousand as of 31 December 2023.

Standard & Poor's credit rating for the securities of Republic of Bulgaria stands at BBB/A-2 with positive outlook (28 May 2024). Fitch's credit rating is BBB with positive outlook (18 October 2024) and Moody's rating is Baa1 with stable outlook (24 January 2025). The securities issued by the governments of other countries have rating not lower than BBB- by Fitch's Ratings/Standard&Poor's, or the equivalent of Baa3 by Moody's.

According to Fitch Ratings, BBB credit rating means that insolvency expectations are low, and the capacity to service financial liabilities is adequate, but a deterioration in economic conditions or business environment is likely to lessen this capacity. The definitions of Moody's and Standard&Poor's of the rating assigned to the sovereign are similar.

4.2. Market risk

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Bank's profitability and financial position.

Interest rate risk

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

The interest rate risk is considered in view of the overall activity of the Bank. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis.

The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Bank's net income;
- Analysis of the interest rate sensitivity of economic capital – measuring the interest rate sensitivity of the Bank's equity economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Bank's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual net interest income after and the Bank's equity economic value applying a stress scenario involving changes in the interest rate curves by types of currencies.

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. If there are items in the statement of financial position of the Bank, classified as determined at fair value, they are referred to the applicable maturity zone in the analysis of interest rate imbalance. The Bank maintains certain interest-free assets and liabilities in relation to its payment operations.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Besides the interest rate sensitivity analyses, for the interest risk management main sources related to the change in the net interest spread of the Bank are also identified. This helps decision making on the interest rates policies of the Bank, in particular, the development of specific products and providing sources of financing having relevant characteristics.

Assets and Liabilities Committee (ALCO) currently monitors the interest rate risk to which the Bank is exposed and develops measures for its coverage and maintenance within the Bank's permitted levels and limits.

The table below summarizes the interest exposure and risk of the Bank. It includes information on the Bank's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

31 December 2024	***With floating interest rate***	***With fixed interest rate***	***Interest free***	***Total***
Financial assets				
Financial assets at amortized cost – Receivables from banks	27,717	810,265	10,692	**848,674**
Financial assets at amortized cost – Loans and advances to customers	991,483	9,874	-	**1,001,357**
Financial assets at amortized cost – Receivables from the State budget	10,786	-	-	**10,786**
Financial assets at amortized cost – Debt instruments	1,319	-	-	**1,319**
Financial assets at fair value through other comprehensive income – Debt instruments	40,648	305,692	-	**346,340**
Other financial assets	-	-	1,074	**1,074**
	1,071,953	**1,125,831**	**11,766**	**2,209,550**
Financial liabilities				
Borrowings from international institutions	611,158	-	-	**611,158**
Deposits from customers other than credit institutions	341,997	512,481	11,239	**865,717**
Deposits from credit institutions	46,233	200,345	-	**246,578**
Other borrowings	12,164	4,942	-	**17,106**
Liabilities under lease contracts	112	-	-	**112**
Other financial liabilities	-	-	63	**63**
	1,011,664	**717,768**	**11,302**	**1,740,734**
Total balance sheet interest exposure	**60,289**	**408,063**	**464**	**468,816**
Contingencies and commitments	**168,819**	**58,666**	**293,286**	**520,771**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Interest rate sensitivity analysis

The table below includes the financial instruments of the Bank, presented at carrying amount, classified by the earlier of the date of interest rate change under the contract and the maturity date.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

31 December 2024	*Up to 1 m.*	*1-3 m.*	*3-6 m.*	*6-12 m.*	*1-5 years*	*over 5 years*	*With fixed rate*	*Interest free*	*Total*
Financial assets									
Financial assets at amortized cost – Receivables from banks	6,785	20,932	-	-	-	-	810,265	10,692	**848,674**
Financial assets at amortized cost – Loans and advances to customers	73,725	917,758	-	-	-	-	9,874	-	**1,001,357**
Financial assets at amortized cost – Receivables from the State budget	10,786	-	-	-	-	-	-	-	**10,786**
Financial assets at amortized cost – Debt instruments	-	-	1,319	-	-	-	-	-	**1,319**
Financial assets at fair value through other comprehensive income – Debt instruments	69,097	62,361	65,765	61,106	55,225	32,786	-	-	**346,340**
Other financial assets	-	-	-	-	-	-	-	1,074	**1,074**
Total financial assets	**160,393**	**1,001,051**	**67,084**	**61,106**	**55,225**	**32,786**	**820,139**	**11,766**	**2,209,550**
Financial liabilities									
Borrowings from international institutions	-	186,982	424,176	-	-	-	-	-	**611,158**
Deposits from customers other than credit institutions	420,369	337,927	87,401	8,781	-	-	-	11,239	**865,717**
Deposits from credit institutions	46,233	-	-	-	-	-	200,345	-	**246,578**
Other borrowings	-	12,164	-	-	-	4,942	-	-	**17,106**
Liabilities under lease contracts	-	112	-	-	-	-	-	-	**112**
Other financial liabilities	-	19	-	-	44	-	-	-	**63**
Total financial liabilities	**466,602**	**537,204**	**511,577**	**8,781**	**44**	**4,942**	**200,345**	**11,239**	**1,740,734**
Total exposure to interest rate sensitivity	**(306,209)**	**463,847**	**(444,493)**	**52,325**	**55,181**	**27,844**	**619,794**	**527**	**468,816**
Contingencies and commitments	**-**	**12,507**	**155,534**	**778**	**-**	**-**	**58,666**	**293,286**	**520,771**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Sensitivity of the floating rate interest assets and liabilities

The table below represents the sensitivity of the Bank to possible changes in interest rates based on the structure of floating rate assets and liabilities as of December 31, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different, as a significant portion of the loans and receivables from customers bear floating interest rates that are based on a variable portion determined by the Bank, which in turn is influenced by numerous factors.

	2024			2023		
Currency	***Increase/decrease in percentage points***	***Sensitivity of the financial result***	***Sensitivity of the equity***	***Increase/decrease in percentage points***	***Sensitivity of the financial result***	***Sensitivity of the equity***
BGN	0.50%	1,289	(506)	0.50%	1,460	(1,078)
EUR	0.50%	(832)	(932)	0.50%	873	(1,642)
USD	0.50%	(185)	(2)	0.50%	(192)	-
BGN	-0.50%	(1,289)	506	-0.50%	(1,460)	1,078
EUR	-0.50%	832	932	-0.50%	(873)	1,642
USD	-0.50%	185	2	-0.50%	192	-

Equity sensitivity, measured by the potential change in the market value of debt instruments reported at fair value in other comprehensive income, when interest rate curves change by 50 basis points.

The net interest margin as of 31 December 2024 is 2.19% (as of 31.12.2023: 2.98%)

Currency risk

The currency risk is the risk that the financial position and cash flows of the Bank might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Bank follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes but arise out of foreign currency transactions in the ordinary course of business of the Bank.

The policy of the Bank is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Bank does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Bank’s cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Bank. Analyses of the financial assets and liabilities by types of currency of denomination are conducted on a regular basis.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The approach of measuring the overall activity currency risk includes mainly:

- Foreign currency sensitivity analysis – measuring the Bank's income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Bank's risk appetite;
- Stress tests for currency risk, which present the potential change of annual income after the implementation of stress scenarios for exchange rate changes.

The currency risk analysis is performed by allocating the Bank's assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Bank's foreign currency policy, and in particular, the formation of specific products and ensuring sources of financing with relevant characteristics.

The Asset and Liability Management Committee (ALCO) currently monitors the currency risk to which the Bank is exposed and develops measures for its management and maintenance within the limits acceptable to the Bank.

The following table summarises the Bank's exposure to currency risk. The table includes the Bank's financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

As of 31 December 2024	**B USD**	**In EUR**	**In other foreign currency**	**In BGN**	**Total**
Financial assets					
Cash in hand and balances in current account with the Central Bank	108	123,012	-	218,033	**341,153**
Financial assets at amortized cost – Receivables from banks	77,602	765,908	179	4,985	**848,674**
Financial assets at amortized cost – Loans and advances to customers	-	616,092	-	385,265	**1,001,357**
Financial assets at amortized cost – Receivables from the State budget	-	-	-	10,786	**10,786**
Financial assets at amortized cost – Debt securities	-	-	-	1,319	**1,319**
Financial assets at fair value through other comprehensive income – Debt securities	5,628	223,253	-	117,459	**346,340**
Financial assets at fair value through other comprehensive income – Equity securities	-	41,457	-	116,825	**158,282**
Other financial assets	14	244	-	816	**1,074**
Total financial assets	**83,352**	**1,769,966**	**179**	**855,488**	**2,708,985**
Financial liabilities					
Borrowings from international institutions	-	611,158	-	-	**611,158**
Deposits from customers other than credit institutions	55,996	443,776	108	365,837	**865,717**
Deposits from credit institutions	27,298	177,276	-	42,004	**246,578**
Other borrowings	-	17,106	-	-	**17,106**
Guarantee provisions	-	-	-	92,026	**92,026**
Lease liabilities	-	112	-	-	**112**
Other financial liabilities	-	63	-	-	**63**
Total financial liabilities	**83,294**	**1,249,491**	**108**	**499,867**	**1,832,760**
Net balance sheet currency position	**58**	**520,475**	**71**	**355,621**	**876,225**
Contingencies and commitments	**5,883**	**98,973**	**-**	**508,430**	**613,286**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December 2024.

Currency	**2024**					
		Change in exchange rates*		**Effect on the pre-tax profit in case of change in exchange rates***		**Effect on equity**
	Exchange rate	**Decrease (BPS)****	**Increase (BPS)**	**Decrease**	**Increase**	
EUR	1.95583	-	-	-	-	-
USD	1.88260	(1,795)	1,586	(3)	3	-
JPY	0.0119945	(11)	5,000	-	-	-
GBP	2.35875	(867)	1,333	(3)	2	-
Total effect				**(6)**	**5**	

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December 2023.

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

* Calculated based on 3-month change in exchange rate (historical period of 3 years) with reliability rate of 99%.
** Adverse change in exchange rates relative to the Bank's net open positions in individual currencies.

The open FX position and the market volatility of the respective foreign currencies as of 31 December 2024 and 2023 would have an immaterial effect on the Bank's financial result assessed as equal to minus BGN 3 thousand (2023: minus BGN 3 thousand) if the hypothesis of unfavourable change in exchange rates occurs compared to the open positions of the Bank by separate currencies with the reported basis points (BPS: 1 b.p. = 0.0001 in decimal form).

Price risk of shares quoted on the Stock Exchange

Price risk associated with shares is the risk of a decrease in fair value as a result of a change in market prices. The Bank is exposed to price risk with respect to the shares it holds, classified as investments at fair value through other comprehensive income. Management of the Bank monitors and analyses all changes in the security market. In addition, at this stage, the Bank has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

4.3. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its current and potential payment obligations as they fall due without suffering unacceptable losses.

The Bank's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the Bank's liquidity risk.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, as well as the impact of the changes in interest rates and exchange rates on the pre-tax profit and equity, are important factors in assessing the Bank's liquidity. In order to manage this risk, the Bank maintains at all times highly liquid assets depending on the currency of its liabilities.

The monitoring and control of the overall liquidity are performed by Assets and Liabilities Committee (ALCO). The Bank complies with various regulatory coefficients and internal liquidity ratios and indicators set by the BNB and EBA, as well as by the Bank's Management, and internal analysis are also performed based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions that could have an impact on the Bank's liquid position. Additionally, varieties of correlations are monitored to indicate the liquid position by periods.

Liquidity risk is also measured through application of additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the Bank and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which could lead to a decrease of the rating with two degrees at least and combined shocks. The purpose of stress scenarios is to test the Bank's adequacy to counteract various crisis situations.

The table below presents the amounts in percentage of the liquidity coverage ratio (LCR) of the Bank:

	2024	**2023**
As of December 31	391.90%	355.76%
Average for the period	429.52%	293.13%
Highest for the period	596.58%	405.48%
Lowest for the period	299.13%	206.31%

	2024	**2023**
Cash and cash balances with Central Banks	341,153	128,662
Balances in current accounts with other banks and international deposits of up to 90 days	816,921	468,094
Government securities	298,379	319,521
Liquid assets	**1,456,453**	**916,277**
Financial liabilities measured at amortised cost	1,740,671	1,459,042
Provisions	92,419	119,043
Employee retirement benefits	914	705
Liabilities	**1,834,004**	**1,578,790**
Liquidity assets ratio (LAR)	**79.41%**	**58.04%**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The table below provides an analysis of the assets and liabilities of the Bank at carrying amount, grouped by remaining maturity:

As of 31 December 2024	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets						
Cash in hand and balances in current account at Central Banks	341,153	-	-	-	-	**341,153**
Financial assets at amortized cost – Receivables from banks	768,021	48,900	12,329	19,424	-	**848,674**
Financial assets at amortized cost – Loans and advances to customers	7,919	25,896	120,941	441,345	405,256	**1,001,357**
Financial assets at amortized cost - Receivables from the State budget	-	4,173	6,613	-	-	**10,786**
Financial assets at amortized cost – Debt securities	-	-	178	1,141	-	**1,319**
Financial assets at fair value through other comprehensive income – Debt instruments	69,247	65,537	126,323	54,766	30,467	**346,340**
Financial assets at fair value through other comprehensive income – Equity instruments	158,282	-	-	-	-	**158,282**
Other financial assets	1,074	-	-	-	-	**1,074**
Total financial assets	**1,345,696**	**144,506**	**266,384**	**516,676**	**435,723**	**2,708,985**
Financial liabilities						
Borrowings from international institutions	-	89,310	123,378	259,087	139,383	**611,158**
Deposits from customers other than credit institutions	420,428	337,927	103,889	3,472	1	**865,717**
Deposits from credit institutions	246,578	-	-	-	-	**246,578**
Other borrowings	-	-	213	13,018	3,875	**17,106**
Provisions	300	600	2,700	88,426	-	**92,026**
Lease liabilities	8	16	88	-	-	**112**
Other financial liabilities	-	19	-	44	-	**63**
Total financial liabilities	**667,314**	**427,872**	**230,268**	**364,047**	**143,259**	**1,832,760**
Gap in maturity thresholds of assets and liabilities	**678,382**	**(283,366)**	**36,116**	**152,629**	**292,464**	**876,225**
Contingencies and commitments	**16,216**	**4,399**	**261,791**	**227,448**	**10,904**	**520,758**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The table below presents the gross undiscounted cash flows related to the Bank's liabilities as of 31 December:

As of 31 December 2024	**Carrying amount**	**Gross flow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Financial liabilities							
Borrowings from international institutions	611,158	683,642	-	89,940	128,015	289,037	176,650
Deposits from customers other than credit institutions	865,717	865,750	420,435	337,949	103,893	3,472	1
Deposits from credit institutions	246,578	246,584	246,584	-	-	-	-
Other borrowings	17,106	19,030	-	-	217	14,003	4,810
Other financial liabilities	3,244	3,244	3,174	19	-	51	-
Lease liabilities	112	114	8	17	89	-	-
	1,743,915	**1,818,364**	**670,201**	**427,925**	**232,214**	**306,563**	**181,461**
Bank and credit guarantee provisions	**92,026**	**92,026**	**300**	**600**	**2,700**	**88,426**	**-**
Unutilised amount of approved loans	**227,485**	**227,485**	**13,842**	**4,343**	**100,617**	**103,587**	**5,096**

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

Considering the specific activity of the Bank, the funds attracted from the biggest 20 non-bank depositors as of 31 December 2024 represent 87.95% of the total amount of payables to other customers (31 December 2023: 84.16%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 23.17% (31 December 2023: 21.57%).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The financial assets of the Bank available for future financing and the financial assets pledged as collateral for financial liabilities are presented in the table below:

As of 31 December 2023

Financial assets	**Pledged as collateral***	**Available for collateral**	**Other****	**Total**
Cash in hand and balances in current account with the Central Bank	-	159,642	181,511	**341,153**
Financial assets at amortized cost – Receivables from banks	10,692	837,982	-	**848,674**
Financial assets at amortized cost – Loans and advances to customers	-	576,245	425,112	**1,001,357**
Financial assets at amortized cost – Receivables from the State budget	-	10,786	-	**10,786**
Financial assets at amortized cost – Securities	-	1,319	-	**1,319**
Financial assets at fair value through other comprehensive income – Debt instruments	6,492	339,848	-	**346,340**
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	158,282	**158,282**
Other financial assets **	-	-	1,074	**1,074**
Total financial assets	**17,184**	**1,925,822**	**765,979**	**2,708,985**

As of 31 December 2023

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

* As of 31 December 2024, funds amounting to BGN 10,692 thousand (2023: BGN 11,083 thousand) were blocked on counter-guarantees of two corporate customers, maturing as follows:

Maturity interval	**Receivables from banks pledged as collateral**	
	2024	**2023**
From 0 to 90 days	-	1,541
From 91 to 180 days	-	51
From 181 to one year	7,372	4,022
Over one year	3,320	5,469
	10,692	**11,083**

As of 31 December 2024, restricted securities on a legal requirement to provide for funds of the State budget amount to BGN 6,492 thousand (2023: BGN 6,260 thousand).

** Other financial assets represent financial assets not encumbered or restricted to be used as collateral, but the Bank would not take it into consideration as available to support a future financing in the normal course of its activity.

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

Risk Management, together with other Bank divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Bank's assets. In case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

4.4. Operational risk

The main sources of operational risk within the Bank are its personnel, processes, systems and external events. The Bank designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Bank applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. Moreover, control procedures for reducing the operational risk are added to all internal rules and procedures of the Bank.

In operational risk management all operational events, which occur in the activity of various units and processes of the Bank, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios.

The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes and minimising the conditions that would potentially result in operational events and loss for the Bank.

For the purposes of measuring its operational risk, the Bank has decided to apply the "Basic indicator method".

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4.5. Capital management

The main objectives of the Bank's capital management are to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Bank should observe the regulatory requirements for capital, as well as to continue operating as a going concern.

The table below presents the main equity components following the regulatory requirements and ratios achieved by the Bank:

	2024	**2023**
OWN FUNDS	1,101,221	1,049,652
TIER I CAPITAL	1,101,221	1,049,652
COMMON EQUITY TIER I (CET1) CAPITAL	1,101,221	1,049,652
Share capital	1,135,500	1,135,500
Loss	(231,588)	(231,588)
Statutory reserves	51,800	-
Additional reserves	305,455	305,455
Accumulated other comprehensive income	(9,520)	(57,157)
Intangible assets	(2,737)	(7,394)
Investments in subsidiaries	(3,023)	(3,023)
(-) CET 1 Capital instruments of companies from the financial sector when the institution has material investments	(116,694)	(79,315)
Adjustments due to prudential assessment requirements	(505)	(486)
Transitional adjustments to CET1 Capital	-	-
Deductible deferred tax assets based on future profit and arising from temporary differences	(2,202)	(7,998)
Components of or deductions from CET1 Capital – other	(25,265)	(4,342)
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-

	2024	**2023**
TOTAL RISK EXPOSURES	2,065,272	2,301,998
Credit risk – Standardised approach	1,935,297	2,180,648
Central governments or central banks	2,376	15,617
Regional governments or local authorities	1,318	1,621
Public sector entities	-	-
Multilateral development banks	-	-
Institutions	188,480	113,099
Corporates	682,388	915,958
Retail	195,900	252,023
Secured by mortgages on immovable property	264,960	188,785
Exposures in default	96,815	361,341
Items associated with particular high risk	144,383	139,853
Equity exposures	114,774	114,826
Other items	243,903	77,525
Currency and commodity risk	-	-
Operational risk – Basic indicator approach	129,975	121,350
CET 1 Capital Ratio	**53.32%**	**45.60%**
Total Capital Ratio	**53.32%**	**45.60%**
Capital conservation buffer	*51,632*	*57,550*
Systemic risk buffer	*61,958*	*68,060*
Institution-specific countercyclical capital buffer	*41,305*	*46,040*
Buffer of other institutions of systemic importance	-	*11,510*
Regulatory required levels		
CET 1 Capital Ratio	*6.95%*	*6.60%*
Tier 1 Capital ratio	*8.45%*	*8.10%*
Total Capital ratio	*10.45%*	*10.10%*
Capital conservation buffer	*2.50%*	*2.50%*
Systemic risk buffer	*3.00%*	*3.00%*
Institution-specific countercyclical capital buffer	*2.00%*	*2.00%*
Buffer of other institutions of systemic importance	*0.00%*	*0.50%*

By decision of BNB No 93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%. By decision of BNB No84 of 8 March 2022 this requirement has been increased to 2.25% for risk-weighted assets, or a minimum overall capital adequacy of 10.25%.

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

By decision of MB of the BNB №71963 of 4 June 2024 an additional capital requirement is imposed: 2.45%.

4.6 External risks

War in Ukraine

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

In 2024, no measurable negative or positive effects related to the war are reported.

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

Potential direct effects on the Bank

As of 31 December 2024, and as of the date of issue of the separate financial statements, the Bank has no exposures to institutions, whose main shareholder is a party from Russia or Ukraine, or clients whose main business is in Russia or Ukraine.

Potential effects on clients of the Bank

As of the date of issue of the separate financial statements:

- Clients operating in the **Tourism and Hospitality** sector recorded a decrease in visits from Russia and Ukraine, which were partially offset by both domestic tourists and tourists from other destinations. For 2024, there is no measurable effect of the war. Expectations for 2025 and in the medium term are mixed;
- Stabilization of energy prices has had a positive impact on clients operating in the **Transport sector**. Movements in energy markets, as well as in goods and passenger markets, including those affected by the war, will determine the operating results of these clients in 2025 and in the medium term;
- Clients in the **Construction and Real Estate sector** expect continued high prices of materials in the medium term. Prices are expected to be retained at current levels, and in the event of a favourable development of the conflict – to move towards a decline with the corresponding effects on the cost of the end product;
- For customers in the **Trade and Services sector**, except for those trading directly with Russia, Ukraine and Belarus, no measurable effects are observed. The inflation trends are in the direction of price stability with the corresponding favourable effects on the sector;
- Customers in the **Manufacturing Industry** sector are directly affected by the increased prices of energy carriers and materials, as well as by disrupted supply chains, which continue to create difficulties. With the reorientation of supply and the normalization of energy prices, customers in the sector are expected to recover their normal margins and efficiency in 2025;

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- The Bank's clients in the **Production, transmission, distribution and supply of natural gas and thermal energy** sector were directly affected by the increased prices of energy carriers, with the relevant government programs partially or fully compensating these increases. The normalization of natural gas supplies in Europe, as well as the storage directives, have resulted in relative stability of these enterprises, despite the colder winter compared to prior years. No measurable effects are expected in 2025 and in the medium term.

It is unlikely as a result of the developments in 2025, and further that the customers will be become permanently unable to repay their liabilities to the Bank as a result of the conflict.

As of 31 March 2025, the Bank has the following significant exposures[2] to the potentially affected sectors:

	As of 31 March 2025
Construction and real estate	288,012
Industry	257,657
Trade and services	125,840
Transport	172,066
Production, transmission, distribution and supply of natural gas and thermal energy	134,044
Tourism and hospitality	231,459
	1,209,078

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

The conflict in the Middle East

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

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

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

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

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5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy.

The fair value of securities classified as financial assets at fair value through other comprehensive income with a book value of BGN 1,293 thousand as of 31 December 2024 (2023: BGN 1,312 thousand), held at cost of acquisition, is not disclosed as the Bank believes that they cannot be reliably estimated.

As of 31 December 2024		**Carrying amount**				**Fair value**			
	Note	**Financial assets at amortized cost**	**Financial assets at fair value through OCI**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	346,340	-	346,340	329,511	-	16,829	346,340
Equity instruments at fair value through other comprehensive income	22	-	158,282	-	158,282	156,989	-	-	156,989
Investment property	25	-	-	5,553	5,553	-	-	5,553	5,553
		-	**504,622**	**5,553**	**510,175**	**486,500**	**-**	**22,382**	**508,882**
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	341,153	-	-	341,153	-	341,153	-	341,153
Loans to banks	18	21,061	-	-	21,061	-	21,646	-	21,646
Current accounts and term deposits of banks	18	827,613	-	-	827,613	-	827,613	-	827,613
Loans and advances to customers	19	1,001,357	-	-	1,001,357	-	1,015,829	-	1,015,829
Receivables from the State budget	20	10,786	-	-	10,786	-	10,914	-	10,914
Securities at amortized cost	21	1,319	-	-	1,319	-	1,334	-	1,334
		2,203,289	**-**	**-**	**2,203,289**	**-**	**2,218,489**	**-**	**2,218,489**
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	611,158	611,158	-	611,995	-	611,995
Deposits from customers other than credit institutions	29	-	-	865,717	865,717	-	865,284	-	865,284
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	246,578	246,578	-	246,578	-	246,578
Other borrowings	31			17,106	17,106		16,446		16,446
		-	**-**	**1,740,559**	**1,740,559**	**-**	**1,740,303**	**-**	**1,740,303**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2023		**Carrying amount**				**Fair value**			
	Note	**Financial assets at amortized cost**	**Financial assets at fair value through OCI**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	365,458	-	365,458	350,691	-	14,767	365,458
Equity instruments at fair value through other comprehensive income	22	-	121,000	-	121,000	119,688	-	-	119,688
Investment property	25	-	-	5,351	5,351	-	-	5,351	5,351
		-	**486,458**	**5,351**	**491,809**	**470,379**	**-**	**20,118**	**490,497**
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	128,662	-	-	128,662	-	128,662	-	128,662
Loans to banks	18	34,690	-	-	34,690	-	36,483	-	36,483
Current accounts and term deposits of banks	18	479,177	-	-	479,177	-	479,177	-	479,177
Loans and advances to customers	19	1,382,633	-	-	1,382,633	-	1,436,579	-	1,436,579
Receivables from the State budget	20	14,262	-	-	14,262	-	14,385	-	14,385
Securities at amortized cost	21	1,622	-	-	1,622	-	1,704	-	1,704
		2,041,046	**-**	**-**	**2,041,046**	**-**	**2,096,990**	**-**	**2,096,990**
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	581,931	581,931	-	633,351	-	633,351
Deposits from customers other than credit institutions	29	-	-	650,167	650,167	-	649,163	-	649,163
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	209,918	209,918	-	209,918	-	209,918
Other borrowings	31	-	-	16,818	16,818	-	15,784	-	15,784
		-	**-**	**1,458,834**	**1,458,834**	**-**	**1,508,216**	**-**	**1,508,216**

Fair value of assets and liabilities measured at fair value is presented in the following table by types of assets at the reporting date:

Types of assets and liabilities at fair value	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2024	**31.12.2023**				
Financial assets at fair value through other comprehensive income Debt instruments (quoted)	329,511	350,691	Level 1	Quoted market price without adjustment	N/A	N/A
Financial assets at fair value through other comprehensive income Debt instruments (unquoted)	16,829	14,767	Level 3	Discounted cash flows	Effective interest rate of the security	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	156,989	119,688	Level 1	Quoted market price without adjustment	N/A	N/A

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Types of assets and liabilities at fair value	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of key unobservable inputs to fair value
	31.12.2024	31.12.2023				
Investment property	5,553	5,351	Level 3	Market analogues method Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of a range of prices of similar property or prices per sq. m. previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough. Currently, investment property is assessed between BGN 123 and BGN 396/ sq. m, and their adjoining land – between BGN 14 and BGN 113/sq. m. Income capitalisation method (revenue method) The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which in turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use. Currently, rental levels of leased investment property vary between BGN 1.34-8.98/ sq. m /monthly.	Market analogues method: 1.Market realisation coefficient: (0.8-1.0) 2. Location coefficient (0.8-1.0) 3. Coefficient of specific features (status) (0.6-1.15) 4. Offer market adequacy adjustment coefficient (from -15% to +10%) Income capitalisation method (revenue method: 1. rent per sq. m – BGN 6-19 per sq. m. 2. price growth assumptions – 0-10% 4. discount rate – 6-9%	The higher (lower) fair value if: - Higher (lower) market realisation coefficient - Higher (lower) location coefficient - Higher (lower) coefficient of specific features (status) - Higher (lower) offer market adequacy adjustment coefficient - price growth is expected to be higher (lower) - the levels of unoccupied space are low (high) - discount rate is lower (higher)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Fair values of financial assets and liabilities that are not measured at fair value, but a disclosure at fair value is required.

Types of assets and liabilities at fair value	Fair value as of	Fair value as of	Fair value hierarchy	Measurement technique	Significant unobservable inputs	Relationship of key unobservable inputs to fair value
	31.12.2024	**31.12.2023**				
Loans to banks	21,646	36,483	Level 2	Discounted cash flows Future cash flows are discounted by EURIBOR for 12 months but nor less than 0, adjusted for yield curve of Bulgarian government securities on primary market according to Bloomberg publication.	N/A	N/A
Loans and advances to customers	1,015,829	1,436,579	Level 2	Discounted cash flows Future cash flows are measured using the contractual effective interest rates for respective exposures based on officially published by BNB interest rates (unadjusted) of new loans for December 2024.	N/A	N/A
Receivables from the State budget	10,914	14,385	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2024.	N/A	N/A
Securities at amortized cost	1,334	1,704	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) and interest rates for December 2024.	N/A	N/A
Other borrowings	16,446	15,784	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2024.	N/A	N/A
Borrowings from international institutions	611,995	633,351	Level 2		N/A	N/A
Deposits from customers, other than financial institutions	865,284	649,163	Level 2		N/A	N/A

For the assets and liabilities from the statement of financial position not disclosed in the table the Bank's management is of the opinion that their fair value approximates their carrying amount.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6. NET INTEREST INCOME

	2024	2023
Interest income		
Financial assets measured at amortised cost		
Loans and advances to customers	82,336	88,639
Loans to banks	1,694	2,095
Receivables from the State budget	425	825
Deposits placed with other banks	34,344	22,323
Securities	91	79
Financial assets at fair value through other comprehensive income	4,867	3,949
Other liabilities (effect of negative interest)	-	30
	123,757	**117,940**
Incl. Interest income on loans and receivables in Phase 2 and 3	**9,905**	**10,566**
Interest expenses		
Borrowings from international institutions	(28,963)	(32,054)
Deposits from customers other than credit institutions	(10,512)	(7,369)
Other borrowings	(580)	(506)
Deposits from credit institutions	(14,471)	(11,091)
Finance lease	(9)	(12)
	(54,535)	**(51,032)**
Net interest income	**69,222**	**66,908**

All interest income, except interest income on financial assets at fair value through other comprehensive income, arises from financial assets carried at amortized cost and recognized using the effective interest method.

7. NET FEE AND COMMISSION INCOME

	2024	2023
Fee and commission income under IFRS 15		
Transaction-related services	471	344
Issuance of guarantees and letters of credit	1,503	4,045
Account maintenance	281	257
Factoring transactions	41	41
Total fee and commission income from contract with customers	**2,296**	**4,687**
Other charges	26	32
Total fees and commissions income	**2,322**	**4,719**
Fee and commission expenses		
Co-management fee COVID guarantees	(1,834)	(2,819)
Agent's commissions	(43)	(2)
Factoring transactions	-	(4)
Servicing of accounts with other banks	(31)	(37)
Transfers and treasury operations in other banks	(12)	(7)
Total fee and commission expenses	**(1,920)**	**(2,869)**
Net fee and commission income	**402**	**1,850**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. NET FEE AND COMMISSION INCOME (CONTINUED)

Fee and commission income represents revenue reported under IFRS 15 Revenue from Contracts with Customers (see Note 3.5 for details on the recognition of fee and commission income). The source of income are transactions made on the territory of Bulgaria. The prices of the respective services are fixed.

8. NET GAIN ON FOREIGN EXCHANGE DEALS

	2024	2023
Net gain on dealing in foreign currencies	266	261
Net gain/(loss) on foreign currency translation of assets and liabilities	3	(3)
	269	**258**

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

	2024	2023
Net loss on dealing in securities measured at fair value through OCI, incl. realised revaluation reserve	(85)	(11)
	(85)	**(11)**

10. OTHER OPERATING INCOME

	2024	2023
Income from rent of investment property	402	495
Refunded litigation expenses	72	205
Proceeds from disposal of fixed tangible assets	124	22,668
Dividends received	2,360	2,588
Gain on revaluation of investment properties	211	-
Gain on sale of properties for resale	16,944	3,116
Other income	489	489
	20,602	**29,561**

In 2024 the Bank sold a property in Plovdiv, which was acquired by a debtor and completed. The effect of this transaction represents over 90% of the reported Gain on sale of properties for resale in 2024. In 2023, over 90% of these incomes are formed from the sale of a hotel in Sofia.

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

In 2024 the Bank received a dividend form its subsidiary BDB Leasing EAD in the amount of BGN 282 thousand.

In 2024 the Bank received a dividend from its subsidiary National Guarantee Fund EAD for 2023 in the amount of BGN 2,000 thousand (in 2023: BGN 2,515 thousand dividend for 2022.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

11. OTHER OPERATING EXPENSES

	2024	2023
Loss on revaluation of investment property	(10)	(16)
Expenses on assets held for sale	(1,460)	(506)
Direct operating expenses relating to investment property	(148)	(238)
Expenses on disposal of fixed tangible assets	(3,867)	(21,136)
Litigation expenses	(4)	(12)
Withholding tax	(261)	(1)
Other	(69)	(6)
	(5,819)	**(21,915)**

Over 90% of item Expenses on disposal of fixed tangible assets in 2023 represent the carrying amount of the building sold at 2, Tsar Osvoboditel Blvd. (see previous note).

Over 90% of the item Expenses for sale and derecognition of tangible fixed assets in 2024 represents the derecognition of an intangible asset from which the Bank does not expect benefits in the future.

12A. EXPENSES FOR IMPAIRMENT AND PROVISIONS OF FINANCIAL INSTRUMENTS

	2024	2023
Expenses for impairment on loans, net	(32,325)	(21,884)
Income from provisions on credit guarantees anti-COVID programs, net	7,787	3,230
Income from reversed provisions on bank guarantees, net	5,183	1,302
(Expenses for)/income from impairment on assets at fair value through other comprehensive income, net	(1,787)	445
Income from impairment of securities at amortized cost, net	34	25
(Expenses for)/income from reversed impairment on unutilised loans	(6)	12
	(21,114)	**(16,870)**

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

	2024	2023
Expenses for impairment of assets acquired from collateral foreclosure	(758)	(448)
Impairment of other assets	(1,642)	-
	(2,400)	**(448)**

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

12C. REINTEGRATED PROVISIONS FOR LAWSUITS

	2024	2023
Accrued expenses for provisions	(374)	(6)
Reversal of provision costs	3,945	73
Net income from provisions	**3,571**	**67**

In 2024 provisions of BGN 3,945 thousand were reversed. They were accrued in 2022 with respect to a lawsuit, which was finally decided in favour of the Bank in February 2025.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. EMPLOYEE BENEFITS EXPENSES

	2024	2023
Staff remuneration and social security	(16,250)	(15,012)
Remuneration to members of the Management and Supervisory Boards	(1,456)	(1,145)
	(17,706)	**(16,157)**

Staff remuneration and social security	2024	2023
Salaries	(13,734)	(13,000)
Social security	(1,960)	(1,819)
Social benefits	(408)	(53)
Amounts accrued on retirement benefits	(148)	(140)
	(16,250)	**(15,012)**

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2024	2023
Communications and IT services	(2,158)	(1,975)
Legal and consulting services	(1,485)	(1,917)
Office and office equipment maintenance	(1,442)	(1,527)
Advertising and entertainment expenses	(1,364)	(793)
Bank supervision fees	(925)	(869)
Hired services	(753)	(590)
Audit services by the registered auditors	(680)	(615)
Taxes and government charges	(225)	(362)
Business trips	(148)	(58)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(77)	(87)
Rents	(28)	(57)
	(9,285)	**(8,850)**

The amounts charges for the year for services provided by the registered audit firms of the Bank include: independent financial audit and report on internal control of the Bank to BNB in the amount of BGN 680 thousand (2023: BGN 615 thousand). The Bank did not receive tax advisory services or other services not related to audit by the statutory auditors.

15. TAXATION

	2024	2023
Income tax expense	-	-
(Expense for) deferred taxes as a result of occurrence of temporary differences	(496)	(81)
Total income tax expense	**(496)**	**(81)**

	2024	2023
Accounting profit	**35,278**	**31,661**
Income tax expense calculated at the effective tax rate (10% for 2024, 10% for 2023)	(3,528)	(3,166)
Tax expense for unrecognized expenses for tax purposes	(5,201)	(4,357)
Income from recognized expenses for tax purposes	263	306
Tax loss carried forward from previous years	7,970	7,136
Total income tax expense	**(496)**	**(81)**
Effective tax rate	**1.41%**	**0.26%**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. TAXATION (CONTINUED)

In 2024 and 2023, the Bank did not pay advance corporate income taxes.

Outstanding balances of deferred taxes relate to the following items of the separate statement of financial position and changes in the separate statement of comprehensive income:

	Assets		Liabilities		
	2024	**2023**	**2024**	**2023**	**Changes in the statement of comprehensive income**
Property and equipment	(74)	(25)	-	-	(49)
Other assets	384	(325)	-	-	709
Investment properties	-	-	(95)	70	(164)
Total changes in profit or loss	**310**	**(350)**	**(95)**	**70**	**496**
Securities at fair value through other comprehensive income	(2,417)	(7,718)	-	-	5,301
Total changes in other comprehensive income	**(2,417)**	**(7,718)**	**(95)**	**70**	**5,301**
Total changes in deferred taxes	**(2,107)**	**(8,068)**	**(95)**	**70**	**5,797**

The changes in the temporary differences during the year are recognised in the separate statement of comprehensive income.

The probability that the individual differences might reverse in the future and the Bank's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

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

	2024	**2023**
Gains/(losses), during the year	53,006	42,410
10% tax	(5,300)	(4,241)
Incl. debt instruments	*11,647*	*15,246*
10% tax	*(1,165)*	*(1,525)*
Incl. equity instruments	*41,359*	*27,164*
10% tax	*(4,135)*	*(2,716)*
Other comprehensive income for the year, net of tax	**47,706**	**38,169**

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

	2024	**2023**
Cash in hand	891	920
Current account with central banks	340,262	127,742
Of which with Deutsche Bundesbank	*109,367*	*30,129*
Of which with BNB	*230,895*	*97,613*
Incl. Minimum statutory reserves	*181,511*	*92,516*
Total cash with central banks	**340,262**	**127,742**
Total cash in hand and in accounts with central banks	**341,153**	**128,662**

In 2024 the current accounts with the Central Banks bear interest rate of between 0.0% and 3.75% (in 2023: 0.0% and 4.0%).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. RECEIVABLES FROM BANKS

	2024	2023
Current accounts and demand deposits with local banks	27	36
Current accounts and demand deposits with foreign banks	17,450	19,788
Total current accounts and demand deposits	**17,477**	**19,824**
incl. Current accounts with an original maturity of less than 90 days	*6,785*	*8,741*
Term deposits with local banks (incl. repo deals)	121,261	97,813
Term deposits with foreign banks (incl. repo deals)	688,875	361,540
Total term deposits	**810,136**	**459,353**
incl. Term deposits with an original maturity of less than 90 days	*810,136*	*459,353*
Loans to local banks	21,458	35,391
Total loans granted	**21,458**	**35,391**
Allowance for impairment and uncollectability of receivables from banks	(397)	(701)
	848,674	**513,867**

As of 31 December 2024, special-purpose loans, denominated and BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 3.94% to 13.63% (2023: 4.93% to 13.12%), were extended with the aim to develop small and medium-sized enterprises.

Funds amounting to BGN 10,692 thousand were blocked in current accounts with foreign banks to cover letters of credit and counter-guarantees (2023: BGN 11,083 thousand).

As of 31 December 2024, a loan was provided to a local bank denominated in foreign currency with nominal amount of EUR 4,295 thousand and equivalent to BGN 8,400 thousand (31 December 2023: BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loans in four instalments. This is a special-purpose loan extended to a bank for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

19. LOANS AND ADVANCES TO CUSTOMERS

	2024	2023
Loans (gross amount)	1,257,509	1,620,386
Impairment on loans	(256,152)	(237,753)
	1,001,357	**1,382,633**

	2024	2023
A. Analysis by customer type (gross amount)		
Corporate and sole traders	1,252,946	1,616,570
Individuals	4,563	3,816
	1,257,509	**1,620,386**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2024	2023
B. Analysis by industry sector (gross amount)		
Trade	247,839	430,092
Manufacturing Industry, total	251,073	275,423
Manufacturing Industry – manufacturing of plant and equipment	*50,453*	*83,035*
Manufacturing Industry – energy generation and distribution	*62,429*	*65,514*
Manufacturing Industry – manufacturing of foodstuffs	*60,633*	*45,968*
Manufacturing Industry – other industries	*77,558*	*80,906*
Tourist services	251,569	262,532
Financial services	194,767	194,707
Government sector	4,983	126,460
Construction	91,483	114,342
Transport	92,411	111,883
Real estate transactions	49,680	51,564
Agriculture	47,149	29,357
Other industries	26,555	24,026
	1,257,509	**1,620,386**

The Bank finances mainly the activities of small and medium-sized enterprises, as well as investment projects to achieve return from 5 to 10 years.

C. Movement in the allowance for loan impairment and uncollectability

	2024	2023
As of 1 January	**237,753**	**243,765**
Impairment costs	102,693	63,371
Reversed impairment	(70,080)	(41,487)
Written-off against impairment	(14,214)	(27,896)
As of 31 December	**256,152**	**237,753**

20. RECEIVABLES FROM THE STATE BUDGET

	2024	2023
Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	10,971	14,431
Allowance for impairment (collective impairment)	(185)	(169)
	10,786	**14,262**

By Decree No. 18 of 2 February 2015, the Council of Ministers of the Republic of Bulgaria approved Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) (the Programme) on the terms and conditions for grants award under the Programme and for designating the bodies that will be in charge of its implementation.

The financing under the Programme goes through BDB. For the purpose, the Bank concludes trilateral agreements with regional governors (representatives of the State) and municipal mayors (authorized representatives of the owners' associations).

The Bank believes that the existing receivables bear a minimal credit risk in so far as the source of the payments is the budget of the Republic of Bulgaria. The resources attracted by international partners for the purpose of financing the Programme is covered by a State guarantee (see Note 30).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

21. SECURITIES MEASURED AT AMORTIZED COST

The available securities, financial assets measured at amortized cost as of 31 December 2024 and 2023 are as follows:

2024	**Nominal value**	**Gross amount**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	1,348	1,366	(47)	1,319
	1,348	**1,366**	**(47)**	**1,319**

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

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

	2024	**2023**
Government securities	298,379	319,521
Corporate bonds	47,961	45,937
Total debt instruments	**346,340**	**365,458**
Non-publicly traded companies' shares	40,425	40,557
Participation in investment program SIA (Note 37)	1,163	1,128
Public companies' shares	116,694	79,315
Of which shares of First Investment Bank AD	*116,694*	*79,315*
Total equity instruments	**158,282**	**121,000**
Total financial assets measured at fair value through OCI	**504,622**	**486,458**

Debt instruments

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

	2024	**2023**
As of 1 January	365,458	494,919
Increase (purchases)	372,490	166,483
Disposals (sale and/or maturity)	(402,233)	(311,635)
Gross increase due to revaluation of financial assets measured at fair value through other comprehensive income	10,625	15,691
As of 31 December	**346,340**	**365,458**

Financial assets measured at fair value through other comprehensive income – debt instruments, consist mainly of government securities issued by the Republic of Bulgaria and other European states, as well as corporate bonds.

22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER

All amounts are in thousand Bulgarian Levs, unless otherwise stated

COMPREHENSIVE INCOME (CONTINUED)

Equity instruments

The movement of the equity financial assets, measured at fair value through other comprehensive income in the current and prior period, is as follows:

	2024	2023
As of 1 January	121,000	83,728
Additions (purchases)	3,709	10,115
Disposals (sale and/or maturity)	(7,022)	(7)
Gross increase due to revaluation of financial assets measured at fair value through other comprehensive income	40,595	27,164
As of 31 December	**158,282**	**121,000**

Equity instruments owned by the Bank are reported at fair value through other comprehensive income, and the Bank considers that the conditions of IFRS 9 in paragraph 5.7.5 are met, as these shares are neither held for trading nor represent contingent consideration recognized by the buyer in a business combination to which IFRS 3 applies.

Shares in public companies

Financial assets measured at fair value through other comprehensive income – equity instruments, consist of the following securities:

First Investment Bank AD

The Bulgarian Development Bank EAD holds 27,350,000 shares, representing 18.35% of the equity of First Investment Bank AD, with a par value of BGN 1 each.

The Bank has elected to classify this investment as financial asset measured at fair value through other comprehensive income, since the investment is long-term and strategic, it is not held for trading, and it is not a contingent consideration recognised in accordance with IFRS 3.

As of 31 December 2024, the Bank has assessed its participation in the capital of FIB according to the closing price received by the Bulgarian Stock Exchange (BSE) for shares of FIB on the last working day of the month of December 2024: BGN 4.2667 per share (as of 31 December 2023: BGN 2.9000 per share).

Shares in non-public companies

Three Seas Initiative

By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the Three Seas Investment. The fund is a financial mechanism for the implementation of priority projects in the region: transport, digital and energy infrastructure. His exclusive investment advisor is Amber Infrastructure Group (Amber) - a specialized international manager working in the field of investment creation, asset and fund management.

The participation of BDB is related to a contribution of EUR 20 million in the capital of a specially created company. The Three Seas Initiative has an objective to strengthen investments, relations and cooperation – political and financial, between the member states in the region. This is a public-private financial instrument whose purpose is to complement the financing from the European Union's structural and other funds.

The Fund manager periodically reports the net value of the assets for this instrument and the Bank revalues its participation according to it.

As of 31 December 2024 the Bulgarian Development Bank EAD has two representatives in the management of the Investment Fund "Three Seas": as member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director and Mrs. Sofia Kasidova – Head of Department "Strategic Development and Green Policies" in BDB as member of the Management Board.

As of 31 December 2024, the amount of the investment of BDB in the Three Seas Fund is BGN 34,228 thousand (as of 31.12.2023: BGN 34,538 thousand), and in 2024 the Bank subscribed additional shares in the amount of EUR 4,665 thousand (BGN 9,124 thousand) and has received as allocation EUR 3,590 thousand (BGN 7,021 thousand).

The commitment for capital contribution, which is still not due is disclosed in note 37 Contingencies and commitments.

European Investment Fund

The non-public companies' shares held by the Bank include shares of the European Investment Fund (EIF) amounting to BGN 6,067 thousand (2023: BGN 5,835 thousand) The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

Social Impact Accelerator (SIA)

BDB participates in the EIF initiative Social Impact Accelerator (SIA), providing funding for start-up companies. As of 31 December 2024, thirty-four (2023: thirty-one) equity contributions were made under the initiative amounting to EUR 795 thousand equivalent to BGN 1,556 thousand (2023: EUR 755 thousand equivalent to BGN 1,477 thousand). The carrying amount of the investment as of 31 December 2024 amounts to BGN 1,163 thousand (2023: BGN 1,128 thousand).

Borica AD

The remaining portion of the non-public companies' shares amounting to BGN 131 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA AD.

Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The revaluation reserve formed on financial assets measured at fair value through other comprehensive income is presented in Note 36:

	2024	2023
Revaluation reserve as of 1 January	**(57,286)**	**(95,455)**
Impairment	1,787	(445)
Revaluation	51,219	42,855
Tax	(5,300)	(4,241)
Revaluation reserve as of 31 December	**(9,580)**	**(57,286)**

23. INVESTMENTS IN SUBSIDIARIES

As of 31 December 2024, the Bank has the following investments in subsidiaries:

National Guarantee Fund EAD

The Bank is a sole owner of the capital of National Guarantee Fund EAD, registered with the Commercial Register on 22 August 2008. The total registered share capital as of 31 December 2024 is 800,000 shares of BGN 100 each (31.12.2023: 800,000 shares of BGN 100 each). As of 31 December 2024, the registered capital is BGN 80,000 thousand. (31.12.2023: BGN 80,000 thousand). The investment in the subsidiary as of 31 December 2024 amounts to BGN 80,000 thousand (31.12.2023: BGN 80,000 thousand), measured at historical cost of acquisition.

BDB Micro Financing EAD

The Bank is a sole owner of the capital of BDB Micro Financing EAD, registered on 14 January 2011. The total registered share capital as of 31 December 2024 amounts to BGN 14,035 thousand, split into 140,350 shares of BGN 100 each (as of 31.12.2023: BGN 14,643 thousand, split into 146,430 shares of BGN 100 each). The investment in the subsidiary as of 31 December 2024 amounts to BGN 14,643 thousand (31.12.2023: BGN 14,643 thousand).

Capital Investments Fund AD

Bulgarian Development Bank EAD and National Guarantee Fund EAD are owners of the capital of the Capital Investments Fund AD incorporated on 24 August 2018, its capital amounting to BGN 65,000 thousand. On incorporation BDB subscribed 550,000 registered shares for the total amount of BGN 55,000 thousand, representing 84.62% of the capital. National Guarantee Fund EAD subscribed 100,000 shares for the total amount of BGN 10,000 thousand, representing 15.38% of the Fund’s capital.

As of 31 December 2024, the capital of the Fund has been fully paid-in. The book value of BDB's investment in the capital of the Fund as of 31 December 2024 amounts to BGN 49,302 thousand (as of 31.12.2023: BGN 49,302 thousand).

BDB Leasing EAD

The Bank is the sole owner of the capital of BDB Leasing EAD, registered according to the Trade Register and Register of Non-Profit Legal Entities on 12 March 2019 with capital amounting to BGN 2,000 thousand, increased in 2020 to BGN 20,000 thousand.

In 2022 the capital of BDB Leasing was decreased to BGN 18,630 thousand which did not have an effect on the amount of the investment of BDB in BDB Leasing.

The carrying amount of the investment as of 31 December 2024 is BGN 20,000 thousand (as of 31 December 2023: BGN 20,000 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Trade Centre Maritsa EOOD

By decision of the Bank's Management Board, as recorded in Protocol 29 of 18 May 2018, Trade Centre Maritsa EOOD became an ownership of Bulgarian Development Bank EAD. As of 31 December 2024, the carrying amount of the Bank's shares in the company is BGN 3,023 thousand (as of 31 December 2023: BGN 3,023 thousand).

As of 31 December 2024, management conducted a review for impairment of the investments in subsidiaries and found that there were no indications for their impairment.

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Cost						
As of 1 January 2023	**54,863**	**3,899**	**782**	**1,023**	**10,614**	**71,181**
Additions	-	162	4	-	906	1,072
Disposals	(22,310)	-	-	(29)	(236)	(22,575)
As of 31 December 2023	**32,553**	**4,061**	**786**	**994**	**11,284**	**49,678**
Additions	-	555	28	-	486	1,069
Disposals	-	(309)	-	(131)	(6,235)	(6,675)
As of 31 December 2024	**32,553**	**4,307**	**814**	**863**	**5,535**	**44,072**
Accumulated depreciation/amortization						
As of 1 January 2023	**4,979**	**3,053**	**648**	**673**	**2,999**	**12,352**
Charge for the year	950	418	69	163	1,132	2,732
Disposals	(1,174)	-	-	(29)	(237)	(1,440)
As of 31 December 2023	**4,755**	**3,471**	**717**	**807**	**3,894**	**13,644**
Charge for the year	576	366	34	131	1,272	2,379
Disposals	-	(309)	-	(131)	(2,368)	(2,808)
As of 31 December 2024	**5,331**	**3,528**	**751**	**807**	**2,798**	**13,215**
Net book value						
As of 1 January 2023	**49,884**	**846**	**134**	**350**	**7,615**	**58,829**
As of 31 December 2023	**27,798**	**590**	**69**	**187**	**7,390**	**36,034**
As of 31 December 2024	**27,222**	**779**	**63**	**56**	**2,737**	**30,857**

As of 31 December 2024, the book value of fully depreciated property, plant and equipment used in the activities of the Bank amount to BGN 2,772 thousand (31 December 2023: BGN 1,990 thousand), and the fully depreciated intangible assets - BGN 1,281 thousand (2023: BGN 1,405 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

25. INVESTMENT PROPERTY

	2024	2023
Carrying amount at the beginning of period	5,351	8,221
Acquired from collateral foreclosure	1	32
Sold	-	(2,886)
Gain/(loss) on change in fair value	201	(16)
	5,553	**5,351**

The Bank holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2024 amounts to BGN 402 thousand (2023: BGN 495 thousand) (Note 10).

The Bank classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers using valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

26. ASSETS HELD FOR SALE

As of 31 December 2024, and 31 December 2023, assets held for sale realized the following movements and balances:

Movement in assets held for sale during the year:	**2024**	**2023**
Carrying amount at the beginning of period	-	2,561
Acquired from collateral foreclosure	-	280
Reclassified to assets acquired from collateral foreclosure	-	(2,841)
	-	**-**

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

27. ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE AND OTHER ASSETS

	2024	2023
Assets acquired from collateral foreclosure	204,238	38,726
Other assets	5,992	4,812
	210,230	**43,538**

Assets acquired from collateral foreclosure

	2024	2023
Carrying amount at the beginning of year	**38,726**	**37,434**
Acquired during the period	184,305	-
Reclassified from assets held for sale	-	2,841
Additional capitalised costs	1,771	1,332
Sold	(19,806)	(2,433)
Impairment (Note 12)	(758)	(448)
Carrying amount at the end of the year	**204,238**	**38,726**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Assets acquired from collateral foreclosure (IAS 2), include assets acquired from collateral foreclosure on loans, which were Assets held for sale (IFRS 5), but not realised within the stipulated 12-month period and reclassified to assets acquired from collateral foreclosure. These assets are measured at the lower of cost and net realisable value.

In 2024, the Bank acquired significant assets, mainly real estate, against the repayment of debt of large borrowers. These assets are not used and are not planned to be used in the Bank's operations. Management is actively seeking buyers for them.

	2024	2023
Prepayments and advances	595	2,101
Art	66	66
VAT refundable	3,717	-
Other receivables	1,614	2,645
	5,992	**4,812**

As of 31 December 2024 the other receivables include mainly receivables from guarantee fees and unamortized guarantee fees.

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2024	2023
Deposits from local banks	200,354	189,700
Deposits from foreign banks	46,224	20,218
	246,578	**209,918**

	2024	2023
Term deposits	200,345	189,303
Demand deposits	46,233	20,615
	246,578	**209,918**

The accrued interest payables on deposits of the credit institutions as of 31 December 2024 amount to BGN 6 thousand (31.12.2023: BGN 58 thousand).

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2024	2023
Companies and sole traders	790,438	578,819
Special-purpose deposits	64,382	63,466
Individuals	10,897	7,882
	865,717	**650,167**

	2024	2023
Term deposits	523,720	263,078
Demand deposits	341,997	387,089
	865,717	**650,167**

Interest payable on deposits from customers, other than credit institutions as of 31 December 2024 amount to BGN 4,100 thousand (2023: BGN 1,705 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The amount of the special-purpose deposits comprises the deposits of National Guarantee Fund EAD, a subsidiary of BDB, in connection with projects for establishing a Guarantee Fund to support rural areas of the country under the Rural Development Programme of the Republic of Bulgaria (2007-2013) at the Ministry of Agriculture and Food, and of the Operational Programme for Development of Fisheries Sector (2007-2013) at the Executive Agency Fisheries and Aquacultures (EAFA).

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

	2024	**2023**
China Development Bank	189,759	445,216
Industrial and Commercial Bank of China /EUROPE/	88,961	103,945
Long-term loans from the European Investment Bank	131,546	32,770
Export–Import Bank of China	98,020	-
Long-term framework loan agreement with the Council of Europe Development Bank	102,872	-
	611,158	**581,931**

In order to fulfil its mission, BDB attracts funds from various sources, focusing on attracting funds from International Lending Institutions. The effective interest rates on funds attracted from international institutions as of 31 December 2024 are in the range from 3.04%-4.36% (31.12.2023: 4.10%-5.35%).

The interest payables on the borrowings from international institutions as of 31 December 2024 amount to BGN 1,798 thousand (2023: BGN 1,728 thousand).

As of 31 December 2024, the main funding sources of the Bulgarian Development Bank EAD are presented below, as follows:

China Development Bank

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured.

As of 31 December 2024, the outstanding principal on the loan amounts to EUR 97,000 thousand equivalent to BGN 189,716 thousand (as of 31.12.2023: EUR 227,500 thousand equivalent to BGN 444,951 thousand). The interest rate is floating, based on six-month EURIBOR plus a margin.

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

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured.

As of 31 December 2024, the debt on the loan amounts to EUR 45,000 thousand equivalent to BGN 88,012 thousand (as of 31.12.2023: EUR 52,500 thousand equivalent to BGN 102,681 thousand). The interest rate is floating, based on six-month EURIBOR plus a margin.

The Export – Import Bank of China

On 5 December 2023 the BDB signed a new agreement with Export – Import Bank of China for the amount of EUR 50,000 thousand. The funds can be used to finance the overall lending activity of BBD. The interest rate is floating, based on the three-month EURIBOR plus margin. As of 31 December 2024, the funds have been fully utilized on the loan.

As of 31 December 2024, the principal amount due on the loan is EUR 50,000 thousand equivalent to BGN 97,792 thousand.

European Investment Bank

On 18 November 2016, BDB signed a third contract with European Investment Bank (EIB) for the amount of EUR 150,000 thousand for financing of projects of small and medium-sized enterprises. The funds are provided with the support of the EU and are backed by an EFSI (European Fund for Strategic Investment) guarantee, part of the Investment Plan for Europe – the Juncker Plan. The funds are intended to finance SMEs, including innovative projects, to support regions with high unemployment rates, as well as youth employment or start-up company projects. The loan can be allocated through partner banks, other financial intermediaries or directly. The loan is unsecured.

As of 31 December 2024, the outstanding principal under the loan amounted to EUR 14,637 thousand equivalent to BGN 28,627 thousand. The interest rate is floating, based on the 6M EURIBOR plus a margin.

As of 31 December 2023, the outstanding principal under the loan amounted to EUR 16,728 thousand equivalent to BGN 32,717 thousand. The interest rate is floating, based on the 6M EURIBOR plus a margin.

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

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

As of 31 December 2024, the first tranche of the loan funds in the amount of EUR 52,500 thousand (BGN 102,681 thousand) has been utilized. The interest rate is floating, based on six-month EURIBOR plus a margin.

Council of Europe Development Bank

On 13 July 2023 the Bulgarian Development Bank signed with the Council of Europe Development Bank a financial agreement amounting to EUR 175,000 thousand with State guarantee. The Guarantee Agreement was signed on 20 July 2023 and the draft law for its ratification was adopted by the National Assembly of the Republic of Bulgaria on 12 September 2024. The loan is intended for direct financing of small and medium-sized enterprises, job creation and environmental protection environment. As of 31 December 2023, no funds have been utilized under the loan.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2024, the first tranche of the loan in the amount of EUR 52,500 thousand (BGN 102,681 thousand) has been utilized. The interest rate is floating, based on six-month EURIBOR plus a margin.

31. OTHER BORROWINGS

	2024	2023
Loan financing from the Ministry of Finance with funds from KfW	12,164	11,687
KfW funds provided by the Ministry of Finance for trust management	4,942	5,131
	17,106	**16,818**

Interest payables accrued on other borrowings as of 31 December 2024 amount to BGN 16 thousand (2023: BGN 22 thousand).

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period.

On 28 April 2017 BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

As of 31 December 2024, the outstanding principal amounted to EUR 6,211 thousand equivalent to BGN 12,148 thousand. The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2023, the outstanding principal amounted to EUR 5,964 thousand equivalent to BGN 11,664 thousand. The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

KfW funds provided by the Ministry of Finance for trust management

Since 2001 the Bank has been working on the concluded agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt fur Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for financing of small and medium-sized enterprises. The Ministry of Finance bears the risk under the loans to partner-banks. The Bank selects the partner-banks and transfers the funds to those approved; gathers information and performs periodic reviews of the funds' utilisation, monitors the timely interest and principal payments to the special account of the Ministry of Finance.

As of 31 December 2024, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,527 thousand equivalent to BGN 4,942 thousand.

The Bank receives a management fee and accrues interest on the special account on a quarterly basis.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2023, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,623 thousand equivalent to BGN 5,131 thousand.

The Bank receives a management fee and accrues interest on the special account on a quarterly basis.

32. PROVISIONS

	2024	2023
Provisions for guarantee programmes related to the COVID-19 pandemic	90,289	111,845
Bank guarantee provisions	1,737	3,242
Total provisions for guarantees	**92,026**	**115,087**
Provisions for lawsuits	379	3,950
Provisions for unutilized loans	14	6
	92,419	**119,043**

Provisions for guarantee programmes related to COVID-19 pandemic represent the valuation of expected credit losses on the guarantees issued in relation to programmes loans to individuals, micro, small and medium-sized enterprises and large enterprises, assigned to BDB by the Council of Ministers of the Republic of Bulgaria (see Note 37). They are calculated according to a methodology adopted by the BDB especially for these loans.

In 2024, the Bank reassessed the provisioning rates based on the results of the guaranteed portfolios in 2023 and 2024. As a consequence, the Bank increased the provisioning rate on guarantees for loans to enterprises to 31.5% (2023 г.: 27.6%) and reduced the rates on guarantees on loans for individuals to 31.7% (as of 31 December 2023: 34%). Cumulatively, in 2024, the movement in the provisions under guarantee programs related to the COVID-19 pandemic is an increase by BGN 4,153 thousand (2023: increase by BGN 6,945 thousand) of provisions for guarantees on loans to enterprises, and a decrease of BGN 25,709 thousand (2023: decrease by BGN 22,315 thousand) of provisions on guarantees for loans of individuals.

Bank guarantee provisions are amounts determined using the expected credit loss method in accordance with IFRS 9. The provisions for issued individual guarantees as of 31 December 2024 amounted to BGN 1,737 thousand (2023: BGN 3,242 thousand).

The table below presents the movement of guarantee provisions:

	2024	2023
Balance as of 1 January	**115,087**	**128,960**
Accruals for the year – anti-COVID programmes	12,040	20,883
Utilised in the year	(13,767)	(12,140)
Reversed in the year	(19,829)	(24,113)
	(21,556)	***(15,370)***
Accruals for the year – bank guarantees	1,992	1,905
Utilised in the year	3,680	2,799
Reversed in the year	(7,177)	(3,207)
	(1,506)	***1,497***
Balance as of 31 December	**92,026**	**115,087**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The table below presents the movement of provisions for lawsuits:

	2024	2023
Balance as of 1 January	3,950	4,017
Accrued in the statement of comprehensive income	374	6
Released during the year	(3,945)	(73)
Balance as of 31 December	**379**	**3,950**

33. LEASE LIABILITIES

Lease liabilities represent liabilities to lease companies, related to assets purchased on lease. As of 31 December 2024, these liabilities amount to BGN 112 thousand (as of 31 December 2023: BGN 208 thousand).

34. OTHER LIABILITIES

	2024	2023
Accruals for expenses	1,602	2,273
Payables to personnel for salaries and social security	815	861
Retirement benefit liabilities	914	705
Tax liabilities	316	208
Charges on debenture loans and guarantees	45	73
Payables to EIF	18	26
Other creditors	492	1,153
	4,202	**5,299**

Payables to personnel for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon.

Employee retirement benefits are due by the Bank to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he/she has worked for more than 10 years for the Bank – to six gross monthly salaries at the time of retirement. The Bank estimated the amount of these liabilities by using mathematical models and the services of a certified actuary. Based on the calculations made, the amount of BGN 914 thousand was included in the separate statement of financial position as of 31 December 2024 (31 December 2023: BGN 705 thousand).

	2024	2023
Present value of the liability as of 1 January	**705**	**610**
Current service cost	107	92
Interest expense	36	37
Amounts paid in the period	(8)	(57)
Actuarial (gain)/loss related to provisions for retirement and sickness	(1)	11
Actuarial loss on changes in demographic and financial assumptions and actual experience	75	12
Present value of the liability as of 31 December	**914**	**705**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Amounts on retirement for old age and length of service	
	2024	**2023**
Actuarial gain as of 1 January	129	141
Actuarial loss recognized in other comprehensive income for the period	(69)	(12)
Actuarial gain as of 31 December	**60**	**129**

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2024:

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2021 – 2023;
- staff turnover rate – from 1 per cent to 10 per cent depending on five age groups formed;
- rate of early retirement due to illness – from 0.027% to 0.3212% depending on five age groups formed;
- effective annual interest rate for discounting – 4.0% (2023 г. – 4.5%);
- assumptions for the future level of working salaries in the Bank are based on the Bank's development plan for 2023 – 3% compared to the 2024 level and for 2026 and subsequent years – 3% compared to the previous year level.

The effect for 2024 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	**Decrease by 1% of salary growth**
Increase / (decrease) of liability	81	(72)
	Increase by 1% of interest rate	**Decrease by 1% of interest rate**
Increase / (decrease) of liability	(71)	81
	Increase by 1% of staff turnover rate	**Decrease by 1% of staff turnover rate**
Increase / (decrease) of liability	(78)	89

35. SHARE CAPITAL

	2024	**2023**
	Number of shares	***Number of shares***
Ordinary shares issued, paid in cash	11,355,000	14,417,735
Capital decrease – transfer to reserves	-	(3,062,735)
Ordinary shares issued, paid in cash	**11,355,000**	**11,355,000**

As of 31 December 2024, the capital of the Bank consists of 11,355,000 ordinary registered voting shares with par value of BGN 100 each (2023: 11,355,000 shares with par value BGN 100).

The Bulgarian Development Bank Act provides that not less than 51 per cent of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51 per cent of the registered share capital are non-transferable.

By virtue of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the shares of the Bank's capital, apart from the Bulgarian state, may be acquired and held by the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, by development banks from EU member states. In these cases Art. 31 of the Credit Institutions Ac is not applied. In view of the provision of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the members of the management and control bodies, the procurators and the senior management may not hold shares and may not be provided with options on BDB securities, and in subsequent reporting periods no agreements may arise, as a result of which changes in the relative share of shares held by current shareholders may occur in the future.

Capital decrease of Bulgarian Development Bank EAD in 2023

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

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

36. RESERVES

In accordance with the general provisions of the Commercial Act, the Bank shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10% of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least ½ of its after-tax annual profit until the reserves reach 50% of its share capital.

The Reserve Fund may be used by the Bank only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is similar.

The Reserve Fund of the Bank amounts to BGN 51,800 thousand (31 December 2023: BGN 0 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2024, the Additional Reserves of the Bank amounted BGN 305,516 thousand (31 December 2023: BGN 305,584 thousand) and are formed as a result of capital decrease and to cover losses of the Bank from prior years, according to decisions of the sole owner of the capital, as well as from movements in the reserves due to the merging of BDB Factoring EAD into BDB in 2022.

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank is allowed to waive the right to a dividend and then the dividend amount is transferred to Additional Reserves.

All unrealised gains and losses on fair value revaluation of the financial assets measured at fair value through other comprehensive income held at the end of each reporting period are recognised in equity, in a special component thereof formed by the Bank and titled Reserve for financial assets measured at fair value through other comprehensive income. These gains and losses are transferred to current profits and losses upon sale/maturity of the respective securities and/or on permanent impairment.

The Reserve for financial assets measured at fair value through other comprehensive income is presented net of taxes. As of 31 December 2024, this reserve is a negative value at the amount of BGN 9,580 thousand (31 December 2023: BGN 57,286 thousand – negative value).

37. CONTINGENCIES AND COMMITMENTS

	2024	2023
Contingent liabilities		
Anti-COVID guarantees	286,226	373,894
Bank guarantees and letters of credit	88,013	97,354
incl. with cash collateral	*(489)*	*(2,742)*
Letters of credit, incl. with borrowings-		
Reported as loan commitment	-	1,101
Guarantee provisions (Note 32)	(92,026)	(115,087)
Incl. provisions under guarantees for Anti-Covid programmes	*(90,289)*	*(111,845)*
Total contingent liabilities	**281,724**	**354,520**
Irrevocable commitments		
Unutilised amount of approved loans	227,485	184,384
Including letters of credit opened with borrowed funds	-	*1,101*
Provisions on unutilized loans (Note 32)	(13)	(6)
Unpaid portion of shares of Three Seas Initiative	11,210	7,788
Participation in the SIA investment program	352	479
Total irrevocable commitments	**239,034**	**192,645**
	520,758	**547,165**

Anti-COVID programmes

In its role as national development bank BDB received mandates from the government for the implementation of financial instruments in support of Bulgarian citizens and businesses affected by the COVID-19 pandemic. They were secured with an increase in the Bank's capital of BGN 700 million and included the following measures:

Measures for individuals and households

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

The Interest-free loan guarantee program for loans of up to BGN 5,000 aims to support individuals on unpaid leave and self-insured who are temporarily deprived of the opportunity to work in an emergency state. The program parameters were further amended by Decision 910/10.12.2020 of the Council of Ministers (increasing the maximum amount from BGN 5,000 to BGN 6,900 of loans granted at once or in instalments). The maximum repayment period was 5 years, with a minimum of 6 months and a maximum of 24 months grace period and approved clients didn't have to pay fees, commissions or charges on the loans.

By Decision of the Council of Ministers No 194/05.03.2021, Bulgarian Development Bank EAD was granted the right to increase by up to BGN 100 million (up to a total of BGN 300 million) the amount of the guarantee programme for individuals at the expense of the budget of the Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic.

By Decision of the Council of Ministers No 506/15.07.2021, the deadline for applying under the Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic was extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted.

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

As of 31 December 2024, BGN 64,044 thousand portfolio guarantees have been issued to commercial banks. BDB has guaranteed 36,347 loans worth BGN 58,057 thousand. The guarantees paid to the commercial banks and the costs of establishing and collecting the credits due are in the amount of BGN 12,616 thousand, of which BGN 625 thousand have been reimbursed to BDB as of the same date.

Measures for micro, small and medium-sized enterprises

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

The Guarantee Programme was part of the government's anti-crisis measures and had a budget of BGN 500 million. The Programme included companies from all sectors especially benefiting those from the most affected areas - trade, services, transport and logistics, tourism, hotel and restaurant management, and others.

In order to apply for loans, the companies had to meet one of the following conditions:

- To be micro, small and medium-sized enterprises, as determined in the manner specified in the Law on small and medium-sized enterprises or large enterprises- commercial companies, whose indicators for personnel and assets and/or turnover exceed the indicators specified in the Law on small and medium-sized enterprises
- That the enterprises were not in a difficult situation as of 31.12.2019, which is established by checking pre-set, normative criteria. Recent changes to the programme introduce a relief from the "Temporary Framework for State Aid" for micro and small enterprises. It is sufficient for them not to have been the subject of insolvency proceedings, under national law and have not received rescue or restructuring aid (meaning rescue or restructuring aid). In addition, if the BDB guarantee includes existing loans, they must not have been non-performing, and the borrower must not be overdue for more than 90 days – in 2019. For existing loans, the borrower must have submitted to the commercial bank - partner forecast estimates and forecast plan for resumption of its activities, which does not require a strictly defined form and details;

Funding and guarantee could be used by companies that had encountered difficulties or had fallen into difficulty after 31 December 2019 due to the outbreak of the COVID-19 epidemic. The difficulty is identified by the borrower himself, and it is sufficient to describe one of the following reasons that led to his difficulties:

- Decrease in turnover after the first quarter of 2020 compared to the same period in 2019 (based on financial statements or documents of the company);
- Existence of receivables from customers, that have not been received/amounts not paid to suppliers after 1 March 2020 (based on financial statements and documentation of the company);
- Terminated import deliveries necessary for the activities of the enterprise – after 1 January 2020, cancelled export contracts (based on documents submitted by the company);
- Cases of illness and self-isolation of employees, total reduction of the number of employees, closed production facilities, premises and offices (based on documents submitted by the company);
- Existence of other circumstances, establishing the difficulties experienced by enterprises due to COVID-19, according to methodology adopted by the commercial banks, which is provided to BDB.

Because the funding covered by the guarantee under the programme is state aid:

- Borrowers were prohibited from financing one and the same expenditure with a loan under the programme and other state/minimum aid. (The same expense means, for example, payment on a specific invoice from 30 November 2020 or payment of rent for a specific office for the month of December 2020, or payment of salaries of specific employees for a specific month.) If the client uses for these specific expenses state/minimum (de minimis) aid, the client cannot use the loan to cover the same costs (prohibition of double financing);

- The borrower must not have infringed the State aid rules and be entered in the specially created "Degendorf Register" https://stateaid.minfin.bg/bg/page/483;
- If the borrower or a related person has benefited from/uses other state /minimum aid for the same type of expenses, as the expenses that he or she wants to be financed by the loan under the programme (e.g., total costs for salaries, total rental costs, total costs for maintenance of facilities), he or she was obliged to declare this to the commercial bank by a declaration according to a model of the programme and should not to allow double financing as mentioned above.

New loans, as well as existing loans, could be included in the programme, but provided that the company is experiencing difficulties in servicing the loans after 31 December 2019 and has no overdue payments over 90 days during the last year. The loans had a maximum amount of BGN 300,000 and BDB covered up to 80% of them.

The banks themselves determined the minimum and maximum repayment period and the grace period for newly granted loans was up to three years.

During the last quarter of 2020 the Programme was renewed by Decision of the Council of Ministers 979/2020, as follows:

- The loans granted now have an amount up to BGN 1 million for small and medium-sized enterprises and up to BGN 2 million for large enterprises;
- The term of inclusion of loans in the Guarantee portfolio was extended until 31 December 2021;
- The deadline for application under the measure for micro, small and medium-sized enterprises was extended until 30 June 2022;
- The percentage of collateral for the loans changed from 20% to up 50%, according to the amount of financing;
- A reduction of at least 80 basis points on loan interest rates was required;
- The term of the guarantee provided by BDB was extended from 5 to 6 years;
- The guarantee coverage covered investment loans granted by the banks;
- The limit of the guarantee payments by the BDB AD was extended from 30% to 50%.

The Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic was updated by Decision of the Council of Ministers No 194/05.03.2021 and by Decision of the Council of Ministers No 578/05.08.2021. The programme is aiming to synchronize it with the upgrading mechanism for intervention developed in May 2021 by the Ministry of Economy and the Ministry of Finance, which provides liquid support to enterprises – "Portfolio guarantee to overcome the consequences of COVID-19".

The formation of portfolios under the Program ended on 30.06.2022, and according to final data from the commercial banks - partners in the scheme, 2,842 loans were guaranteed, the original amount of the loans being BGN 630,349 thousand, for which a guarantee was provided by BDB in the amount of 80 % or for BGN 504,279 thousand.

The portfolio status is updated on a quarterly basis. As of 31 December 2024, a total of 1,677 loans amounting to BGN 281,189 thousand were guaranteed. Approved requests for payment of guaranteed sums under the Program amount to BGN 11,347 thousand, and those reimbursed to BDB at the end of 2024 are in the amount of BGN 1,061 thousand.

SIA

On 17 July 2015, Bulgarian Development Bank EAD signed a funds management contract with EIF for accession to the SIA (Social Impact Accelerator) investment program of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. In 2018, a Consent for extending the investment period of the SIA Fund by 1 year. The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program.

As of 31 December 2024 thirty-five contributions to equity were made under the initiative and the balance amounts to EUR 795 thousand equivalent to BGN 1,555 thousand (2023: EUR 755 thousand equivalent to BGN 1,477 thousand), and the carrying amount as of 31 December 2024 amounts to EUR 595 thousand (BGN 11,163 thousand) (as of 31.12.2023: EUR 577 thousand equivalent to BGN 1,128 thousand) (Note 22).

Guarantee programmes for small and medium-sized businesses NAPRED

In 2015, the Bank launched a program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30 per cent of the amount of the individual sub-loans - on loans granted by partner banks to businesses.

As of 31 December 2024, the Bank has active agreements with three partner banks and the size of the portfolio of guarantees is BGN 1,692 thousand (31.12.2023: three partner banks and guarantee portfolio amounting to BGN 2,811 thousand, payment limit BGN 646 thousand).

BDB's programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME

In November 2016, BDB signed a counter-guarantee agreement with limited payments with the European Investment Fund (EIF) under the COSME (Competitiveness of Small and Medium-sized Enterprises) program to support small and medium-sized businesses. The COSME programme is supported by EFSI (European Fund for Strategic Investments). The Bank has the opportunity to cover up to 60% of the risk of loans to SMEs granted by commercial banks and non-bank financial institutions with which it partners. Half of this risk is counter-guaranteed by EIF, with the total amount of the counter-guarantee being EUR 10 million. With the resources guaranteed under the COSME program, BDB's partner banks can grant investment and working capital loans, bank guarantees, as well as revolving loans. The maximum amount of loans granted is EUR 150,000. The repayment period is from 1 to 10 years.

The portfolio size as of 31 December 2024 is EUR 5.5 million, including 53 loans to micro, small and medium-sized enterprises.

BDB's programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME+ Programme, with the support of the European Fund for Strategic Investments (Cosme+ Programme)

In 2024 BDB continues to implement the agreements under BDB Programme for Indirect Financing of SMEs with Guarantee Facility and Counter-Guarantee under the COSME + Programme of the European Investment Fund with the support of the European Fund for Strategic Investments with two commercial banks and five non-banking financial institutions. The programme is implemented with the support of European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guaranteed facility and counter-guarantee.

The COSME Programme implemented by the EIF upgrades the Entrepreneurship and Innovation Program (EIP) established in the period 2007-2013. Its total budget is EUR 2.3 billion for the period 2014-2020. It covers four areas of support - improving access to financing for SMEs in the form of equity and debt instruments; improving market access for SMEs worldwide; improvement of the framework conditions for competitiveness of enterprises and promotion of entrepreneurship.

As of 31 December 2024, the BDB has concluded contracts under the Programme with 7 financial institutions in the total amount of EUR 23,049 thousand, of which two commercial banks and five non-banking financial institutions, entered in the register of the BNB.

As of 31 December 2024, the value of the guaranteed by the BDB sub-loans is BGN 10,705 thousand (EUR 5,473 thousand), and the guaranteed amount – BGN 2,818 thousand (EUR 1,441 thousand).

Leasing line programme

As of 31 December 2024, there are 9 active agreements were under the Lease Line programme, which is for non-banking financial institutions partners – lessors, registered at the BNB, carrying out financial lease. The programme is intended for lending to lease companies, in order to facilitate the access to resources for purchase and leasing of assets, used in the business activity of small and medium-sized enterprises. The total agreed amount is EUR 16,120 thousand, and the current principal due is EUR 7,954 thousand.

BROD programme

The BDB's implementation of the latest product for indirect financing of small and medium-sized enterprises "BROD Programme" continues. The budget of the Programme is EUR 20 million. The cost of financing is up to 6 months. EURIBOR + 3.5% and at 3.5% as a minimum. The partners under the BROD Programme finance SMEs subject to a certain ceiling of interest rate and total annual appreciation, which are in line with the changes in the value of EURIBOR.

As of 31 December 2024, the Bank has six active agreements with non-bank financial institutions. The amount contracted under this program is BGN 26,339 thousand, and the outstanding amount is BGN 17,132 thousand.

Pan-European Guarantee Fund

The Pan-European Guarantee Fund was established as part of the overall package of measures of the EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises in the EU and public enterprises, providing important services such as healthcare, medical research and others. In September 2021, BDB signed with EIF a guarantee agreement under the Pan-European Guarantee Fund.

The guarantee agreement allows the Bank to provide direct financing with an EIF guarantee (AAA-rated) with no limit on loss payments, with a coverage of 70% of the loss under guaranteed loan of SME.

In turn, BDB undertakes to provide a financial advantage – a reduction in the risk margin with the coverage of the PEGF guarantee, which is reflected in reduction in the interest rate on each of the guaranteed loans. Customers who are final recipients must comply with certain conditions and requirements related to the PEGF guarantee and the state aid regime.

From the end of September 2021 through financial instruments of the Pan-European Guarantee Fund, BDB presented three new products on the Bulgarian market for small and medium-sized businesses, the sector of creative industries and start-ups in production. The programme, amounting to EUR 40 million at most in volume, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB granted direct loans under easier loan terms.

As of 31 December 2024, the portfolio guaranteed under the agreement amounted to EUR 12.9 million and includes 37 transactions of micro small and medium-sized enterprises (as of 31 December 2023: EUR 18.5 million and 51 transactions).

BDB's programme to support households by financing investments in energy from renewable sources, in implementation of the National Recovery and Sustainability Plan of the Republic of Bulgaria (Framework Conditions)

By decision of the Management Board of BDB EAD with Protocol No 57 dated 13.07.2023, a portfolio guarantee with loss-ceiling was approved for partial coverage of credit risk in bridge financing provided by commercial banks for investments in RES, in support of households under the National Households Support Scheme in The Field of Energy from Renewable Sources of the Ministry of Energy (the Scheme). The initial budget of the Programme is BGN 56 million.

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

Limit on guarantee payments (Loss-ceiling)

The maximum amount of covered losses under the Portfolio Guarantee under the programme amounts to BGN 16,800 thousand, with the limit of guarantee payments being the maximum amount to which BDB's obligation to pay to each commercial bank is limited, calculated on a portfolio basis by applying the Guaranteed Payment Limit percentage to the Guaranteed Portfolio multiplied by 70%.

<u>Conditions for eligibility of Borrowers and financing under the Programme</u>

Eligible Borrowers:

Applicants approved for funding under the Scheme who have signed a contract under the Scheme with the Monitoring and Reporting Structure (MRS). The borrower under the Programme is allowed to be different from the grant recipient under the Scheme if due to objective circumstances for the financing bank (e.g. old age, reduced working capacity, significant indebtedness, weaker creditworthiness, or other), the Applicant would not receive a bridging loan for financing the investment in RES under the Scheme. In such cases, the applicant approved for financing under the Scheme is jointly and severally liable with the Borrower for the repayment of the loan, and the grant is paid to the recipient's account in the financing bank and should provide collateral for the loan as if the Applicant were the recipient of the loan. Commercial banks should indicate to the BDB the objective circumstances that prevent the provision of credit under the Program in favor of the

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Applicant.

Type and purpose of financing

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

As of 31 December 2024, BDB has signed agreements with four commercial banks under the program with a maximum amount of a guaranteed portfolio totaling BGN 14 million.

Nature of the instruments and credit risk

These contingent commitments bear off-balance sheet credit risk, because only the fees are recognized in the financial statements up to the performance or expiration of the term of the commitments. The amounts shown in the table above as guarantees represent the maximum accounting loss that would be recognized at the end of the reporting period, if the counterparties did not fully meet their contractual obligations. The term of many of the contingent liabilities will have expired without being partially or fully advanced.

Therefore, the amounts do not represent expected future cash flows. Collateral for the issuance of ordinary bank guarantees is over 100% and represents mainly blocked deposits with the Bank, mortgaged real estate and insurance policies issued in favour of the Bank. Upon occurrence of conditions for activation of an issued guarantee, the Bank assesses the possibility for recourse receivable from the counterparty and possible realization of the provided collateral.

The guarantees issued by the Bank under the MLSP Guarantee Fund Project are unsecured. In case of activation of a component of a guarantee issued by the Bank, the payment made by it is not assessed as a final loss, as the partner bank has an obligation to take all necessary actions for realization of the received collaterals under the problem loan and to reimburse the respective amount to BDB.

The unpaid part of the par value of the shares of the European Investment Fund held by the Bank becomes due for payment after a special decision for the purpose of the General Meeting of the Fund's shareholders. No such decision has been taken by the date of these financial statements.

38. CASH AND CASH EQUIVALENTS

	2024	**2023**
Cash in hand (Note 17)	891	920
Current accounts with the central banks (Note 17)	340,262	127,742
Receivables from banks with original maturity up to 3 months (Note 18)	816,921	468,094
	1,158,074	**596,756**

The following tables summarise the movements in the liabilities arising from financing activity, including cash-flow and non-monetary changes, with a reconciliation between the opening and closing balances in the statement of financial position of the liabilities arising from financing activity for the years ended 31 December 2024 and 31 December 2023.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	1 January 2024	Cash inflows	Cash outflows	31 December 2024
Current borrowings from international institutions	581,931	303,221	(273,994)	611,158
Current liabilities on other borrowings	16,818	588	(300)	17,106
Total liabilities from financing activity	**598,749**	**303,809**	**(274,294)**	**628,264**

	1 January 2023	Cash inflows	Cash outflows	31 December 2023
Current borrowings from international institutions	779,497	-	(197,566)	581,931
Current liabilities on other borrowings	16,608	330	(120)	16,818
Total liabilities from financing activity	**796,105**	**330**	**(197,686)**	**598,749**

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER COMMON CONTROL OF THE STATE

Entity/person	***Type of control***
MINISTRY OF INNOVATION AND GROWTH	State Ministry, exercising rights of ownership on the Bank on behalf of the State from 18 March 2022 to 31 March 2025
MINISTRY OF FINANCE	State Ministry, issuer of securities, depositor, exercising ownership rights on the Bank on behalf of the State from 31 March 2025
NATIONAL GUARANTEE FUND EAD	Subsidiary
BDB MICRO FINANCING EAD	Subsidiary
CAPITAL INVESTMENTS FUND AD	Subsidiary
TC MARITSA EOOD	Subsidiary
BDB LEASING EAD	Subsidiary
UMBAL ST. EKATERINA EAD	Company under common control of the State
MONTAZHI EAD	Company under common control of the State
KOZLODUY NPP - NEW BUILD EAD	Company under common control of the State
BULGARIAN ENERGY HOLDING EAD	Company under common control of the State
HOLDING BULGARIAN STATE RAILWAYS EAD	Company under common control of the State
BULGARIAN INSTITUTE FOR STANDARDIZATION	Company under common control of the State
AVTOMAGISTRALI EAD	Company under common control of the State
SOUTH STREAM BULGARIA AD	Company under common control of the State
ICGB AD	Company under common control of the State
KINTEX EAD	Company under common control of the State
WATER SUPPLY AND SEWERAGE EOOD PLOVDIV	Company under common control of the State
TPP MARITSA EAST 2 EAD	Company under common control of the State
STATE CONSOLIDATION COMPANY EAD	Company under common control of the State
AVIOSNAMS AD	Company under common control of the State
EKO ANTRATSIT EAD	Company under common control of the State
WATER SUPPLY AND SEWERAGE SHUMEN OOD	Company under common control of the State
MONTAZHI-SOFIA EOOD	Company under common control of the State

Entity/person	***Type of control***
BDZ – FREIGHT TRANSPORT EOOD	Company under common control of the State
MBAL LOZENETS EAD	Company under common control of the State
UMBAL ALEKSANDROVSKA EAD	Company under common control of the State
BULGARTRANSGAZ EAD	Company under common control of the State
BALGARSKI POSHTI EAD (BULGARIAN POSTS)	Company under common control of the State
DARZHAVNO PREPRIYATIE KABIYUK DP	Company under common control of the State

The table above shows the companies with which the Bank had transactions during the reporting period. All related party transactions are at arm’s length.

Related party balances in the statement of financial position:

Assets

Entity	***Type of balance***	**2024**	**2023**
Ministry of Finance	Financial assets at fair value through other comprehensive income	249,066	249,066
BDB Micro Financing EAD	Loans and advances to customers	19,459	18,522
BDB Leasing EAD	Loans and advances to customers	56,982	56,767
BDB Leasing EAD	Other assets (Prepaid expenses)	8	11
Companies controlled by BDB	Loans and advances to customers	3,226	3,226
Companies under common control of the State	Loans and advances to customers	64,923	221,003
Companies under common control of the State	Financial assets at fair value through other comprehensive income	21,754	21,201
Total		***415,418***	**569,796**
Of which with subsidiaries		***76,449***	***75,300***

Liabilities

Entity	***Type of balance***	**2024**	**2023**
Ministry of Finance	Other borrowings	17,106	16,818
National Guarantee Fund EAD	Liabilities to customers on deposits	89,454	67,212
BDB Micro Financing EAD	Liabilities to customers on deposits	1,011	3,494
BDB Leasing EAD	Liabilities to customers on deposits	2,440	1,467
BDB Leasing EAD	Other liabilities (lease liabilities)	93	173
Trade Center Maritsa EOOD	Liabilities to customers on deposits	486	255
Capital Investments Fund AD	Liabilities to customers on deposits	35,879	38,610
Companies under common control of the State	Liabilities to customers on deposits	423,751	145,968
Total		***570,220***	***273,997***
Of which with subsidiaries		***129,363***	***111,212***

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Related party transactions in the statement of comprehensive income:

Entity	Type of relation	2024	2023
Ministry of Finance	Fee and commission income	51	13
	Interest income	1,099	1,238
	Interest expenses	(580)	(506)
National Guarantee Fund EAD	Fee and commission income	7	13
	Interest expenses	(4)	(17)
	Rental income	56	74
	Dividend income	2,000	2,515
BDB Micro Financing EAD	Fee and commission income	4	23
	Interest income	1,025	852
	Interest expenses	(9)	-
	Rental income	80	71
	Other operating income	29	-
BDB Leasing EAD	Fee and commission income	1	3
	Interest expenses	(9)	(12)
	Interest income	3,242	2,721
	Other operating income	61	61
	Dividend income	282	-
Capital Investments Fund AD	Fee and commission income	1	-
	Interest expenses	(568)	(451)
	Other operating income	24	28
Companies under common control of the State	Interest income	5,744	14,092
	Fee and commission income	199	218
	Interest expenses	(915)	(150)
Total income		***13,905***	***21,922***
Total expenses		***(2,085)***	***(1,136)***
Total income from transactions with subsidiaries		***6,812***	***6,361***
Total expenses for transactions with subsidiaries		***(590)***	***(480)***

Commitments and contingencies with related parties:

Entity	*Type*	2024	2023
BDB Micro Financing EAD	Unutilised amount of a loan approved	5,095	6,095
BDB Leasing EAD	Unutilised amount of a loan approved	26,661	27,014
Companies under common control of the State	Unutilised amount of a loan approved	8,603	19,558
Companies under common control of the State	Bank guarantees issued	20,520	15,398
Total		***60,879***	***68,065***
Of which with subsidiaries		***31,756***	***33,109***

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Relations with key management personnel:

Balances with key management personnel	**2024**	**2023**
Payables to customers on deposits	1,475	626
Remuneration payable	48	-

Transactions with key management personnel	**2024**	**2023**
Remuneration and social security contributions	(1,456)	(1,145)

40. EVENTS AFTER THE REPORTING PERIOD

No adjusting events or significant non-adjusting events occurred after the reporting date until the date of approval of the separate financial statements, except for the following non-adjusting events:

Amendments to the Bulgarian Development Bank Act

The 2025 State Budget Law of the Republic of Bulgaria was promulgated in State Gazette (SG) 26/27.03.2025. The Law amends the Bulgarian Development Bank Act, according to which the rights of the State in the General Meeting of the Bank’s shareholders are exercised by the Minister of Finance. The amendment is effective from 31 March 2025.

Changes to the Articles of Association of Bulgarian Development Bank EAD

By decision under Protocol No. RD-02-17-1 of 14.01.2025 of the Minister of Innovation and Growth, in the capacity of exercising the rights of the State as the sole owner of the capital of BDB, amendments and appendixes to the Articles of Association of the Bulgarian Development Bank EAD approved by the Bulgarian National Bank were adopted. The amendments and appendixes and entered in the Commercial Register and the Register of Non-Profit Legal Entities and are effective from 19 February 2025.

Changes in the Management Board of Bulgarian Development Bank EAD

By decision of the Supervisory Board under Protocol No. 8 of 20.02.2025, Iliya Zapryanov Karanikolov was dismissed as a member of the Management Board of Bulgarian Development Bank EAD and Executive Director. The decision was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 27 February 2025.

INFORMATION UNDER ART. 70, PARA. 6 OF THE LAW ON CREDIT INSTITUTIONS

This appendix on an individual basis has been prepared in accordance with the requirements of Art. 70, para. 6 of the Law on Credit Institutions (LCI).

1. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION

Bulgarian Development Bank EAD is a sole owned joint-stock company registered with the Commercial register under EIC 121856059, with a seat in the city of Sofia, Sofia City Region, Bulgaria and management address at 1 Dyakon Ignatij Str. The financial year of the Bank ends on 31 December.

Bulgarian Development Bank was established on 11 March 1999 as a joint-stock company in Bulgaria under the name Encouragement Bank AD.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank's activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuant to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

On 4 June 2021, Bulgarian Development Bank was registered in the Commercial Register and Register of Non-Profit Legal Entities as a sole – owned commercial company.

The Bank holds a general banking license, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009 and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bank's lending activity includes:

- pre-export and export financing of SME;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad;
- participation in public and public-private projects or partnerships of strategic, national and/or regional importance.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The main objectives of the Bank are:

- to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance;
- drawing in and management of medium and long-term local and foreign resources needed for the implementation of economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional misbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development;
- Financing of companies operating in priority sectors of the economy, in accordance with the adopted government economic development policy, as well as such implementing strategic projects and/or projects of national and/or regional importance.

The bank operates on the territory of the Republic of Bulgaria.

As of 31 December 2024, Bulgarian Development Bank EAD operates from a registered address in the city of Sofia, 1 Dyakon Ignatij Str.

2. VOLUME OF THE TURNOVER

For the year ended 31 December 2024, the Bank realized turnover as follows:

	2024	**2023**
Interest income (note 6)	123,757	117,940
Fee and commission income (note 7)	2,322	4,719
Other operating income	20,786	29,808
Total income	**146,865**	**152,467**

3. AVERAGE NUMBER OF FULL-TIME EMPLOYEES

As of 31 December 2024, the Bank has 213 employees (31 December 2023: 201).

4. FINANCIAL RESULT OF THE ACTIVITY BEFORE TAX

For the year ended 31 December 2024, the Bank's financial result before tax amounts to BGN 35,278 thousand (for the year ended 31 December 2023: BGN 31,661 thousand).

5. TAX ON THE FINANCIAL RESULT OF THE ACTIVITY

For the financial year 2024, the taxes accrued on the financial result of the activity amount to BGN 529 thousand (for the financial year 2023: BGN 81 thousand). See note 15 to the separate financial statements for more information.

6. RETURN ON ASSETS AS A RATIO OF NET PROFIT TO TOTAL BALANCE

The realized net profit (after tax) for 2024 amounts to BGN 34,782 thousand (for 2023: BGN 31,580 thousand).

The total assets of the Bank as of 31 December 2024 are BGN 3,123,721 thousand (as of 31 December 2023: BGN 2,787,393 thousand).

The return on assets as a ratio of net profit to the total balance for 2024 is 1.11% (for 2023: 1.13%).

7. GOVERNMENT SUBSIDIES RECEIVED

The Bank did not receive government subsidies in 2024.