BULGARIAN DEVELOPMENT BANK EAD

ANNUAL SEPARATE MANAGEMENT REPORT

INDEPENDENT AUDITORS' REPORT AND

ANNUAL SEPARATE FINANCIAL STATEMENTS

31 December 2022

Unofficial translation from Bulgarian

BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2022

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2022	As of 31.12.2021
Assets			
Cash in hand and balances in current accounts with Central Banks	17	527,836	243,625
Financial assets at amortized cost - Receivables from banks	18	139,305	385,347
Financial assets at amortized cost – Loans and advances to customers	19	1,502,860	1,727,836
Financial assets at amortized cost - Receivables from the State budget	20	23,537	18,817
Financial assets at amortized cost – Securities	21	1,745	1,920
Financial assets at fair value through other comprehensive income – Debt instruments	22	494,919	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	22	83,728	64,669
Investments in subsidiaries	23	166,968	173,512
Property, plant and equipment, intangible assets	24	58,829	60,797
Investment property	25	8,221	7,352
Assets held for sale	26	2,561	4,107
Assets, acquired from collateral foreclosure	27	37,434	34,719
Other assets	27	5,522	4,481
Deferred tax assets	15	12,321	9,698
Total assets		**3,065,786**	**3,328,823**
Liabilities			
Borrowings from international institutions	30	779,497	1,110,740
Deposits from customers other than credit institutions	29	994,068	881,673
Deposits from credit institutions	28	2,641	1,719
Other borrowings	31	16,608	16,746
Provisions	32	132,996	177,747
Lease liabilities	33	299	492
Other liabilities	34	5,404	4,159
Total liabilities		**1,931,513**	**2,193,276**
Equity			
Share capital	35	1,441,774	1,441,774
Accumulated loss		(211,369)	(386,706)
Revaluation reserve on financial assets at fair value through other comprehensive income	22, 36	(95,455)	(74,608)
Reserves	36	(677)	155,087
Total equity		**1,134,273**	**1,135,547**
Total liabilities and equity		**3,065,786**	**3,328,823**

The accompanying notes from 1 to 41 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 29 May 2023.

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

Auditors' report on the separate financial statements issued on 31 May 2023.

Deloitte Audit OOD, auditing company

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

Grant Thornton OOD, auditing company

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

***Mariy Apostolov**, Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

BULGARIAN DEVELOPMENT BANK EAD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	**2022**	**2021**
Interest income	6	77,227	75,330
Interest expense	6	(18,817)	(18,652)
Net interest income	6	**58,410**	**56,678**
Fee and commission income	7	4,496	3,678
Fee and commission expense	7	(3,660)	(4,006)
Net fee and commission (expense)/income	7	**836**	**(328)**
Net income on foreign exchange deals	8	524	427
Net (loss)/gain on financial assets at fair value through other comprehensive income	9	(851)	1,101
Other operating income	10	2,952	1,621
Other operating expenses	11	(1,062)	(1,278)
Operating result before impairment, personnel expenses, administrative expenses, depreciation and amortization		**60,809**	**58,221**
Expenses on impairment and provisions of non-financial assets	12B	(6,589)	(1,600)
Expenses on impairment and provisions of financial instruments	12A	(1,308)	(184,010)
Provisions	12C	(4,017)	-
Operating profit/(loss) before personnel expenses, administrative expenses, depreciation and amortization		**48,895**	**(127,389)**
Employee benefits	13	(16,442)	(16,827)
General and administrative expenses	14	(9,533)	(8,784)
Depreciation and amortization expenses	24	(3,006)	(2,956)
Profit/(loss) before income tax		**19,914**	**(155,956)**
Income tax benefit	15	305	105
Net profit/(loss) for the year		**20,219**	**(155,851)**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains on defined benefit plans, net of taxes	34	172	11
Net change in fair value of equity financial assets at fair value through other comprehensive income	16, 22	10,610	(5,005)
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value of debt financial assets at fair value through other comprehensive income	16, 22	(31,457)	(1,839)
Total other comprehensive income for the year, net of tax		**(20,675)**	**(6,833)**
Total comprehensive income for the year		**(456)**	**(162,684)**

The accompanying notes from 1 to 41 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 29 May 2023.

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

Auditors' report on the separate financial statements issued on 31 May 2023.

Deloitte Audit OOD, auditing company

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

Grant Thornton OOD, auditing company

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

***Mariy Apostolov**, Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Retained earnings/ (Accumulated loss)	Total
As of 1 January 2021	**1,441,774**	**74,939**	**80,137**	**(67,764)**	**(230,855)**	**1,298,231**
Net loss for the year	-	-	-	-	(155,851)	(155,851)
Other comprehensive income, net of taxes	-	-	11	(6,844)	-	(6,833)
Total comprehensive income for the period	-	-	11	(6,844)	(155,851)	(162,684)
As of 31 December 2021	**1,441,774**	**74,939**	**80,148**	**(74,608)**	**(386,706)**	**1,135,547**
Transfer to accumulated loss	-	(74,939)	(80,179)	-	155,118	-
Net profit for the year	-	-	-	-	20,219	20,219
Other comprehensive income, net of taxes	-	-	172	(20,847)	-	(20,675)
Total comprehensive income for the period	**-**	**-**	**172**	**(20,847)**	**20,219**	**(456)**
Acquisition of BDB Factoring	-	-	(818)	-	-	(818)
Total other movements	**-**	**-**	**(818)**	-	**-**	**(818)**
As of 31 December 2022	**1,441,774**	**-**	**(677)**	**(95,455)**	**(211,369)**	**1,134,273**

The accompanying notes from 1 to 41 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 29 May 2023.

Iliya Karanikolov
Executive Director

Ivan Cerovski
Executive Director

Tsanko Arabadzhiev
Executive Director

Dimitar Mitev
Head of Finance

Ivan Lichev
Chief Accountant
Preparer

Auditors' report on the separate financial statements issued on 31 May 2023.

Deloitte Audit OOD, auditing company

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

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Grant Thornton OOD, auditing company

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

***Mariy Apostolov**, Statutory Manager*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2022	2021
Cash flows from operating activities			
Profit/(Loss) the year before taxes		19,914	(155,956)
Adjustments for:			
Dividend income	10	(127)	(75)
Impairment loss on loans	12	44,451	127,774
(Income from)/Expenses for guarantee provisions and unutilized credit commitments	12	(46,330)	54,538
Impairment losses on financial assets at fair value through other comprehensive income	12	3,170	1,687
Impairment loss on investments in subsidiaries	12	5,290	1,193
Impairment losses on financial assets at amortized cost	12	16	10
Losses/(gains) on revaluation of investment properties	10, 11	(869)	433
Gain from sale of properties, acquired from collateral foreclosure		(817)	-
Impairment loss and sale of other assets	12	149	407
Net (profit)/loss on revaluation of foreign currency assets and liabilities	8	22	(7)
Depreciation and amortization expenses	24	3,006	2,956
Carrying amount of written-off assets		11	90
		27,886	**33,049**
Changes in:			
Financial assets at amortized cost - Receivables from banks		246,726	54,086
Financial assets at amortized cost - Loans and advances to customers		22,520	(14,576)
Financial assets at amortized cost - Receivables from the State budget		(4,742)	39,007
Financial assets at fair value through other comprehensive income		48,589	(27,498)
Assets held for sale		(4,333)	(3,958)
Other assets		(1,190)	14,494
Deposits from credit institutions		922	(6,436)
Deposits from customers other than credit institutions		112,395	(245,642)
Provisions		1,579	76
Other liabilities		1,357	57
Cash flows from/(used in) operating activities		**451,709**	**(157,341)**
Corporate income tax paid		-	-
Taxes recovered		-	900
Net cash flows from/(used in) operating activities		**451,709**	**(156,441)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2022	2021
Cash flows from investing activities			
Cash payments for acquisition of property, plant and equipment, and intangible assets		(1,049)	(1,117)
Proceeds from sale of property, plant and equipment, and intangible assets		-	(90)
Proceeds from sale and improvements of collateral assets		3,981	53
Acquisition of shares in subsidiaries and associates		-	(7,000)
Net cash flows from/(used in) investing activities		**2,932**	**(8,154)**
Cash flows from financing activities			
Cash paid on other borrowings		(298)	(298)
Cash received from other borrowings		160	112
Cash paid on borrowings from international institutions		(331,243)	(128,164)
Net cash flows used in financing activities		**(331,381)**	**(128,350)**
Net change in cash and cash equivalents for the period		123,260	(292,945)
Cash and cash equivalents at the beginning of the year	38	485,881	778,826
Cash and cash equivalents at the end of the year	38	**609,141**	**485,881**
Operating interest-related cash flows			
Proceeds from interests		75,518	63,520
Interests paid		(17,823)	(17,647)

The accompanying notes from 1 to 41 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 29 May 2023.

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

Auditors' report on the separate financial statements issued on 31 May 2023.

Deloitte Audit OOD, auditing company

Rositsa Boteva

Statutory Manager

Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

Grant Thornton OOD, auditing company

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

***Mariy Apostolov**, Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

1. ORGANISATION AND OPERATING POLICY

The separate financial statements of Bulgarian Development Bank EAD ("BDB", "the Bank") for the year ending 31 December 2022 are approved for issue according to a decision under Protocol No 45 of the Management Board of 29 May 2023 and Protocol No 26 of the Supervisory Board of 30 May 2023.

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

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

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

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

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

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

The Bank's lending activity includes:

- pre-export and export financing of SME;

[1] On 4 June 2021 Bulgarian Development Bank is registered in the Commercial register and register of non-profit legal entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad;
- 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 the implementation of economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional misbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development;
- Financing of companies operating in priority sectors of the economy, in accordance with the adopted government economic development policy, as well as such implementing strategic projects and/or projects of national and/or regional importance.

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

As of 31 December 2022, the members of the Supervisory Board of BDB are: Rosen Andreev Karadimov – Chairman of SB, Delyana Valerieva Ivanova – Deputy Chairman of SB, Stamen Stamenov Yanev – Deputy Chairman of SB.

As of 31 December 2022, the Management Board of BDB comprises: Mariana Dimitrova Petkova – Chairman of MB and Executive Director; Tsanko Rumenov Arabadzhiev - member of MB and Executive Director and Krum Georgiev Georgiev - member of MB.

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

As of 31 December 2022, the Bank does not have a procurator.

As of 31 December 2022, the Bank’s employees were 233 (31 December 2021: 227).

As of 31 December 2022, Bulgarian Development Bank EAD has no branches.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

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

Credit rating

On 19 August 2022 the International rating agency Fitch Ratings confirmed the credit rating of Bulgarian Development Bank EAD – BBB, with positive outlook. The Bank's rating is equal to the Bulgarian State rating and practically it is the highest possible credit rating for BDB.

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

Significant changes in the management bodies and structure of the Bank in 2022 and 2023

In 2022 the following changes in the management and structure of the Bank have been made:

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

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

As of 31 December 2022, the ownership of the BDB's capital is distributed as follows: 100% are owned by the Republic of Bulgaria, and the rights of the State as a sole owner of the capital are exercised by the Minister of Innovation and Growth.

By decisions of the Minister of Innovation and Growth under Protocol of 7 June 2022 and under Protocol of 21 July 2022, new amendments have been adopted in the Statute of the Bank related to financing of existing exposures. These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial register and register of non-profit legal entities under the lot of Bulgarian Development Bank EAD and are effective as of 28 July 2022.

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

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2022 and 2023 (continued)

Changes related to the ownership, capital and Statute of the Bulgarian Development Bank EAD (continued)

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute are announced for filing in the Commercial Register and the register of non-profit legal entities on 23 May 2023. The change affect neither the value of Bank's net assets as of 31 December 2022 or as of subsequent periods nor the amount of Bank's regulatory equity.

Changes in the Bank's Supervisory Board in 2022

The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board was entered in the Commercial register and register of non-profit legal entities on 13 January 2022.

By decision of the sole owner of BDB under Protocol dated 7 November 2022 Rosen Andreev Karadimov and Delyana Valerieva Ivanova were elected as members of the Bank's Supervisory Board. This circumstance was recorded in the Commercial register and register of non-profit legal entities on 14 November 2022. Mr. Rosen Andreev Karadimov was elected as Chairman of the Bank's Supervisory Board.

Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov were released from the Bank's Supervisory Board and the decision of the sole owner under Protocol dated 30 November 2022 was entered in the Commercial register and register of non-profit legal entities on 7 December 2022.

Changes in the Bank's Management Board in 2022 *and 2023*

By decision of the Supervisory Board under Protocol No 28 of 6 June 2022 Mariana Dimitrova Petkova was elected as new member of the Management Board. This circumstance was recorded in the Commercial Register on 13 June 2022. By decision of the Management Board under Protocol No 51/06.06.2022 Mrs. Mariana Dimitrova Petkova is authorized to represent and manage the Bank as Executive Director. This circumstance was recorded in the Commercial Register on 13 June 2022. Mrs. Mariana Dimitrova Petkova was elected as Chairman of the Management Board.

By decision of the Supervisory Board under Protocol No 30 of 9 June 2022 Vladimir Rashkov Gueorguiev was dismissed as member of the Management Board of the Bank. On 16 June 2022 Vladimir Rashkov Gueorguiev was deregistered in the Commercial register as member of the Management Board.

By decision of the Supervisory Board under Protocol No 31 of 9 June 2022 Jivko Ivanov Todorov was dismissed as member of the Management Board of the Bank effective as of 13 June 2022. This circumstance was recorded in the Commercial register on 23 June 2022.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2022 and 2023 (continued)

Changes in the Bank's Management Board in 2022 and 2023 (continued)

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

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

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

*Changes **in the Bank's Audit Committee in** 2022*

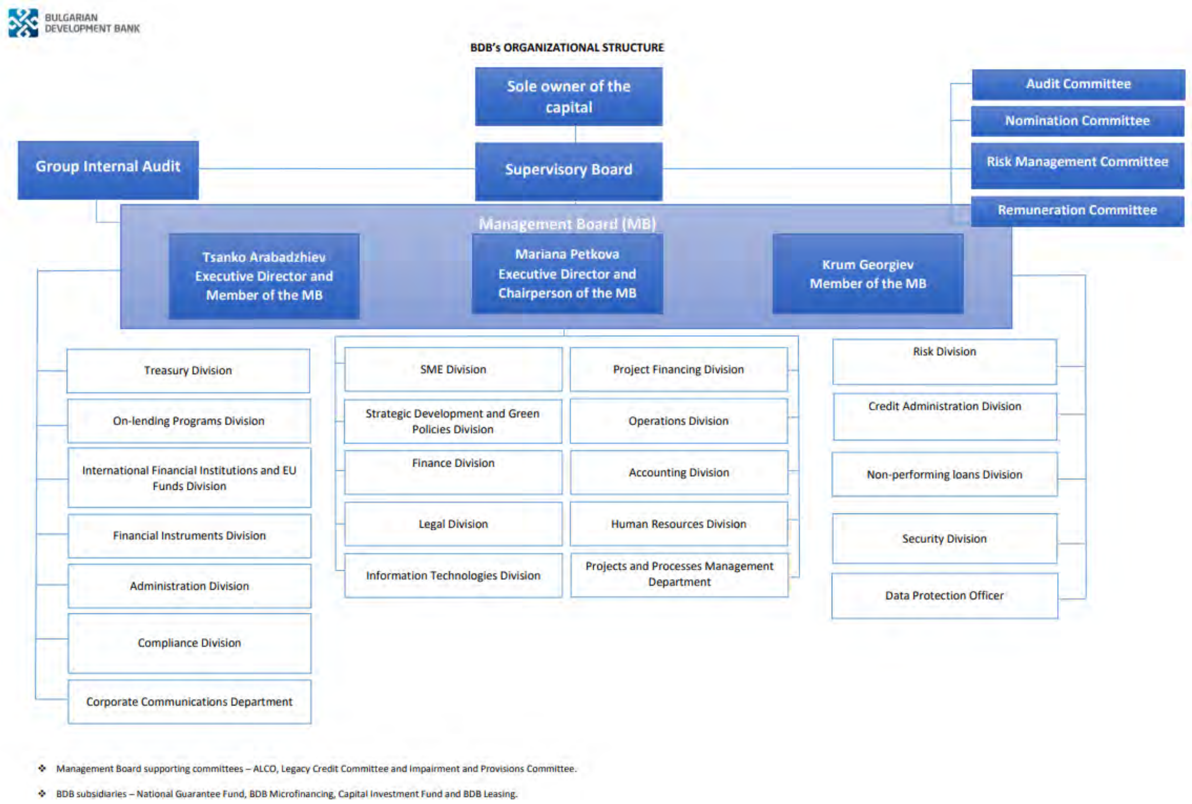
In 2022 the members of the Audit Committee are: Dragomir Ivanov Vuchev, Vassil Atanasov Shtonov and Gergana Stoyanova Moskova. By decision under Protocol No RD-02-17-29/29.12.2022 of the Minister of Innovation and Growth Dragomir Vuchev, Vassil Shtonov and Gergana Moskova were released as members from the Audit Committee effective as of 29 December 2022. By decision under Protocol No RD-02-17-29/29.12.2022 of the Minister of Innovation and Growth Svetlana Kurteva, Svetlodara Petrova and Delyana Ivanova were elected as members of the Audit Committee as of 1 January 2023.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2022 and 2023 (continued)

Changes in the Bank's structure

The organizational structure of BDB as of 31 December 2022 is as follows:

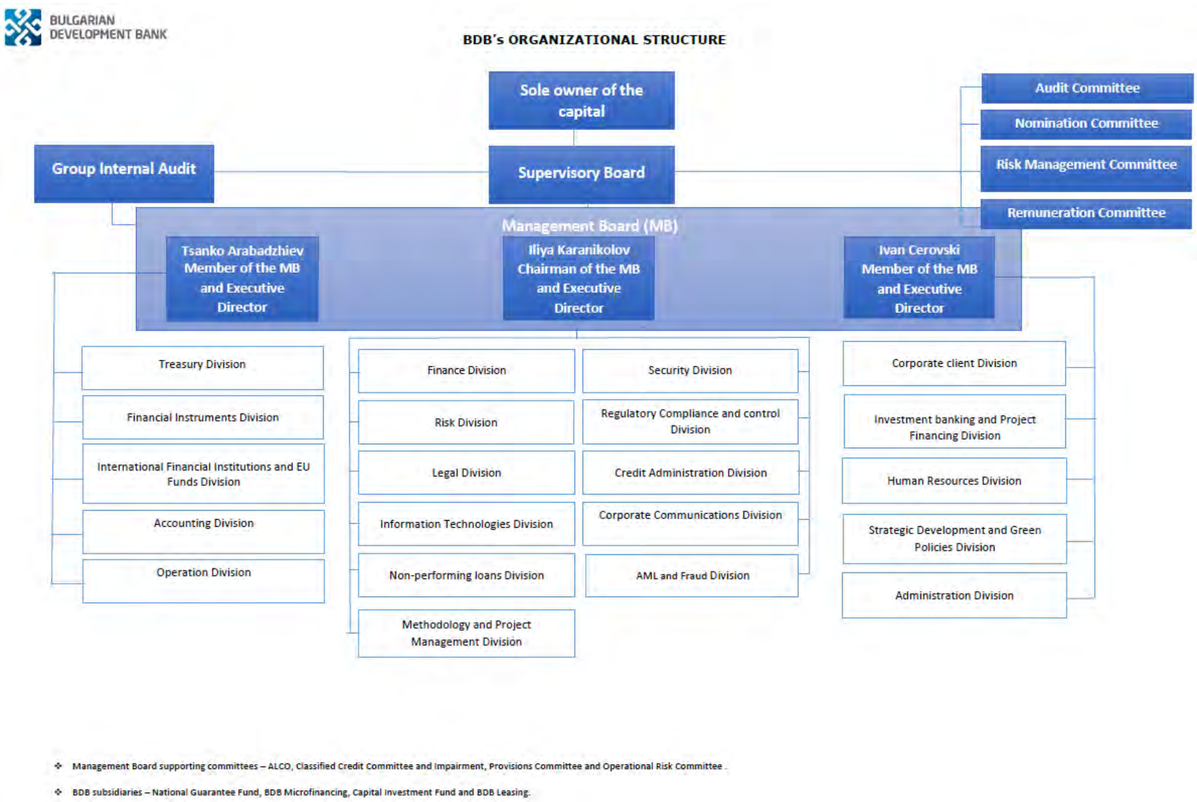


Following the management and organizational changes from January-April 2023 described above, the organizational structure of the Bank at the date of issue of these financial statements is presented in the following diagram:

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Significant changes in the management bodies and structure of the Bank in 2022 and 2023 (continued)

Changes in the Bank's structure *(continued)*



Subsidiaries

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investment Fund AD and the National Guarantee Fund EAD (Note 23). National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investment Fund AD was established in 2018 with share capital of BGN 65,000 thousand. The share of BDB in Capital Investment Fund AD is 85% and the remaining shares are owned by the National Guarantee Fund EAD.

BDB also owns 100% of the capital of BDB Microfinancing EAD. For 12 years BDB Microfinancing EAD has been creating conditions for successful development of micro and small enterprises, using effective models and practices in the field of lending and leasing.

In addition, BDB owns 100% of the share capital of BDB Leasing EAD established in 2019. The subsidiary BDB Factoring EAD was terminated in 2022 through its merger with Bulgarian Development Bank EAD (Note 39).

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the statutes, management bodies and capital of subsidiaries in 2022 and 2023

All subsidiaries of BDB are represented jointly of either two members of the Board of Directors. The procurators of the subsidiaries of BDB may represent a company jointly with any member of the Board of Directors of the respective company.

By decision of BDB Management Board the following changes in the management bodies and capital of BDB subsidiaries have been made:

National Guarantee Fund EAD

By Decision under Protocol of 10 June 2022 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Jivko Ivanov Todorov was dismissed as member of the Board of Directors of National Guarantee Fund EAD. This circumstance was recorded in the Commercial register and the register of non-profit legal entities on 23 June 2022.

By Decision under Protocol of 23 June 2022 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Krum Georgiev Georgiev was elected as member of the Board of Directors of National Guarantee Fund EAD. This circumstance was recorded in the Commercial register and the register of non-profit legal entities on 6 July 2022.

The Board of Directors members as of 31 December 2022 are:

- Krum Georgiev Georgiev - Chairman of the Board of Directors as of 6 July 2022;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors as of 20 May 2020;
- Deyan Petrov Kalapchiev - Member of the Board of Directors as of 27 September 2021.

By Decision under Protocol of 10 March 2023 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Krum Georgiev Georgiev was dismissed as member of the Board of Directors of National Guarantee Fund EAD and Ivan Valentinov Tserovski was elected as a new member. These circumstances were recorded in the Commercial register and the register of non-profit legal entities on 17 March 2023. Mr. Ivan Valentinov Tserovski was elected as a Chairman of the Board of Directors of the company.

BDB Microfinancing EAD

By Decision under Protocol of 10 June 2022 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Vladimir Rashkov Gueorguiev was dismissed as member of the Board of Directors of the company and Mariana Dimitrova Petkova was elected as a new member.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the statutes, management bodies and capital of subsidiaries in 2022 and 2023 (continued)

BDB Microfinancing EAD (continued)

These circumstances were recorded in the Commercial register and the register of non-profit legal entities on 23 June 2023. Mrs. Mariana Dimitrova Petkova was elected as a Chairman of the Board of Directors of the company.

The Board of Directors members as of 31 December 2022 are:

- Mariana Dimitrova Petkova – Chairman of the Board of Directors as of 23 June 2022;
- Ivana Borisova Tzaneva – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Iliya Radkov Komitov - Member of the Board of Directors as of 28 August 2020;
- Boyan Stefanov Byanov – Member of the Board of Directors as of 30 August 2021.

By Decision under Protocol of 7 March 2023 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Mr. Tsanko Rumenov Arabadzhiev was elected as a member of the Board of Directors of the company. This circumstance was recorded in the Commercial register and the register of non-profit legal entities on 22 March 2023. Mr. Tsanko Rumenov Arabadzhiev was elected as a Chairman of the Board of Directors of the company.

By Protocol No 23 of 07 March 2023 and Protocol No 26 of 10 March 2023 the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD took decision to change the Statute of BDB Microfinancing EAD regarding company's representing, and namely, the company is represented jointly by two Executive Directors or at least one Executive Director and one member of the Board of Directors. The changes are entered under the lot of BDB Microfinancing EAD in the Commercial register on 22 March 2023.

By Decision under Protocol No 4 of 9 March 2023 of the Board of Directors of BDB Microfinancing EAD Mrs. Mariana Dimitrova Petkova was elected as a second Executive Director. By Decision under Protocol No 26 of 10 March 2023 the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD approves the election of Mrs. Mariana Dimitrova Petkova as Executive Director and confirms that Ivana Borisova Tzaneva continues to perform the functions of Executive Director of the company. These circumstances were recorded in the Commercial register and register of non-profit legal entities on 22 March 2023.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the statutes, management bodies and capital of subsidiaries in 2022 and 2023 (continued)

Capital Investments Fund AD

By Decision of the general meeting of the shareholders of the company held on 9 September 2022 Rusalin Stanchev Dinev was elected as new member of the Board of Directors of Capital Investment Fund AD. Krasimir Tanev Atanasov was dismissed as member of the Board of Directors. These circumstances were recorded in the Commercial register and register of non-profit legal entities on 16 September 2022.

The Board of Directors members as of 31 December 2022 are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors as of 5 August 2021;
- Stefan Stefanov Tamnev – Executive Director and Deputy Chairman of the Board of Directors as of 5 August 2021;
- Rusalin Stanchev Dinev – Member of the Board of Directors as of 16 September 2022.

The general meeting of the shareholders of Capital Investment Fund AD took decision at its extraordinary meeting held on 9 September 2022 to reduce the capital of the company from BGN 65,000,000 (sixty five million) to BGN 57,814,000 (fifty seven million eight hundred and fourteen thousand) by acquiring and invalidation of 71,860 (seventy one thousand eight hundred and sixty) ordinary, registered, materialized, indivisible and voting shares with nominal value of BGN 100 each, in order to cover the losses and to comply with the provision of art. 252, para 1, item 5 of the Commercial Act in relation to art. 247a, para 2 of the Commercial Act. The decision was entered in the Commercial register on 16 September 2022.

BDB Leasing EAD

The Board of Directors members as of 31 December 2022 are:

- Krum Georgiev Georgiev as of 23 August 2021 – Chairman of the Board of Directors;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20 May 2020;
- Antoniya Hristoforova Dobreva – Member of the Board of Directors as of 20 May 2020.

The company has an authorized procurator - Ivaylo Kirilov Popov as of 1 June 2020.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the statutes, management bodies and capital of subsidiaries in 2022 and 2023 (continued)

BDB Leasing EAD (continued)

By Protocol No 79 of 23 August 2022 the Management Board of BDB AD in its capacity of sole owner of BDB Leasing EAD took decision to reduce the capital of the company from BGN 20,000,000 (twenty million) to BGN 18,630,000 (eighteen million six hundred and thirty thousand) by acquiring and invalidation of 13,700 (thirteen thousand and seven hundred) ordinary, registered, materialized, indivisible and voting shares with nominal value of BGN 100 each, in order to cover the losses and to comply with the provision of art. 252, para 1, item 5 of the Commercial Act in relation to art. 247a, para 2 of the Commercial Act. The decision was entered in the Commercial register on 15 September 2022.

By Decision under Protocol of 7 March 2023 the Management Board of BDB AD in its capacity of sole owner of BDB Leasing EAD Krum Georgiev Georgiev was released as a member of the company's Board of Directors and Ivan Valentinov Tserovski was elected as new member. These circumstances are recorded in the Commercial Register and the register of non-profit legal entities on 17 March 2023. Mr. Ivan Valentinov Tserovski was elected as Chairman of the company's Board of Directors.

Trade Centre Maritsa EOOD

By Decision under Protocol No 18 of 21 February 2023 the Management Board of BDB AD in its capacity of sole owner of the capital of Trade Centre Maritsa EOOD Vaska Borisova Stancheva was released as a company's Managing Director and Nadezhda Yordanova Nikova was elected as a new managing Director. These circumstances are recorded in the Commercial Register and the register of non-profit legal entities on 17 March 2023.

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

Applicable standards

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements have been prepared on a separate basis. The Bank prepares consolidated financial statements in accordance with the Accountancy Act. These separate financial statements shall be read together with the consolidated financial statements.

Statement of compliance

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS as adopted by the EU). Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

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

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

Going concern

The Bank's total equity is lower than the registered capital due to the realized losses in 2020 and 2021. In 2021, the Bulgarian Development Bank EAD submitted a proposal to the Minister of Economy, who then exercised the rights of the state as a sole owner of the BDB's capital, to take a decision to partially cover the loss on the annual financial statements for 2020 with the funds from the Reserve Fund and from the additional reserves of the Bank. By decision of the Minister of Innovation and Growth dated 23 May 2022 BGN 155,118 thousand were transferred to partially cover the loss from 2020.

On 3 May 2022, the Management Board adopted a decision to submit a proposal to the Minister of Innovation and Growth for reduction the capital of the Bank. After approval by the Supervisory Board of BDB it was sent to the Minister of Innovation and Growth. It is proposed the capital of the Bank to be reduced to BGN 1,135,000 thousand, thus the net assets of the Bank will exceed the registered capital after reporting the loss for the reporting year 2020 and 2021. The proposal was submitted to BNB for pre-approval and as of 31 December 2022 there is no final resolution by the Regulator.

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

Going concern (continued)

As the Bank's equity is higher than the minimum required for banking activities and the capital adequacy is above the regulatory requirements (see Note 4.5), this does not affect the Bank's ability to continue as a going concern. Management does not consider that there is material uncertainty that may cast doubt on the Bank's ability to continue operating as a going concern.

In addition, in 2022 the Bank took action to develop its credit activity by creating new business lending programmes. The Bank is also in negotiations with the European Commission to gain the role of Implementing Partner for InvestEU, a programme that provides guarantees from the EU budget for lending to entrepreneurs in many areas related to green transition, digital technologies, and infrastructure. The aim is for the Bank to achieve a gradual replacement of mid-2021 exposures to large enterprises with loans to SMEs. For this reason, the BDB's 2023 plans foresee a small decrease in the volume of the loan portfolio compared to the end of 2022. From the beginning of 2024, it is projected the total amount of the BDB's loan portfolio to increase again and the Bank to achieve a positive financial result of its activities.

In view of the above, these separate financial statements have been prepared on a going concern basis.

Order of liquidity and maturity structure

The Bank presents its separate statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities is presented in Note 4.3.

Comparability of data

The separate financial statements provide comparative information with respect to one previous period.

Presentation currency

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

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

Key estimates and assumptions of high uncertainty

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

a) Expected credit losses on assets at amortised cost

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

The main indicators for determining the risk groups are the debtor's financial condition and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the European Investment Fund (EIF), the impairment loss is recognised after deduction of the portion borne by EIF (Note № 4.1).

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

Key estimates and assumptions of high uncertainty (continued)

a) Expected credit losses on assets at amortised cost (continued)

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 2022, 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.

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

Key estimates and assumptions of high uncertainty (continued)

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

Equity and debt instruments quoted on stock markets (continued)

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

The Bank impairs its debt instruments in compliance with its Policy and Methodology for assessment of expected credit losses and calculation procedure.

c) Provisions for bank and loan guarantees issued

The Bank has formed provisions for a portfolio of contingent liabilities for payment in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank reviews its contingent liabilities the purpose of establishing whether any events have occurred, that would confirm to a large extent the probability that a commitment will be paid to settle an obligation. If such events occur, the Bank provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to the guarantee user or third parties (Notes 12 and 32).

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

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

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

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

Key estimates and assumptions of high uncertainty (continued)

d) Actuarial calculations

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

e) Valuation of investment property

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

f) Assets acquired from collateral foreclosure

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

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

New amendments to the existing standards effective for the reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use adopted by the EU on June 28, 2021 (effective for annual periods beginning on or after January 1, 2022);
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on June 28, 2021 (effective for annual periods beginning on or after January 1, 2022);
- Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after January 1, 2022);
- Amendments to various standards due to Improvements to IFRSs (cycle 2018 -2020) resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on June 28, 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after January 1, 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

Standards issued but not yet effective and not early adopted

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

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

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- IFRS 17 Insurance Contracts including amendments to IFRS 17 adopted by the EU on November 19, 2021 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IFRS 17 Insurance contracts - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting policies adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023);

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

Standards issued but not yet effective and not early adopted (continued)

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective (continued)

- Amendments to IAS 12 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after January 1, 2023).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of these financial statements (the effective dates stated below is for IFRS as issued by IASB):

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after January 1, 2023);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- Amendments to IAS 1 Presentation of Financial Statements - Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IFRS 16 Leases - Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024);
- 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 indefinitely until the research project on the equity method has been concluded).

BDB anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated. According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments:** Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial instruments

Financial instruments: classification and measurement (IFRS 9)

Recognition of assets

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

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

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

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

1) If the Bank has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.
2) If the Bank has financial assets, financial liabilities or both that share a risk, and that gives rise to opposite changes in fair value that tend to offset each other.
3) If the Bank has financial assets, financial liabilities or both that share a risk, that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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

Recognition of assets (continued)

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

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

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

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

Reclassification of financial assets

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

Measurement and reporting

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

Determination of a business model

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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

Determination of a business model (continued)

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

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

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

Financial assets

The Bank initially recognises loans, receivables and deposits on the date they were incurred. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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

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

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

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

The Bank has the following non-derivative financial assets:

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

Financial assets at amortized cost

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at amortized cost (continued)

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

The Bank accrues impairment for expected credit losses for financial assets at amortized cost for each specific asset, except for receivables from employees (Note 3: Impairment of financial assets). After a thorough review of the quality and impairment testing of standard exposures, the Bank established that as of 31 December 2022, the expected credit loss on receivables from employees was BGN 146 thousand (3.63%) (as of 31 December 2021: BGN 144 thousand (3.63%)), and the expected credit loss on receivables from the State budget under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounted to BGN 61 thousand (as of 31 December 2021: BGN 49 thousand).

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

Financial assets at fair value through other comprehensive income

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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

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

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.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

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

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at fair value through profit or loss (FVTPL).
.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

Transaction related costs are recognized in profit or loss upon origination. Financial assets at fair value through profit or loss are measured at fair value and any related changes, including dividend income, are recognised in profit or loss. Upon initial acquisition, the Bank's management determines whether a financial asset will be held for trading. Usually, management designates derivatives as such instruments.

A derivative is a financial instrument:

- Whose value changes in response to changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices or interest rates, credit ratings or credit indices, or other variables;
- That requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market conditions;
- That is settled at a future date.

When upon entering a specific derivative transaction, the Bank defines a position to be hedged and all the requirements of IFRS 9 have been met, the corresponding derivative is recognised as such hedging, and it shall be specified whether it hedges:

- deviations in the fair value of a specific asset (fair value hedge),
- differences in the estimated future cash flows (cash flow hedge); or
- effect of investments in foreign subsidiaries (net investment hedge).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives are measured at fair value through profit and loss.

Initially, derivative financial instruments are measured at fair value (including transaction costs) and subsequently, they are measured at fair value. Derivatives are accounted for as assets when their fair value is positive and as liabilities when it is negative.

As of 31 December 2022, and 31 December 2021, the Bank has no financial assets measured at fair value through profit or loss.

Assets under trust management

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

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

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

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial liabilities (continued)

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

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

Derecognition of financial instruments

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

A financial liability is derecognised from the separate statement of financial position when it is extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expires.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments (continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the separate statement of comprehensive income – in profit or loss.

Full or partial write-off of receivables is initiated in the presence of the respective amount set aside for the specific exposure and at the discretion of the Non-performing Loans Division for their uncollectibility, respectively incomplete collection, within the usual period, which assessment is based on some the following circumstances:

1. The court actions taken under the Civil Procedure Code, the PPA and the CA have been exhausted and / or the initiation of court actions (respectively the continuation of such actions already taken) is pointless and this has been confirmed by the Legal Department;
2. All collateral has been realized in the course of the court actions;
3. There are no additional discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors;
4. Additionally discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors are non-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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments (continued)

In accordance with its Receivables Write-Off Procedure, the Bank also writes off receivables on the basis of a final assessment of bad debts, regardless of the delay in the normal period for the procedure undertaken, which assessment is caused by the 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. Until 31 December 2021 the key macroeconomic indicators, used by the Bank, are gross domestic product (GDP), unemployment, inflation, changes in oil prices, and changes in the USD exchange rate and 3M EURIBOR. Historical analysis (10 years) shows that these indicators have statistically significant correlations – positive or negative – with the level of expected credit losses. As of 31 December 2022 and for foreseeable future the bank simplifies the macroeconomic component of the expected credit loss model and uses only GDP growth (Bulgaria).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

The expected credit losses are measured on the basis of three macroeconomic scenarios – realistic, negative and optimistic, which are used in the calculation of the impairment by applying different weights. For exposures that exceed BGN 5,000 thousand at related party group level or exposures classified in Stage 3, the determination of the impairment amount required for expected credit losses is made on an individual basis and, for the others, on a portfolio basis. The results obtained can be further adjusted and expected credit losses increased or reduced to reflect future risks that cannot be modelled (mainly, legislative or regulatory). The existence of such risks is established in the periodic analyses of the exposures carried out by the Bank. The prepared individual impairment tests are reported by the responsible business units and "Risk" division to the competent authorities in the Bank, including to the Impairment and Provisions Committee in order to decide on a change of classification, to establish the existence of a restructuring and/or the amount of the impairment provision required.

The Bank has drawn up a methodology that introduces criteria for classifying financial assets in three categories (the so-called "stages"), transfer criteria between them and setting an impairment amount depending on the stage in which the underlying asset is classified.

The stages and their characteristics are described below:

- Stage 1 – Standard - includes financial assets without a significant increase in credit risk after initial recognition. The impairment of those assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is shorter than one year;

- Stage 2 – Watch - includes financial assets with a significant increase in credit risk after initial recognition. Such an increase is presumed if the loan is past due for more than 30 days; the debtor is placed on watch; the debtor's credit rating has deteriorated at the reporting date compared to its rating on the date of recognition of the instrument, or the Bank expects the credit to be restructured. In this case, the expected credit losses are calculated for the entire lifetime of the asset;

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at amortised cost (continued)

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment, the understanding of the Bank of the impairment on a collective (portfolio) basis is as follows:

„Article 32. (1) Based on a motivated proposal by Risk Department, the bank may designate sub-portfolios of exposures with similar risk characteristics.

(2) The indicators underlying the establishment of a sub-portfolio are controlled and monitored at least once a year in order to identify potential unfavourable dynamics and changes in the risk profile of the portfolio.

Article 33. The amount of the collective impairment is determined in accordance with the methodology adopted by the Bank. It is also possible to develop additional methodologies that take into account specific risk factors for particular sub-portfolios.

Article 34. For groups of financial instruments, the credit risk of which has increased significantly since initial recognition, a portfolio assessment can be made taking into account the information that shows a significant increase in credit risk at the level of a group or sub-group of financial instruments. Thus, the Bank recognizes expected credit losses over the entire life of financial instruments the credit risk of which has increased significantly, even when there is no such evidence at the level of an individual instrument.

Article 35. (1) When the Bank determines whether there has been a significant increase in credit risk and recognizes loss adjustments on a collective basis, financial instruments may be grouped on the basis of common credit risk characteristics with the aim to conduct an analysis to identify a significant increase in credit risk in a timely manner.

(2) By grouping its financial instruments, the Bank complies with the principle of not impairing the quality of information available by grouping financial instruments with different risk characteristics. Common characteristics of credit risk include, but are not limited to: a type of instrument; credit risk rating; type of collateral; date of initial recognition; residual term to maturity; industry; geographical location of the borrower; and the relative value of the collateral compared to the financial asset if it affects the probability of default (for example, non-recourse loans in some jurisdictions or loan / collateral ratios)."

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at amortised cost (continued)

Currently, the Bank has designated as a portfolio for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) and all receivables below BGN 5 million which are not subject to individual measurement.

For the Bank, impairment on an individual basis means (again, as defined in the same Policy) an assessment of the expected credit losses based on the exposure's individual parameters.

1. When the exposure is in Stage 3, an individual model is applied to the expected future cash flows from collateral realisation.
2. When the exposure is in Stage 1 or 2 the Bank applies:
   a) a tool to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameter, sector specifics, etc., or
   b) an individual matrix for expected future cash flows from operations under going concern scenarios in several (at least two) scenarios with the respective weights with a total amount equal to the probability that no default will occur, as well as an individual matrix for the expected future cash flows from the disposal of collateral in a "non-going concern" scenario with a weight equal to the probability of default.

Financial assets measured at fair value through other comprehensive income

For debt instruments measured at FVTOCI no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve.

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

The absolute threshold for transferring loans between levels is related to the internal credit rating of the securities set by the Bank to the respective borrower. The Bank has set a credit rating of 7 for Stage 2 transition limit and a credit rating of 8 for transition to Stage 3. In addition, the Bank monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

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

These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1. Loans over BGN 5,000 thousand are reviewed on individual basis and amounts below this threshold, on a portfolio basis.

Financial guarantees contracts and credit risk guarantees

Financial guarantee contracts are subject to analysis and impairment according to the expected credit loss analysis model. As far as no payment has occurred under these contracts, a conversion coefficient is applied, which may be between zero and one determined on the basis of historical experience, the Bank's understanding of the specific future financing needs of debtors and other relevant forward-looking information. Financial guarantee contracts under which payment on behalf of the Bank has occurred are impaired as loans to the respective beneficiary.

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programmes are analysed and impaired in accordance with a separate model developed by the Bank, taking into account the specifics of both the programmes (see subsection "Contingent commitments" in section 4.1 Credit risk, as well as notes 32 and 37) and the beneficiaries, as well as historical data on losses of similar credit products on the Bulgarian market. The calculated provision rates as of 31 December 2022 and 31 December 2021 are 18.7% under the loan guarantee program for legal entities and 36% under the loan guarantee program for individuals and freelance. At the beginning of 2023 the Bank reviewed the guarantee portfolio in order to calibrate the expected credit loss model in line with the effectively achieved parameters. As a result the Bank changed the provision rate for expected credit loss under the loan guarantee program for legal entities to 27.6% and kept the provision rate for expected credit loss under the loan guarantee program for individuals at 36%. As at the end of 2022 the provisions amount to BGN 127,215 thousand (as of 31 December 2021: BGN 176,370 thousand) (see Notes 32 and 37).

Fair value of financial assets and liabilities (IFRS 13)

Definitions

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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

Definitions (continued)

The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value.

The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Bank determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be précised by direct market participants. The Bank has established control environment with respect to the assessment of fair values.

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the Bank.

The fair value of equity assets not traded on the market (shares and interests in companies) is measured using one or more eligible measurement methods under IFRS 13, except where the Bank has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

- The market method - using prices and other relevant information generated by market transactions that relate to similar or identical assets, liabilities or groups of assets and liabilities (businesses)
- The cost method - using the amounts that would currently be needed to replace a specific asset or build a similar capacity and functionality asset (present value of replacement)
- The income method - which converts future amounts (cash flows or income and expenses) into a single current (discounted) amount, reflecting current market expectations for these future amounts.

The choice of method used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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

Definitions (continued)

Upon subsequent measurement, the Bank takes into account the methods used in the initial / previous fair value measurement and analyses the differences in values between the periods. When changing methods and / or weights, the Bank provides justification as to why it is necessary and how the new approach reflects as much as possible the fair value, as well as its change over time.

The Bank measures these financial assets at fair value using eligible measurement methods under IFRS 13, except where it has considered that the cost of acquisition (cost) best reflects fair value.

Fair Value Hierarchy

The Bank applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

Hedge accounting (IFRS 9)

Hedge accounting requires more extensive disclosures regarding the risk management activity. The Bank's business model does not provide taking of significant market or foreign currency positions. Insofar as the Bank is exposed to currency or interest rate risk, it takes appropriate measures to minimize that risk: matching the amount of active and passive exposures in the relevant currency, providing coverage of interest-bearing fixed-rate assets with similar interest-bearing fixed-rate liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Hedge accounting (IFRS 9) (continued)

The Bank fully assumes the market risk arising out of its securities regardless of whether they have been held to collect cash flows or to sell.

The Bank has no foreign subsidiaries to be consolidated.

The Bank does not report active financial instruments designated as hedging relationship and therefore, the requirements of IFRS 9, applicable to hedges, have no effect on the Bank's financial statements.

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The parent company (the Bank) maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents. They are presented in the separate statement of financial position at amortised cost.

For the purposes of preparation of the separate cash flow statement, bank overdrafts payable on demand and forming an integral part of the Bank's cash management are included as a component of Cash and cash equivalents.

3.2 Other assets

Investments in subsidiaries (IAS 27)

Long-term investments, representing shares in subsidiaries are reported according to IAS 27 as far as IFRS 9 is not applicable. They are presented in the separate financial statements:

- at cost, which is the fair value of the consideration paid, including direct costs of acquisition of the investment; or
- At fair value of the contribution, determined by a valuation by a qualified appraiser, in cases where the fair value is lower than the acquisition cost.

The investments in subsidiaries held by the Bank are subject to impairment testing. If indications of impairment are found, the latter is recognized in the separate statement of comprehensive income.

Purchases and sales of investments are recognised on trade date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Investments in subsidiaries (IAS 27) (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

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

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 – 6.7 years

The useful life by groups was not changed compared to 2021.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

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.

The carrying amount of property, plant and equipment and intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the separate statement of comprehensive income.

Property, plant and equipment and intangible assets are derecognised from the separate financial statements when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the groups of property, plant and equipment and intangible assets (defined as the difference between the net sales proceeds and the carrying amount of the asset at the date of sale) are recognized net in Other operating income / expenses in the statement of comprehensive income.

Investment property (IAS 40)

The Bank's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value. Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement) when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

Assets held for sale (IFRS 5)

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Bank's operations or through renting or lease. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Assets held for sale (IFRS 5) (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

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. Liabilities

Financial liabilities

The recognition and measurement of financial liabilities is described in section 3.1 – Financial instruments.

Leases (IFRS 16)

IFRS 16 defines the principles of recognition, measurement, presentation, and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 requires lessees to recognize most leases in the statement of financial position and to apply a single model upon recognition of all leases, with some exceptions. Lessor accounting under IFRS 16 is substantially unchanged. The standard is applied by the Bank using the modified retrospective approach.

For leases previously classified as finance lease the right-of-use assets and lease liability are measured at the same amounts as of the date of initial application as they were recognized according to IAS 17 right before initial application.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Bank as a lessee

BDB EAD assesses whether a contract is or contains a lease, at inception of the contract.

The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank premeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Bank as a lessee (continued)

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is premeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in Property, plant and equipment, intangible assets in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Bank as a lessee (continued)

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the statement of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Pension and other payables to personnel under the social security and labour legislation (IAS 19)

According to the Bulgarian legislation, the Bank is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Bank, in its capacity of an employer, are based on the provisions of the Labour Code.

Short-term employee benefits

Short-term employee benefits of the Bank in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the separate statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Bank’s obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Bank assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee’s remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Pension and other payables to personnel under the social security and labour legislation (IAS 19) (continued)

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature, these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the separate financial statements, at which they are included in the separate statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

Past service, costs are recognised immediately in the separate statement of comprehensive income in the period in which they were incurred.

At the end of each reporting period, the Bank assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the separate statement of comprehensive income.

Termination benefits

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Pension and other payables to personnel under the social security and labour legislation (IAS 19) (continued)

Termination benefits (continued)

The Bank recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits failing due more than 12 months are discounted to and presented in the separate statement of financial position at present value.

Provisions and contingent liabilities (IAS 37)

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the separate statement of financial position but are subject to special disclosure.

Financial guarantee contracts (IFRS 9)

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially measured at fair value, whereas it is accepted that the guarantee's fair value on the date of its issuance is the premium received at inception, if any. No receivables for the future premiums are recognized. Commission fee income is deferred on a straight-line basis over the period, to which such fees refer. Subsequently, the Bank's liabilities under financial guarantee contracts are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

The expected credit losses, related to the financial guarantees issued, are recognised in the statement of comprehensive income, under the heading Impairment of financial assets. The likelihood of an obligation for payment by the Bank under such contracts is estimated based on historical experience with similar instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Capital

Share capital

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

Expenses directly relating to the issuance of new shares are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

Dividends

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Bank. The corresponding amount is written off directly from equity.

3.5 Income and expenses

Interest income and expenses (IFRS 9)

Interest income and interest expenses are recognised in the statement of comprehensive income on an accrual basis for all interest-bearing instruments, except for those at fair value through profit or loss, using the effective interest method based on the actual price of acquisition and the applicable interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on debt instruments measured at fair value through other comprehensive income, interest on deposits with other banks, interest on loans and advances to customers, fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

For exposures classified in Stages 1 and 2, the Bank recognizes interest income based on effective interest rate method accrued on their gross carrying amount. For exposures classified in Stage 3, the Bank recognizes interest income based on effective interest rate method accrued on their amortised cost, less impairment for expected credit losses.

The Bank also holds investments and assets in countries with negative interest rate levels. The Bank discloses the interest paid on such assets as interest expense with additional disclosure in Note 6.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

Revenue from contracts with customers (IFRS 15)

Under IFRS 15 a five-step model is applied to account for revenue arising from contracts with customers, regardless of the type 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 withheld 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 withheld in accordance with the Tariff.
- Brokerage operations for which the Bank receives agent’s commissions - revenue is recognised at a point in time upon the provision of the brokerage service as the Bank operates as a broker. Considering the above circumstances, the Bank recognizes revenue that is equal to the amount of the commission fee for the performance of the brokerage service. The commission fee is the net amount to be withheld by the Bank after paying the portion due to the third party to which / whom the Bank has mediated to perform the services of that third party.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

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

Servicing of debenture issues fees are fees for the Bank to perform the function of a trustee bank on a bond issue of a public interest entity. The fee is charged and paid periodically, in accordance with a contract.

Income from funds trusted in custody consists of fees for managing funds provided by the Ministry of Finance in relation to a loan from Kreditanstalt für Wiederaufbau extended to the Ministry of Finance. These fees are recognized when due under a contract.

The Bank – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted and current accounts is BGN 6,754 thousand (as of 31 December 2021: BGN 7,720 thousand). The Bank has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the separate financial statements are the following:

Foreign currency	31 December 2022	31 December 2021
USD	1.83663	1.72685
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0.

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the separate statement of comprehensive income in the period in which they have occurred.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Bank is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Bank's financial stability. These risks are identified, measured, and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Bank's profitability and existence.

The risk management within Bulgarian Development Bank EAD is a complex of methods and procedures used by the Bank for identifying, measuring, and monitoring its risk exposures. The Bank manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, Bulgarian Development Bank EAD applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

4.1. Credit risk

Credit risk is the risk of potential losses due to a failure of the Bank's customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Bank, incl. country (sovereign) risk, contractor's risk and settlement risk, and credit risk of concentration.

Credit risk is the main risk for the Bank and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the law for BDB and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Bank applies internal rating generation models. These internal rating models depend on the specifics of the object being rated. The so-developed rating models for credit risk assessment of corporate clients of the Bank are based on an analysis of historical data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Bank, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within BDB. 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

In managing its credit risk, the Bank applies an intra-bank system of limits that is subject to periodic review and updating.

There is a specialized unit functioning within the Bank, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by applying the secured credit line technique through accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

The Bank forms impairment on exposures depending on the borrower's and/or group of related clients' risk profile based on conducted individual impairment tests.

The exposures in the Bank's corporate credit portfolio are classified mainly in three categories depending on the existence of indications of impairment – changes in the objective indicators on the basis of which the initial measurement and subsequent monitoring of exposure / customer are carried out, which would result in changes in cash flows from financial assets, including default in payment due by the borrower: Stage 1: „Standard", 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Bank and its recoverable amount.

The Bank accrues impairment on a portfolio basis for its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

Aiming at minimizing and reducing the credit risk, the Bank accepts collateral in accordance with its in-house rules. It is a common practice of the Bank to require collateral from the borrowers that is equal to at least 100 per cent of the agreed loan amount, and valuations from accredited independent valuers are required.

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the Bank participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. EIF is committed to provide a direct guarantee covering 50 per cent of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand (BGN 4,929 thousand).

The Bank has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans. On 14.03.2022 EIF and the Bank signed an Agreement for the termination of the guarantee. As of the date of the termination of the facility, the guarantees paid by EIF amount to EUR 3.25 million, of which EUR 1.6 million have been reimbursed. The net payments from EIF under guaranteed loans have covered 50% of the losses of BDB on four loans in the amount of EUR 1.65 million.

In November 2016 BDB signed an agreement for counter guarantee with European Investment Fund (EIF) under the COSME programme for small and medium-sized enterprises. The COSME programme is implemented with the support of EFSI (the European Fund for Strategic Investment), known as the "Juncker Plan". BDB is able to cover up to 60 per cent of the risk on loans extended to SMEs by commercial banks it will partner with. Half of this risk will be counter-guaranteed by EIF and the total amount of the counter-guarantee is EUR 10 million. By using the resource guaranteed by the COSME programme, the banks-partners to BDB will be able to extend investment loans and loans for working capital, bank guarantees and revolving loans. The maximum amount of loans extended is EUR 150,000. The term of repayment varies from 1 to 10 years.

In 2022, two requests have been submitted by the BBD for payment under the counter-guarantee agreement at the total amount of EUR 42 thousand.

Off-balance sheet commitments, primarily the unutilised portion of authorized loan facilities, letters of guarantee and letters of credit, which represent an irrevocable commitment of the Bank to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Bank and bear the same credit risk as the balance sheet loan exposures.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Bank forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

- Direct lending –portfolio of credit commitments with debtors-legal entities, other than bank financial institutions, and loans to individuals (loans to Bank's employees), as well as subjects from the public sector;
- Indirect lending or „on-lending" – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria;
- Financing by the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) in compliance with Council of Ministers decree No 18;

Beyond the credit portfolio, the Bank's activity is exposed to credit risk also with respect to exposures related to other activities of the Bank:

- portfolio of financial instruments, other than loans, formed in connection with the Bank's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria and other EU countries, classified as „ Financial assets at fair value through other comprehensive income";
- to banks in connection with money market transactions, placed term deposits and available balances in nostro accounts;
- exposure to receivables relating to the State budget.

The Bank applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios, and currently monitors the credit risk of concentration of financial assets on the basis of industry criteria, and also by individual counterparty and insurance companies ensuring coverage. Regarding the Bank's direct lending activities, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Maximum exposure to credit risk

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

	2022		2021	
Financial asset	maximum	net	maximum	net
Cash in hand and balances in current account with the Central Bank	527,836	527,836	243,625	243,625
Financial assets at amortized cost – Receivables from banks	140,689	139,305	387,437	385,347
Financial assets at amortized cost – Loans and advances to customers	1,746,625	1,502,860	2,068,281	1,727,836
Financial assets at amortized cost - Receivables from the State budget	23,598	23,537	18,866	18,817
Financial assets at fair value through other comprehensive income – Debt instruments	494,919	494,919	591,943	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	83,728	83,728	64,669	64,669
Financial assets at amortized cost – Debt instruments	1,851	1,745	2,011	1,920
Other financial assets	3,128	3,128	2,116	2,116
	3,022,374	2,777,058	3,378,948	3,036,273

Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounting to BGN 23,598 thousand (2021: BGN 18,866 thousand).

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

	2022		2021	
	maximum	net	maximum	net
Anti-COVID guarantees	403,208	275,993	680,938	504,568
Unutilised amount of authorized loans	184,715	184,696	241,448	241,416
Bank guarantees and letters of credit	126,772	115,946	130,295	118,262
Unpaid portion of shares in Three Seas Initiative	17,970	17,970	25,031	25,031
Participation in the SIA investment program	652	652	861	861
	733,317	595,257	1,078,573	890,138
Maximum exposure to credit risk	3,755,691	3,372,315	4,457,521	3,926,411

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

In assessing the net exposure, accrued impairment and provisions, highly liquid collaterals (government securities and cash), as also the net present value of liquid collaterals – real estate, have been taken into account.

Credit risk - concentration

The financial assets of the Bank (cash in current accounts and balances with the Central Bank, receivables from banks, financial assets at fair value through other comprehensive income, 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 on the next page:

	2022	%	2021	%
Sectors				
Government	611,404	20.23%	711,325	21.05%
Financial services	960,117	31.77%	913,969	27.05%
Trade	450,592	14.91%	631,007	18.67%
Industry, total	346,217	11.46%	336,164	9.95%
Industry – manufacture of plant and equipment	*92,598*	*3.06%*	*91,086*	*2.70%*
Industry – energy generation and distribution	*67,973*	*2.25%*	*103,046*	*3.05%*
Industry – food and beverage	*46,965*	*1.55%*	*46,465*	*1.38%*
Industry – other industries	*138,681*	*4.60%*	*95,567*	*2.83%*
Tourist services	262,346	8.68%	271,309	8.03%
Transport	130,094	4.30%	207,079	6.13%
Construction	152,131	5.03%	156,914	4.64%
Real estate transactions	55,657	1.84%	57,356	1.70%
Agriculture	32,061	1.06%	32,638	0.97%
Other industries	21,755	0.72%	61,187	1.80%
	3,022,374	100%	3,378,948	100%

The largest credit exposure of the Bank to a group of related parties /other than bank institutions/ amounts to BGN 172,452 thousand (including statement of financial position debt of BGN 135,533 thousand and amount for utilization of BGN 15,031 thousand and guarantees of BGN 21,888 thousand) at amortized cost (2021: BGN 182,419 thousand), which represents 16.76% of Bank's equity/eligible capital ratio according to Regulation 575/2013/EU (2021: 17.05%).

There is no exposure to a customer or a group of related customers as of 31 December 2022 and 2021, exceeding 25% of Bank's capital base.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit risk – concentration (continued)

The concentration of client's portfolio (other than bank institutions) is presented in the following table:

	2022		2021	
	Net exposure*	*% of Equity*	Net exposure*	*% of Equity*
The biggest total exposure to a customer group	170,118	16.54%	179,362	16.76%
Total amount of the ten biggest exposures	999,955	97.23%	1,055,352	98.62%
Total amount of the twenty biggest exposures	1,316,301	127.99%	1,423,152	132.98%

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

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

As of 31 December 2022	Standard (Stage 1)	Watch (Stage 2)	Non-performing (Stage 3)	Total
Cash in hand and balances in current account with Central Banks	527,836	-	-	527,836
Financial assets at amortized cost – Receivables from banks	140,689	-	-	140,689
Financial assets at amortized cost - Receivables from the State Budget	23,598	-	-	23,598
Financial assets at amortized cost – Loans for commercial property and construction	374,848	185,635	125,595	686,078
Financial assets at amortized cost – Trade loans	388,295	228,029	195,037	811,361
Financial assets at amortized cost – Consumer loans	1,948	75	-	2,022
Financial assets at amortized cost – Residential mortgage loans to individuals	1,990	-	-	1,990
Financial assets at amortized cost – Loans to other financial institutions	131,325	-	6,849	138,174
Financial assets at amortized cost – Debt instruments	1,851	-	-	1,851
Financial assets at amortized cost – Other loans and receivables	25,524	63,760	17,717	107,000
Financial assets at fair value through other comprehensive income – Debt instruments	480,234	-	14,685	494,919
Financial assets at fair value through other comprehensive income – Equity instruments	83,728	-	-	83,728
Other financial assets	3,128	-	-	3,128
Total financial assets	2,184,993	477,498	359,882	3,022,374

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

As of 31 December 2021	Standard (Stage 1)	Watch (Stage 2)	Non-performing (Stage 3)	Total
Cash in hand and balances in current account with the Central Bank	243,625	-	-	243,625
Financial assets at amortized cost – Receivables from banks	387,437	-	-	387,437
Financial assets at amortized cost - Receivables from the State budget	18,866	-	-	18,866
Financial assets at amortized cost – Loans for commercial property and construction	396,453	190,902	139,394	726,749
Financial assets at amortized cost – Trade loans	514,595	452,241	117,914	1,084,750
Financial assets at amortized cost – Consumer loans	1,918	6	7	1,931
Financial assets at amortized cost – Residential mortgage loans to individuals	2,032	-	-	2,032
Financial assets at amortized cost – Loans to other financial institutions	124,777	-	6,965	131,742
Financial assets at amortized cost – Debt instruments	2,011	-	-	2,011
Financial assets at amortized cost – Other loans and receivables	28,350	64,307	28,420	121,077
Financial assets at fair value through other comprehensive income – Debt instruments	591,943	-	-	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	64,669	-	-	64,669
Other financial assets	2,116	-	-	2,116
Total financial assets	2,378,792	707,456	292,700	3,378,948

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:

	2022		2021	
Type of collateral	Fair value	%	Fair value	%
Mortgages	574,414	43.96	540,809	57.80
Pledge of plant, machinery, equipment, and inventories	188,459	14.42	287,494	30.73
Restricted deposits	501,169	38.36	36,653	3.92
Mortgages on ships	-	0.00	46,432	4.96
Credit risk insurance	41,975	3.21	23,612	2.52
Bank guarantees	634	0.05	635	0.07
Total collateral	1,306,651	100	935,635	100

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit exposures could have more than one collateral, i.e. it could be included in more than one position. The amount of the collateral could exceed 100 per cent, as more than one collateral could be provided to secure one loan.

At the request of the contractors, the Bank is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favour of the debtor, as well whether this discount significantly modifies the cash flows and their current net amount and, respectively, the exposure should be accepted as modified/restructured and therefore, to be reclassified to Stage 2 or Stage 3.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures Impairment of BDB, the Bank monitors the exposures for indicators that may lead to impairment in the future. These indicators are as follows:

„Article 11. Indicators of impairment:

(1) Significant increase in credit risk, which results in recognition of a lifetime expected credit loss for the instrument (i.e., transition from a 12-month expected credit loss) and respectively, classification in Stage 2 (Watch) would be a consequence of the following circumstances:

1. significant changes in internal credit risk indicators as a result of a change in credit risk relative to the beginning of the life of the asset;

2. other changes in interest rates or the conditions of an existing financial instrument that would be materially different if the instrument was newly granted or issued at the date of the financial statements (for example, more stringent terms and conditions, increased collateral or warranty requirements) due to changes in the credit risk of the financial instrument compared to that of its initial recognition;

3. significant changes in the external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same life expectancy. Changes in credit risk margins include, but are not limited to:

a) credit spread;

b) the credit default swap price for the borrower;

c) duration of the period or the extent to which the fair value of a financial asset is lower than its amortized cost; and

d) changes in the price of borrower's debt and equity instruments;

e) any other market information about the borrower.

4. actual or expected significant change in the financial instrument's external credit rating (or of the debtor);

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

5. actual or expected downgrade of the borrower’s external credit rating or a downgrade in the scoring rating used to measure credit risk;

6. existing or expected adverse changes in business, financial or economic conditions, for which it is expected to result in a significant change in the borrower's ability to perform its obligations.

7. actual or expected significant change in the borrower's operating results, such as actual or expected decreasing revenue or margins, increase in operating risks, working capital shortage, asset quality deterioration, increased leverage, low liquidity, management problems or changes within the scope of business or organisational structure that results in a significant change in the borrower's ability to perform its obligations on the debt;

8. significant increases in credit risk for other financial instruments of the same borrower;

9. actual or expected significant adverse change in the borrower's regulatory, economic or technological environment, which has resulted in a significant change in the borrower’s ability to perform its obligations;

10. significant changes in the value of the debt collateral or in the quality of guarantees and additional credit protection provided by a third party that are expected to reduce the economic incentive of the borrower to make scheduled contractual payments or to otherwise impact on the probability of default on the loan;

11. significant change in the quality of a guarantee provided by a shareholder (or by the owner of an entity) if the shareholder (owner) has an incentive and financial opportunity to prevent default through an increase in capital and / or cash;

12. significant changes, such as a reduction in financial support from a parent company or other subsidiary, or actual or expected significant change in the quality of credit protection that is expected to reduce the economic incentive for the borrower to make contractual payments.

13. expected changes in the loan documentation, including an expected breach of the contract, which may lead to the debtor being released from the obligation to comply with contractual commitments or amendments to the contract, interest rates, interest rate increases, requirements for additional collateral or guarantees, or other changes in the contractual framework of the instrument;

14. significant changes in the expected results and behaviour of the borrower, including changes in the creditworthiness of the borrowers within the group;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

15. specific changes in the Bank's approach for managing the loan in relation to the financial instrument; for example, on the basis of newly emerging indicators of a change in financial instrument's credit risk, it is expected that the Bank's credit risk management practice will become more active or focused on instrument management, including more prudent or stringent monitoring, or active intervention in the relationships with the borrower;

16. information on arrears, including cases of amounts past due by more than 30 days (if there is evidence that a significant number of defaulting debtors for more than 30 days have not reached the stage of significant deterioration, this threshold may be increased; however, extensive supporting data will be required in accordance with the provision of paragraph B5.5.19 of IFRS 9);

17. initiation of court proceedings; claiming of bank guarantees or other circumstances that are expected to result in significant costs for the borrower;

18. considerable delay in the provision by the borrower of financial and other necessary information;

19. significant obligations of the borrower towards third parties, incl. off balance sheet, which would result in difficulties or inability to properly service the Bank's credit exposure.

(2) Events related to a classification where a financial instrument is classified in Stage 3, i.e., it is considered to be an asset with deteriorated credit quality and which, in most cases, correspond to the definition of default on the instrument, include:

1. significant financial difficulties of the debtor;

2. past due or unpaid liabilities to the Bank for more than 90 days;

3. provision of a concession to the debtor in view of its financial difficulties, which would otherwise not have been provided by the Bank;

a) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), the Bank estimates only the 12-month expected loss. Further analysis of the expected credit loss is carried out if an increased credit risk exists.

b) if, a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), but as a consequence the latter is reported as an impaired purchased asset / occurred, the Bank recognises the cumulative changes in the expected credit losses over its entire life.

c) if, a result of the re-negotiation and provision of a concession to the debtor, the financial asset is not derecognised, the Bank analyses whether there is a significant increase in credit risk, comparing:

(aa) the risk of default assessed at the reporting date (based on changed contractual terms); and

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

(bb) the risk of default assessed at initial recognition (on the basis of the original unchanged contractual terms);

in order to establish whether it should recognise lifetime expected credit losses or 12-month expected credit losses;

4. high probability of insolvency of the debtor or other financial reorganization of the debtor;

5. other evidence of deterioration in the debtor's creditworthiness."

The analysis should also determine whether the modification is material to the extent that gives reason to write-off the asset and recognize a new one.

In 2022, the Bank analysed the effect of modifications on its portfolio exposures in order to determine whether any of them indicate a need to write off and recognize a new asset. As a result of the analysis, it was assessed that the effect of the modifications is insignificant.

The analysis of changes in the amounts of the main groups of financial assets and their impairment are presented in the subsection "ECL measurement" in this section.

Regarding the loans extended under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP), it should be noted that according to the programme's parameters the amount of the loan approved is subject to regular updating in order to ensure expenditure control. The signature of annexes to the loan contracts, by means of which the financial parameters are updated, is a result of those controls.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The table below presents data on the portfolio amount of the Bank's financial assets by type of instrument:

	Financial assets stated at amortized cost														Financial assets at fair value through other comprehensive income	
	Debt instruments		State budget		Financial institutions		Individuals		Cash in hand and balances in current account with the Central Bank		Securities at amortized cost		Other financial assets		Debt instruments	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Impaired on an individual basis																
------standard (Stage 1)	577,245	675,005	-	-	-	-	-	-	-	-	1,851	2,011	3,128	2,116	480,234	591,943
------watch (Stage 2)	456,756	688,531	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	321,075	191,053	-	-	-	-	-	-	-	-	-	-	-	-	14,685	-
Gross amount	1,355,076	1,554,589	-	-	-	-	-	-	-	-	1,851	2,011	3,128	2,116	494,919	591,943
Incl. renegotiated	1,288,648	1,438,103	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Past due but not impaired	-															
------standard (Stage 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------watch (Stage 2)	1,177	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	24,122	46,180	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	25,299	46,180	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Incl. renegotiated	25,299	46,180,	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Within 30 days	*4,955*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
From 30- 90 days	-	*2,722*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 90 days	*20,344*	*43,458*	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Financial assets stated at amortized cost														Financial assets at fair value through other comprehensive income	
	Debt instruments		State budget		Financial institutions		Individuals		Cash in hand and balances in current account with the Central Bank		Securities at amortized cost		Other financial assets		Debt instruments	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Impaired on a portfolio basis																
------standard (Stage 1)	193,661	184,559	23,598	18,866	52,387	73,990	3,937	3,949	-	-	-	-	-	-	-	-
------watch (Stage 2)	6,817	3,436	-	-	-	-	75	6	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	-	51,314	-	-	-	-	-	8	-	-	-	-	-	-	-	-
Gross amount	200,478	239,309	23,598	18,866	52,387	73,990	4,012	3,963	-	-	-	-	-	-	-	-
Incl. renegotiated	121,596	164,540	23,598	18,866	31,939	50,271	225	247	-	-	-	-	-	-	-	-
Past due but not impaired																
------standard (Stage 1)	149,086	204,612	-	-	88,302	313,447	-	-	527,836	243,625	-	-	-	-	-	-
------watch (Stage 2)	12,674	15,483	-	-	-	-	-	-	-	-	-	-	-	-	-	-
------non-performing (Stage 3)	-	4,145	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	161,760	224,240	-	-	88,302	313,447	-	-	527,836	243,625	-	-	-	-	-	-
Incl. renegotiated	160,702	220,767	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	1,742,613	2,064,318	23,598	18,866	140,689	387,437	4,012	3,963	527,836	243,625	1,851	2,011	3,128	2,116	494,919	591,943
Incl. renegotiated	1,596,245	1,869,590	23,598	18,866	31,939	50,271	225	247	-	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Bank classifies not past due and not impaired exposures to the above classes depending on their internal credit rating, as follows:

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

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

	2022	2021
Loans for commercial property and construction	185,635	190,902
Trade loans	228,029	452,241
Consumer loans	75	6
Other loans and receivables	63,760	64,307
	477,499	707,456

When the initial terms of the agreement have been modified by the Bank by granting a concession (discounts) to a debtor experiencing difficulties in performing its financial obligations a loan is classified as "restructured" (Stage 2 or 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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

	2022	2021
Loans for commercial property and construction	249,449	269,061
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*163,397*	*169,444*
Non-performing (Stage 3)	*86,052*	*99,617*
Trade loans	339,105	352,245
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*179,535*	*268,101*
Non-performing (Stage 3)	*159,570*	*84,144*
Loans of other FI	1,238	-
incl. Standard (Stage 1)	*1,238*	-
Watch (Stage 2)	-	-
Non-performing (Stage 3)	-	-
Other loans and receivables	69,244	79,269
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*63,760*	*64,307*
Non-performing (Stage 3)	*5,484*	*14,962*
	659,036	700,575

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.).

At the date of the financial statements, the Bank identified commitments under guarantees (apart from those, under the anti-Covid programs) amounting to BGN 126,772 thousand (2021: BGN 130,108 thousand), which are provided for in the amount of BGN 1,745 thousand (2021: BGN 1,345 thousand) (Note 32).

Credit guarantees anti-COVID-19

In 2020, the Bank, based on decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic (see Note 37).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

BDB adopted a special provisioning methodology for these programmes in view of the specifics of the programmes, customers profiles and structure of product-related inflow and cash outflow statements as follows:

Programme for companies – SME and intermediate enterprises

The main parameters of the programme and the guaranteed loans are:

- The obligation to pay under the guarantees is practically unconditional and in compliance with the agreed terms in the guarantee agreements (for loans admitted in the program).
- The guarantees are 80% of the principal on the loan. A maximum limit of payments was established – initially of 30%, and by decision of the Council of Ministers the limit was raised to 50% at the end of 2020.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 and in 2021 large enterprises were also included by the amendments made up to small mid-caps (Recovery Program).
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral of exposures is required initially), subsequently it was increased to 50 % - i.e., from 0% to 50%, and with the amendments under the Recovery Program the requirement for collateral was dropped, leaving only guarantees from beneficial owners and related parties, as well as pledges of accounts receivable permissible). Also, until the changes in the "Recovery Program" it was permissible to include a certain percentage of already formed exposures. The banks' self-participation was determined to be at least 20%. The terms predetermine a significantly higher risk than usual business guarantee programs.

As of 31 December 2022, BDB has assumed a commitment to commercial banks for guarantees (as a limit to payments or CAP) in the amount of 50% of the formed under the Program guaranteed portfolios. According to the final reports presented by the commercial banks, at the end of the year under the program were guaranteed 2,617 loans in the total amount of BGN 533.9 million, for which guarantees amounting to BGN 247.2 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 2,892 guaranteed loans in the amount of BGN 630.3 million.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

Programme for companies – SME and intermediate enterprises (continued)

The issuance of guarantees under the program was completed in 2022 (deadline 30.06.2022).

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 2023 the Bank performed an analysis of the behaviour of the portfolio of guarantees related to loans granted under this program and compared the results of the calculated expected credit losses with the calculations under the initial model and decided to change the percentage of provisioning of the exposure from 18.7% to 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;
- 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 five years, including possible grace period up to 24 months;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

Programme for individuals (continued)

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%.

As of 31.12.2022 BDB has guaranteed under the program 46,863 active loans, for which a guarantee was provided in the amount of BGN 189.6 million.

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.

In the beginning of 2023, the Bank performed an analysis of the behaviour of the portfolio of guarantees related to the loans granted under the program, compared the results of the calculated expected credit losses with the calculations under the initial model and decided not to change the percentage of provisioning of theses exposures.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 1.96% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.05% for every 1% change.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Credit guarantees anti-COVID-19 (continued)

As of 31.12.2022 he Bank has active guarantees under the two anti-covid programs in the amount of BGN 403,208 thousand and it has guaranteed exposures under the two programs in the total amount of BGN 715,979 thousand and has set aside provisions in the amount of BGN 127,215 thousand.

Expected credit losses (ECL) measurement

For instruments measured at amortised cost, ECLs reduce the carrying amount in the statement of financial position.

For debt instruments measured at fair value through other comprehensive income, ECLs are part of the negative change in the fair value due to an increased credit risk. They continue to be presented at the fair value in the statement of financial position, and the accumulated adjustment for losses is recognized in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the accumulated adjustment is recognized in the profit or loss for the period.

Probability of default (PD)

PD is the probability of a counterparty not complying with contract clauses related to debt repayment. For each individual exposure or a portfolio of collectively assessed exposures, the Bank maintains historical information on the migration of exposures between different stages.

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For exposures that are individually measured, the value of the 12M PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12M PD is calculated for each rating scale depending on the number of default cases found. The Bank adjusts the values of 12M PD to reflect the current or expected economic conditions that may differ from those during the analysed historical periods.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Exposure at default (EAD)

EAD is potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending on the type of loan, taking into account both the amount of utilized amounts and the agreed undrawn amounts according to the expectation of future drawdowns.

Loss Given Default (LGD)

LGD is the ratio of the exposure loss due to default to the amount of exposure at default. The Bank calculates the potential loss that would have arisen if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as a percentage of Exposure at Default (EAD).

The Bank has determined relative thresholds that are used also for the exposures for which the absolute thresholds are applied and for those, for which no such thresholds have been determined. They are based on matrixes covering the overall credit cycle (through-the-cycle, TTC) and the change in the probability of default on the respective exposures from the external aggregated data of Moody's (the Bank has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency), as well as the historical data on Bank's exposures.

Main groups of assets subject to impairment

The following tables present the movements in the main groups of assets subject to impairment between the different stages for the period 01 January – 31 December 2022 and 01 January – 31 December 2021:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Main groups of assets subject to impairment (continued)

Assets measured at amortised cost (except for Government and Receivables from Banks)	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2021	1,310,758	536,977	255,557	2,103,292
Transfers:				
Transfer from Stage 1 to Stage 2	(229,334)	229,334	-	-
Transfer from Stage 1 to Stage 3	(4,335)	-	4,335	-
Transfer from Stage 2 to Stage 3	-	(51,780)	51,780	-
Transfer from Stage 2 to Stage 1	5,158	(5,158)	-	-
Transfer from Stage 3 to Stage 2	-	2,672	(2,672)	-
Newly occurred and newly acquired exposures	83,023	13,273	114,300	210,596
Paid or transferred	(203,696)	(23,615)	(130,859)	(358,170)
Increased	108,562	5,753	259	114,574
Balance as of 31 December 2021	1,070,136	707,456	292,700	2,070,292
Transfers:				
Transfer from Stage 1 to Stage 2	(36,829)	36,829	-	-
Transfer from Stage 1 to Stage 3	(5,868)	-	5,868	-
Transfer from Stage 2 to Stage 3	-	(94,686)	94,686	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Newly occurred and newly acquired exposures	55,490	3,697	4,560	63,747
Paid or transferred	(214,720)	(180,208)	(54,172)	(449,100)
Increased	57,572	4,410	1,555	63,537
Balance as of 31 December 2022	925,781	477,498	345,197	1,748,476

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions are included in the above table.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Main groups of assets subject to impairment (continued)

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance as 1 January 2021	57,975	-	-	57,975
Newly occurred and newly acquired exposures	291	-	-	291
Paid or transferred	(47,328)	-	-	(47,328)
Increased	7,928	-	-	7,928
Balance as 31 December 2021	18,866	-	-	18,866
Newly occurred and newly acquired exposures	9	-	-	9
Paid or transferred	(2,612)	-	-	(2,612)
Increased	7,335	-	-	7,335
Balance as 31 December 2022	23,598	-	-	23,598

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 - Banks and financial institutions	Stage 1	Stage 2	Stage 3	Total
Balance as 1 January 2021	480,169	-	-	480,169
Newly occurred and newly acquired exposures	230,931	-	-	230,931
Paid or transferred	(340,727)	-	-	(340,727)
Increased	17,064	-	-	17,064
Balance as 31 December 2021	387,437	-	-	387,437
Newly occurred and newly acquired exposures	77,221	-	-	77,221
Paid or transferred	(325,864)	-	-	(325,864)
Increased	1,895	-	-	1,895
Balance as 31 December 2022	140,689	-	-	140,689

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Main groups of assets subject to impairment (continued)

Loans to banks and financial institutions include both transactions on an interbank market and deposits of different maturity.

Assets measured at fair value through other comprehensive income – debt instruments	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2021	581,711	-	-	581,711
Newly occurred and newly acquired exposures	138,749	-	-	138,749
Paid or transferred	(167,961)	-	-	(167,961)
Increased	39,444	-	-	39,444
Balance as of 31 December 2021	591,943	-	-	591,943
Transfer from Stage 1 to Stage 3	(14,685)		14,685	-
Newly occurred and newly acquired exposures	52,545	-	-	52,545
Paid or transferred	(186,392)	-	-	(186,392)
Increased	36,823	-	-	36,823
Balance as of 31 December 2022	480,234	-	14,685	494,919

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 2022 and 2021

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized loss given default (LGD) are the parameters employed in determining the provisioning rate and those parameters are determined on the basis of an individual review of the early warning signs that are homogeneous in terms of their credit characteristics and their relation to international and domestic macroeconomic variables that could affect them.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Movement in the impairment of main groups of assets subject to impairment in 2022 and 2021 (continued)

The movements of the impairments in 2022 and 2021 are presented below:

Assets measured at amortised cost (except for Government and receivables from banks)	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 01.01.2021	73,709	72,782	109,635	256,126
Transfers:				
Transfer from Stage 1 to Stage 2	(51,987)	51,987	-	**-**
Transfer from Stage 1 to Stage 3	(53)	-	53	**-**
Transfer from Stage 2 to Stage 3	-	(1,151)	1,151	**-**
Transfer from Stage 2 to Stage 1	-	(218)	218	**-**
New exposures	1,302	198	45,780	**47,280**
Paid or transferred	(2,867)	(241)	(60,541)	**(63,649)**
Increase in impairment on existing exposures	2,409	97,203	1,167	**100,779**
Balance of impairment as of 31 December 2021	22,513	220,560	97,463	340,536
Transfer from Stage 1 to Stage 2	(1,351)	1,351	-	-
Transfer from Stage 1 to Stage 3	(103)	-	103	-
Transfer from Stage 2 to Stage 3	-	(148,448)	148,448	-
New exposures	2,195	4,901	94,942	102,039
Paid or transferred	(2,889)	(16,622)	(189,139)	(208,650)
Increased	2,602	4,278	3,066	9,946
Balance of impairment as of 31 December 2022	22,967	66,020	154,883	243,871

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Movement in the impairment of main groups of assets subject to impairment in 2022 and 2021 (continued)

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01 January 2021	151	-	-	151
Net movement in impairment on EEMFRBNP	(102)	-	-	(102)
Balance of impairment as of 31 December 2021	49	-	-	49
Net movement in impairment on EEMFRBNP	12	-	-	12
Balance of impairment as of 31 December 2022	61	-	-	61

Assets measured at amortised cost - Banks and financial institutions	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 2021	1,988	-	-	1,988
Increased/(decreased)	102	-	-	102
Balance of impairment as of 31 December 2021	2,090	-	-	2,090
Increased/(decreased)	(706)	-	-	(706)
Balance of impairment as of 31 December 2022	1,384	-	-	1,384

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Movement in the impairment of main groups of assets subject to impairment in 2022 and 2021 (continued)

Assets measured at fair value through other comprehensive income – debt instruments	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 1 January 2021	2,170	-	-	2,170
New exposures	1,544	-	-	1,544
Paid or transferred	(252)	-	-	(252)
Other movements	396	-	-	396
Balance of impairment as of 31 December 2021	3,858	-	-	3,858
Transfer from Stage 1 to Stage 3	(1,243)		1,243	-
New exposures	179	-	2,867	3,046
Paid or transferred	(168)	-	-	(168)
Other movements	292	-	-	292
Balance of impairment as of 31 December 2022	2,918	-	4,110	7,028

Value of collaterals as of 31 December 2022

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	574,414	729,287
Pledge of plant, equipment and inventories	184,459	294,599
Restricted deposits	501,169	44,613
Credit risk insurance	41,975	36,999
Bank guarantees	634	960
Other collaterals	188,145	2,979,377
Non-secured	8,064	-
Total	1,501,774	4,085,835

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Value of collaterals as of 31 December 2021

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	399,518	540,809
Pledge of plant, equipment and inventories	181,803	287,494
Restricted deposits	613,548	36,653
Mortgage on a ship	32,951	46,432
Credit risk insurance	37,820	23,612
Bank guarantees	514	635
Other collaterals	443,446	2,965,408
Non-secured	18,236	-
Total	1,727,836	3,901,043

Country (sovereign) risk

The Bank has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising only government securities issued by the Republic of Bulgaria, other EU countries and USA. The Bank's exposure to sovereign is BGN 451,935 thousand as of 31 December 2022 and BGN 544,305 thousand as of 31 December 2021.

Standard & Poor's credit rating for the securities of Republic of Bulgaria stands at BBB/A-2 with stable outlook (28 May 2022). Fitch's credit rating for the securities of Republic of Bulgaria is BBB with positive outlook (18 November 2022). Moody's credit rating for the securities of Republic of Bulgaria is Baa1 with stable outlook (3 February 2023). The securities issued by the governments of other countries have rating not lower than BBB- by Fitch Ratings/Standard&Poor's or the equivalent of Baa3 by Moody's.

According to Fitch Ratings, BBB credit rating means that insolvency expectations are low, and the capacity to service financial liabilities is adequate, but a deterioration in economic conditions or business environment is likely to lessen this capacity. The definitions of Moody's and Standard&Poor's of the rating assigned to the sovereign are similar.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Bank's profitability and financial position.

Interest rate risk

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

The interest rate risk is considered in view of the overall activity of the Bank. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis.

The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Bank's net income;
- Analysis of the interest rate sensitivity of economic capital – measuring the interest rate sensitivity of the Bank's equity economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Bank's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual net interest income after and the Bank's equity economic value applying a stress scenario involving changes in the interest rate curves by types of currencies.

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. If there are items in the statement of financial position of the Bank, classified as determined at fair value, they are referred to the applicable maturity zone in the analysis of interest rate imbalance. The Bank maintain certain interest-free assets and liabilities in relation to its payment operations.

Besides the interest rate sensitivity analyses, for the interest risk management main sources related to the change in the net interest spread of the Bank are also identified. This helps decision making on the interest rates policies of the Bank, in particular, the development of specific products and providing sources of financing having relevant characteristics.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

Assets and Liabilities Committee (ALCO) currently monitors the interest rate risk to which the Bank is exposed and develops measures for its coverage and maintenance within the Bank's permitted levels and limits.

The table below summarises the interest exposure and risk of the Bank. It includes information on the Bank's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

31 December 2021	*With floating interest rate*	*With fixed interest rate*	*Interest free*	*Total*
Financial assets				
Financial assets at amortized cost – Receivables from banks	21,746	351,327	12,274	385,347
Financial assets at amortized cost – Loans and advances to customers	1,692,769	33,135	1,932	1,727,836
Financial assets at amortized cost – Receivables from the State budget	18,817	-	-	18,817
Financial assets at amortized cost – Debt instruments	1,920	-	-	1,920
Financial assets at fair value through other comprehensive income – Debt instruments	-	591,943	-	591,943
Other financial assets	-	-	2,116	2,116
	1,735,252	976,405	16,322	2,727,979
Financial liabilities				
Borrowings from international institutions	1,063,786	46,954	-	1,110,740
Deposits from customers other than credit institutions	726,621	132,450	22,602	881,673
Deposits from credit institutions	1,719	-	-	1,719
Other borrowings	11,236	5,510	-	16,746
Liabilities under lease contracts	492	-	-	492
Other financial liabilities	-	-	3,406	3,406
	1,803,854	184,914	26,008	2,014,776
Total balance sheet interest exposure	(68,602)	791,491	(9,686)	713,203
Contingencies and commitments	213,886	27,562	648,722	890,170

Interest rate sensitivity analysis

The table below includes the financial instruments of the Bank, presented at carrying amount, classified by the earlier of the date of interest rate change under the contract and the maturity date.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate sensitivity analysis(continued)

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
4.2. Market risk (continued)

Interest rate sensitivity analysis(continued)

31 December 2021	*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	21,666	80	-	-	-	-	351,327	12,274	385,347
Financial assets at amortized cost – Loans and advances to customers	112,659	1,580,110	-	-	-	-	33,135	1,932	1,727,836
Financial assets at amortized cost – Receivables from the State budget	18,817	-	-	-	-	-	-	-	18,817
Financial assets at amortized cost – Debt instruments	-	-	1,920	-	-	-	-	-	1,920
Financial assets at fair value through other comprehensive income – Debt instruments	-	53,713	439,645	8,630	32,159	57,796	-	-	591,943
Other financial assets	-	-	-	-	-	-	-	2,116	2,116
Total financial assets	153,142	1,633,903	441,565	8,630	32,159	57,796	384,462	16,322	2,727,979
Financial liabilities									
Borrowings from international institutions	-	57,640	21,474	61,875	656,306	266,491	46,954	-	1,110,740
Deposits from customers other than credit institutions	749,186	985	25,144	678	83,078	-	-	22,602	881,673
Deposits from credit institutions	1,719	-	-	-	-	-	-	-	1,719
Other borrowings	-	11,236	-	-	-	5,510	-	-	16,746
Liabilities under lease contracts	-	492	-	-	-	-	-	-	492
Other financial liabilities	3,178	-	168	-	60	-	-	-	3,406
Total financial liabilities	754,083	70,353	46,786	62,553	739,444	272,001	46,954	22,602	2,014,776
Total exposure to interest rate sensitivity	(600,941)	1,563,550	394,779	(53,923)	(707,285)	(214,205)	337,508	(6,280)	713,203
Contingencies and commitments	183,713	30,173	-	-	-	-	27,562	648,722	890,170

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Sensitivity of the floating rate interest assets and liabilities

The table below represents the sensitivity of the Bank to possible changes in interest rates based on the structure of floating rate assets and liabilities as of December 31, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different, as a significant portion of the loans and receivables from customers bear floating interest rates that are based on a variable portion determined by the Bank, which in turn is influenced by numerous factors.

	2022			2021		
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%	1,564	(1,642)	0.50%	1,995	(2,700)
EUR	0.50%	(2,199)	(2,747)	0.50%	(1,537)	(4,358)
USD	0.50%	(381)	(25)	0.50%	(386)	(213)
BGN	-0.50%	(1,564)	1,642	-0.50%	(1,995)	2,700
EUR	-0.50%	2,199	2,747	-0.50%	1,537	4,358
USD	-0.50%	381	25	-0.50%	386	213

* Equity sensitivity, measured by the potential change in the market value of debt instruments reported at fair value in other comprehensive income, when interest rate curves change by 50 basis points.

The average interest rates by financial assets and financial liabilities are presented in the following table:

	31.12.2022	31.12.2021
Financial assets	3.16%	2.26%
Financial liabilities	1.83%	0.84%

Currency risk

The currency risk is the risk that the financial position and cash flows of the Bank might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Bank follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes but arise out of foreign currency transactions in the ordinary course of business of the Bank.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

The policy of the Bank is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Bank does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Bank’s cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Bank. Analyses of the financial assets and liabilities by types of currency of denomination are conducted on a regular basis.

The approach of measuring the overall activity currency risk includes mainly:

- Foreign currency sensitivity analysis – measuring the Bank’s income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Bank’s risk appetite;
- Stress tests for currency risk, which present the potential change of annual income after the implementation of stress scenarios for exchange rate changes.

The currency risk analysis is performed by allocating the Bank’s assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Bank’s foreign currency policy, and in particular, the formation of specific products and ensuring sources of financing with relevant characteristics.

The Asset and Liability Management Committee (ALCO) currently monitors the currency risk to which the Bank is exposed and develops measures for its management and maintenance within the limits acceptable to the Bank.

The following table summarises the Bank’s exposure to currency risk. The table includes the Bank’s financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As of 31 December 2021	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	28	21,026	-	222,571	243,625
Financial assets at amortized cost – Receivables from banks	40,588	304,058	121	40,580	385,347
Financial assets at amortized cost – Loans and advances to customers	-	1,076,156	-	651,680	1,727,836
Financial assets at amortized cost – Receivables from the State budget	-	-	-	18,817	18,817
Financial assets at amortized cost – Debt securities	-	-	-	1,920	1,920
Financial assets at fair value through other comprehensive income – Debt securities	66,476	373,609	-	151,858	591,943
Financial assets at fair value through other comprehensive income – Equity securities	-	20,719	-	43,950	64,669
Other financial assets	-	-	-	2,116	2,116
Total financial assets	107,092	1,795,568	121	1,133,492	3,036,273
Financial liabilities					
Borrowings from international institutions	-	1,110,740	-	-	1,110,740
Deposits from customers other than credit institutions	114,166	332,359	-	435,148	881,673
Deposits from credit institutions	-	696	-	1,023	1,719
Other borrowings	-	16,746	-	-	16,746
Guarantee provisions	-	785	-	176,930	177,715
Lease liabilities	-	492	-	-	492
Other financial liabilities	1	737	-	2,668	3,406
Total financial liabilities	114,167	1,462,555	-	615,769	2,192,491
Net balance sheet currency position	(7,075)	333,013	121	517,723	843,782
Contingencies and commitments	6,291	154,690	-	917,592	1,078,573

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
4.2. Market risk (continued)

Currency risk (continued)

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December 2022.

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

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December 2021.

	2021					
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	1.72685	810	(1,444)	(154)	274	-
JPY	0.01500	7	(11)	-	-	-
GBP	2.32759	(1,698)	1,550	(9)	8	-
Total effect				(163)	283	-

* 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 2022 and 2021 would have an immaterial effect on the Bank's financial result assessed as equal to minus BGN 9 thousand (2021: minus BGN 163 thousand) if the hypothesis of unfavourable change in exchange rates occurs compared to the open positions of the Bank by separate currencies with the reported basis points (BPS: 1 b.p. = 0.0001 in decimal form).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Price risk of shares quoted on the Stock Exchange

The Bank is exposed to price risk with respect to the shares it holds, classified as investments at fair value through other comprehensive income. Management of the Bank monitors and analyses all changes in the security market and engages the advisory services of renowned local investment intermediaries. In addition, at this stage, the Bank has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

4.3. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Bank's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the Bank's liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, as well as the impact of the changes in interest rates and exchange rates on the pre-tax profit and equity, are important factors in assessing the Bank's liquidity. In order to manage this risk, the Bank maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by Assets and Liabilities Committee (ALCO) and are based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions that could have an impact on the Bank's liquid position and certain statutory coefficients and ratios. Additionally, varieties of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the Bank and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which is tantamount to downgrading of the institution with two degrees at least and combined shocks.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below presents the amounts in percentage of the liquidity coverage ratio (LCR) of the Bank:

	2022	2021
As of December 31	250.30%	376.61%
Average for the period	462.14%	471.23%
Highest for the period	685.14%	574.78%
Lowest for the period	250.30%	376.61%

	2022	2021
Cash and cash balances with BNB	527,836	243,625
Balances in current accounts with other banks and international deposits of up to 90 days	81,305	242,255
Government securities	451,935	544,305
Liquid assets	1,061,076	1,030,185
Financial liabilities measured at amortised cost	1,793,113	2,011,370
Provisions	132,996	177,747
Employee retirement benefits	610	754
Liabilities	1,926,719	2,189,871
Liquidity assets ratio (LAR)	55.07%	47.04%

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below provides an analysis of the assets and liabilities of the Bank at carrying amount, grouped by remaining maturity:

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2021	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 with the Central Bank	243,625	-	-	-	-	243,625
Financial assets at amortized cost – Receivables from banks	216,938	39,505	56,614	40,790	31,500	385,347
Financial assets at amortized cost – Loans and advances to customers	182,019	34,550	182,382	585,327	743,558	1,727,836
Financial assets at amortized cost - Receivables from the State budget	-	9,000	9,817	-	-	18,817
Financial assets at amortized cost – Debt securities	-	-	11	-	1,909	1,920
Financial assets at fair value through other comprehensive income – Debt instruments	752	55,944	42,187	435,711	57,349	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	64,669	-	-	-	-	64,669
Other financial assets	866	226	1,024	-	-	2,116
Total financial assets	708,869	139,225	292,035	1,061,828	834,316	3,036,273
Financial liabilities						
Borrowings from international institutions	-	57,640	126,392	660,218	266,490	1,110,740
Deposits from customers other than credit institutions	750,205	5,244	34,440	91,784	-	881,673
Deposits from credit institutions	1,719	-	-	-	-	1,719
Other borrowings	-	11,236	213	853	4,444	16,746
Provisions	300	600	2,700	174,115	-	177,715
Lease liabilities	13	26	120	333	-	492
Other financial liabilities	3,178	-	168	60	-	3,406
Total financial liabilities	755,415	74,746	164,033	927,363	270,934	2,192,491
Gap in maturity thresholds of assets and liabilities	(46,546)	64,479	128,002	134,465	563,382	843,782
Contingencies and commitments	59,784	12,949	116,457	699,059	6,583	894,832

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below presents the gross undiscounted cash flows related to the Bank's liabilities as of 31 December:

As of 31 December 2022	Carrying amount	Gross flow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Financial liabilities							
Borrowings from international institutions	779,497	885,437	545	40,260	62,542	625,596	156,494
Deposits from customers other than credit institutions	994,068	1,055,691	856,053	30,943	150,948	17,747	-
Deposits from credit institutions	2,641	2,641	2,641	-	-	-	-
Other borrowings	16,608	18,978	-	-	217	13,374	5,387
Other financial liabilities	4,077	4,077	3,427	-	-	650	-
Lease liabilities	299	309	8	16	72	213	-
	1,797,190	1,950,973	861,928	70,376	207,749	649,039	161,881
Bank and credit guarantee provisions	128,960	128,960	300	600	2,700	125,360	-
Unutilised amount of approved loans	184,715	184,715	17,095	2,322	69,963	91,835	3,500

As of 31 December 2021	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	1,110,740	1,167,245	-	58,256	127,089	691,285	290,615
Deposits from customers other than credit institutions	881,673	881,833	750,205	5,245	34,448	91,935	-
Deposits from credit institutions	1,719	1,719	1,719	-	-	-	-
Other borrowings	16,746	18,058	-	11,264	295	1,247	5,252
Other financial liabilities	3,406	3,406	3,178	-	168	60	-
Lease liabilities	492	518	14	29	129	346	-
	2,014,776	2,072,779	755,116	74,794	162,129	784,873	295,867
Bank and credit guarantee provisions	177,715	177,715	300	600	2,700	174,115	-
Unutilised amount of approved loans	241,448	241,448	27,183	9,946	100,676	100,143	3,500

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Considering the specific activity of the Bank, the funds attracted from the biggest 20 non-bank depositors as of 31 December 2022 represent 72.58% of the total amount of payables to other customers (31 December 2021: 85.52%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 29.90% (31 December 2021: 14.62%).

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 2022

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2021

Financial assets	Pledged as collateral*	Available for collateral	Other**	Total
Cash in hand and balances in current account with the Central Bank	-	108,009	135,616	243,625
Financial assets at amortized cost – Receivables from banks	12,274	373,073	-	385,347
Financial assets at amortized cost – Loans and advances to customers	-	1,002,047	725,789	1,727,836
Financial assets at amortized cost – Receivables from the State budget	-	18,817	-	18,817
Financial assets at amortized cost – Securities	-	1,920	-	1,920
Financial assets at fair value through other comprehensive income – Debt instruments	6,482	585,461	-	591,943
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	64,669	64,669
Other financial assets **	-	-	2,116	2,116
Total financial assets	18,756	2,089,327	928,190	3,036,273

* As of 31 December 2022, funds amounting to BGN 6,997 thousand (2021: BGN 12,274 thousand) were blocked on counter-guarantees of two corporate customers, maturing as follows:

Maturity interval	Receivables from banks pledged as collateral	
	2022	2021
From 0 to 90 days	1,267	4,080
From 91 to 180 days	519	4,571
From 181 to one year	4,931	3,154
Over one year	280	469
	6,997	12,274

As of 31 December 2022, restricted securities on a legal requirement to provide for funds of the State budget amount to BGN 6,038 thousand (2021: BGN 6,482 thousand).

** Other represent financial assets not encumbered or restricted to be used as collateral, but the Bank would not take it into consideration as available to support a future financing in the normal course of its activity.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

Risk Management, together with other Bank divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Bank's assets. In case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

4.4. Operational risk

The main sources of operational risk within the Bank are its personnel, processes, systems and external events. The Bank designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Bank applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. Moreover, control procedures for reducing the operational risk are added to all internal rules and procedures of the Bank.

In operational risk management all operational events, which occur in the activity of various units and processes of the Bank, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios.

The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes and minimising the conditions that would potentially result in operational events and loss for the Bank.

For the purposes of measuring its operational risk, the Bank has decided to apply the "Basic indicator method".

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.5. Capital management

The main objectives of the Bank's capital management are to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Bank should observe the regulatory requirements for capital, as well as to continue operating as a going concern.

The table below presents the main equity components following the regulatory requirements and ratios achieved by the Bank:

	2022	2021
OWN FUNDS	1,052,229	1,070,167
TIER I CAPITAL	1,052,229	1,070,167
COMMON EQUITY TIER I (CET1) CAPITAL	1,052,229	1,070,167
Share capital	1,441,774	1,441,774
Loss	(211,369)	(386,706)
Statutory reserves	(818)	74,939
Additional reserves	-	80,179
Accumulated other comprehensive income	(95,314)	(74,639)
Intangible assets	(7,617)	(8,065)
Investments in subsidiaries	(3,023)	(3,200)
(-)CET 1 Capital instruments of companies from the financial sector when the institution has material investments	(54,268)	(43,760)
Adjustments due to prudential assessment requirements	(579)	(657)
Transitional adjustments to CET1 Capital	-	-
Deductible deferred tax assets based on future profit and arising from temporary differences	(12,320)	(9,698)
Components of or deductions from CET1 Capital – other	(4,237)	-
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.5. Capital management (continued)

	2022	2021
TOTAL RISK EXPOSURES	2,410,638	2,987,764
Credit risk – Standardised approach	2,291,600	2,868,564
Central governments or central banks	6,947	9,050
Regional governments or local authorities	1,745	1,920
Public sector entities	-	-
Multilateral development banks	-	939
Institutions	70,521	139,543
Corporates	1,003,220	1,349,299
Retail	264,584	434,198
Secured by mortgages on immovable property	346,793	293,812
Exposures in default	241,300	276,684
Items associated with particular high risk	136,883	143,583
Equity exposures	114,833	116,088
Other items	104,774	103,448
Currency and commodity risk	-	-
Operational risk – Basic indicator approach	119,038	119,200
CET 1 Capital Ratio	43.65%	35.82%
Total Capital Ratio	43.65%	35.82%
Capital conservation buffer	*60,266*	*74,694*
Systemic risk buffer	*72,319*	*89,633*
Institution-specific countercyclical capital buffer	*24,106*	*14,939*
Buffer of other institutions of systemic importance	*12,053*	*14,939*
Regulatory required levels		
CET 1 Capital Ratio	*6.75%*	*6.25%*
Tier 1 Capital ratio	*8.25%*	*7.75%*
Total Capital ratio	*10.25%*	*9.75%*
Capital conservation buffer	*2.50%*	*2.50%*
Systemic risk buffer	*3.00%*	*3.00%*
Institution-specific countercyclical capital buffer	*1.00%*	*0.50%*
Buffer of other institutions of systemic importance	*0.50%*	*0.50%*

By decision of BNB No93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%. By decision of BNB 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%.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.b External risks

War in Ukraine

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

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

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

Potential direct effects on the Bank

As of 31 December 2022, and as of the date of issue of the separate financial statements, the Bank has no exposures to institutions, whose main shareholder is Russia or clients whose main business is in Russia.

Potential effects on clients of the Bank

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.b External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Bank (continued)

- Clients in the Construction and Real Estate sector expect the high prices of materials to persist in the medium term, as the main suppliers of these raw materials - iron, cement, etc. - are Russia and Ukraine. Customers are not sure how much of these additional costs could be transferred to their own customers;
- Customers in the Trade and Services sector recorded an increase in costs due to increased energy prices, as well as general inflationary pressures, to which the war contributed. These costs were partially or fully offset by the relevant government programs and these customers do not expect a material effect on their operating results and financial condition: these customers expect that, to a large extent, they will be able to neutralize the effect of these increases;
- 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; it is not clear to what extent partial compensation for high energy prices has affected the business performance of these customers;
- The Bank's clients in the Production, transmission, distribution and supply of natural gas and thermal energy sector were directly affected by the increased prices of energy carriers, with the relevant government programs partially or fully compensating these increases. The finding of alternative natural gas supplies in Europe, combined with warmer winter weather, has resulted in relative stability for these enterprises, with the exception of enterprises with regulatory disbalance. At the same time, the opportunities created to export electricity at high relative prices significantly improved the financial position and operating results of some customers, regardless of the subsequent partial seizure of income from state-owned or controlled by the state enterprises through significant dividend payments.

It is unlikely as a result of these developments, as well as the developments in 2023, and further that the customers will be become permanently unable to repay their liabilities to the Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.b External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Bank (continued)

As of 30 April 2023, the Bank has the following significant exposures[2] to the potentially affected sectors:

	As of 30 April 2023
Construction and real estate	298,121
Industry	530,862
Trade and services	151,883
Transport	204,586
Production, transmission, distribution and supply of natural gas and thermal energy	170,161
Tourism and hospitality	259,060
	1,614,673

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 effect of general economic consequences 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. At this stage, the Bank's management is unable to reliably estimate these effects, as events unfold on a daily basis.

Longer-term effects may affect the Bank's financial position, results of operations and cash flows. However, as of the date of issue of these separate financial statements, the Bank continues to fulfil its obligations on time and therefore continues to apply the going concern principle.

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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 1,487 thousand as of 31 December 2022 (2021: BGN 1,278 thousand), held at cost of acquisition, as, in the Bank believes that they cannot be reliably estimated.

As of 31 December 2022		Carrying amount				Fair value			
	Note	Financial assets at amortized cost	Financial assets at fair value through OCI	Other	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	494,919	-	494,919	480,234	-	14,685	494,919
Equity instruments at fair value through other comprehensive income	22	-	82,241	-	82,241	80,754	-	-	80,754
Assets acquired from collateral foreclosure	27	-	-	37,434	37,434	-	-	37,434	37,434
Investment property	25	-	-	8,221	8,221	-	-	8,221	8,221
		-	**577,160**	**45,655**	**622,815**	**560,988**	**-**	60,340	**621,328**
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	527,836	-	-	527,836	-	527,836	-	527,836
Loans to banks	18	51,002	-	-	51,002	-	52,536	-	52,536
Current accounts and term deposits of banks	18	88,303	-	-	88,303	-	88,303	-	88,303
Loans and advances to customers	19	1,502,860	-	-	1,502,860	-	1,538,377	-	1,538,377
Receivables from the State budget	20	23,537	-	-	23,537	-	26,846	-	26,846
Securities at amortized cost	21	1,745	-	-	1,745	-	1,659	-	1,659
		2,195,283	**-**	**-**	**2,195,283**	**-**	**2,235,546**	**-**	**2,235,546**
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	779,497	779,497	-	824,130	-	824,130
Deposits from customers other than credit institutions	29	-	-	994,068	994,068	-	993,996	-	993,996
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	2,641	2,641	-	2,641	-	2,641
Other borrowings	31	-	-	16,608	16,608	-	17,573	-	17,573
		-	**-**	**1,792,814**	**1,792,814**	**-**	**1,838,340**	**-**	**1,838,340**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

As of 31 December 2021		Carrying amount				Fair value			
	Note	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	591,943	-	591,943	591,943	-	-	591,943
Equity instruments at fair value through other comprehensive income	22	-	64,669	-	64,669	63,391	-	-	63,391
Assets acquired from collateral foreclosure	27	-	-	34,719	34,719	-	-	34,719	34,719
Investment property	25	-	-	7,352	7,352	-	-	7,352	7,352
		-	656,612	42,071	698,683	655,334	-	42,071	697,405
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	243,625	-	-	243,625	-	243,625	-	243,625
Loans to banks	18	71,900	-	-	71,900	-	76,104	-	76,104
Current accounts and term deposits of banks	18	313,447	-	-	313,447	-	313,447	-	313,447
Loans and advances to customers	19	1,727,836	-	-	1,727,836	-	1,765,516	-	1,765,516
Receivables from the State budget	20	18,817	-	-	18,817	-	24,661	-	24,661
Securities at amortized cost	21	1,920	-	-	1,920	-	1,960	-	1,960
		2,377,545	-	-	2,377,545	-	2,425,313	-	2,425,313
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	1,110,740	1,110,740	-	1,142,764	-	1,142,764
Deposits from customers other than credit institutions	29	-	-	881,673	881,673	-	882,281	-	882,281
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	1,719	1,719	-	1,719	-	1,719
Other borrowings	31	-	-	16,746	16,746	-	17,843	-	17,843
		-	-	2,010,878	2,010,878	-	2,044,607	-	2,044,607

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair value of assets and liabilities measured at fair value is presented in the following table by types of assets at the reporting date:

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2022	31.12.2021				
Financial assets at fair value through other comprehensive income Debt instruments (quoted)	480,234	591,943	Level 1	Quoted market price without adjustment	N/A	N/A
Financial assets at fair value through other comprehensive income Debt instruments (unquoted)	14,685	-	Level 3	Discounted cash flows	Effective interest rate of the security	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	80,754	63,391	Level 1	Quoted market price without adjustment	N/A	N/A

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Financial instrument	Fair value as of 31.12.2022	Fair value as of 31.12.2021	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	8,221	7,352	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 122 and BGN 3,025 /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 1-14/sq. m.	Market analogues method: 1. Market realisation coefficient (0.8-0.95) 2. Location coefficient (0.81-1.0) 3. Coefficient of specific features (status) (0.8-1.1) 4. Offer market adequacy adjustment coefficient (from -10% to +5%) Income capitalisation method (revenue method): 1. rent per sq. m. – BGN 1-14/ sq. m. 2. price growth assumptions – 0-10% 3. levels of vacant unoccupied space – 3-60% 4. discount rate – 5-9%	The higher (lower) fair value if: - Higher (lower) market realisation coefficient - Higher (lower) location coefficient - Higher (lower) coefficient of specific features (status) - Higher (lower) offer market adequacy adjustment coefficient - price growth is expected to be higher (lower)) - the levels of unoccupied space are low (high) - discount rate is lower (higher)
Assets, acquired from collateral foreclosure	37,434	34,719	Level 3			

The Bank discloses voluntary the fair values of the assets acquired from collateral foreclosure as of 31 December 2022 and 31 December 2021.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair values of financial assets and liabilities that are not measured at fair value, but a disclosure at fair value is required.

Financial instrument	Fair value as of 31.12.2022	Fair value as of 31.12.2021	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans to banks	52,536	76,104	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	1,538,377	1,765,516	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 2022.	N/A	N/A
Receivables from the State budget	26,846	24,661	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2022.	N/A	N/A
Securities at amortized cost	1,648	1,960	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 2022.	N/A	N/A
Other borrowings	17,573	17,843	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2022.	N/A	N/A
Borrowings from international institutions	824,130	1,142,764	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

	2022	2021
Interest income		
Financial assets measured at amortised cost		
Loans and advances to customers	67,203	70,047
Loans to banks	1,120	1,131
Receivables from the State budget	355	320
Deposits placed with other banks	2,971	188
Securities	45	45
Financial assets at fair value through other comprehensive income	3,228	2,519
Other liabilities (effect of negative interest)	2,305	1,080
	77,227	75,330
Incl. Interest income on loans and receivables in Phase 2 and 3	20,778	22,372
Interest expenses		
Borrowings from international institutions	(15,996)	(15,267)
Deposits from customers other than credit institutions	(1,263)	(203)
Other borrowings	(159)	(113)
Deposits from credit institutions	(127)	(1)
Finance lease	(14)	(18)
Other assets (effect of negative interest)	(1,258)	(3,050)
	(18,817)	(18,652)
Net interest income	58,410	56,678

All interest income, except interest income on financial assets at fair value through other comprehensive income, arises from financial assets carried at amortized cost and recognized using the effective interest method.

7. NET FEE AND COMMISSION (EXPENSE) / INCOME

	2022	2021
Fee and commission income under IFRS 15		
Transaction-related services	652	569
Issuance of guarantees and letters of credit	3,434	2,916
Account maintenance	214	174
Factoring transactions	179	-
Total fee and commission income from contract with customers	4,479	3,659
Other charges	17	19
Total fees and commissions income	4,496	3,678
Fee and commission expenses		
Co-management fee COVID guarantees	(3,504)	(3,970)
Agent's commissions	(1)	(11)
Factoring transactions	(129)	-
Servicing of accounts with other banks	(22)	(22)
Transfers and treasury operations in other banks	(4)	(3)
Total fee and commission expenses	(3,660)	(4,006)
Net fee and commission (expense) / income	836	(328)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. NET FEE AND COMMISSION (EXPENSE) / 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

	2022	2021
Net gain on dealing in foreign currencies	546	420
Net (loss)/gain on foreign currency translation of assets and liabilities	(22)	7
	524	427

9. NET (LOSS)/GAIN ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	2021
Net (loss)/gain on dealing in securities measured at fair value through OCI, incl. realised revaluation reserve	(851)	1,101
	(851)	1,101

10. OTHER OPERATING INCOME

	2022	2021
Income from rent of investment property	605	903
Refunded litigation expenses	82	175
Proceeds from disposal of FTA (fixed tangible assets)	1	90
Dividends received	127	76
Income from revaluation of investment properties	869	29
Gain from sale of properties for resale	817	-
Other income	451	348
	2,952	1,621

11. OTHER OPERATING EXPENSES

	2022	2021
Loss on revaluation of investment property	-	(462)
Expenses on assets held for sale	(540)	(445)
Direct operating expenses relating to investment property	(306)	(244)
Expenses on disposal of FTA	(13)	(90)
Litigation expenses	(19)	(37)
Expenses for past periods, accounted for in the current (lost lawsuits)	(180)	-
VAT of BDB Factoring EAD	(4)	-
	(1,062)	(1,278)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

12A. NET EXPENSES FOR IMPAIRMENT OF FINANCIAL ASSETS

	2022	2021
(Expenses) for impairment on loans, net	(44,451)	(127,774)
Income from /(expenses) for provisions on credit guarantees anti-COVID programs, net	44,134	(56,307)
(Expenses) for impairment on assets at fair value through OCI, net	(3,170)	(1,688)
Impairment of securities at amortized cost, net	(16)	(10)
Income from reversed impairment on unutilised loans	18	31
Income from reversed guarantee provisions, net	2,177	1,738
Net expenses for impairment of financial assets	(1,308)	(184,010)

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

	2022	2021
(Expenses) for impairment of assets acquired from collateral foreclosure	(149)	(407)
Impairment of subsidiaries	(5,290)	(1,193)
Impairment of other assets	(1,150)	-
Net expenses for impairment of non-financial assets	(6,589)	(1,600)

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

12C. PROVISIONS FOR LAWSUITS

In 2022, provisions were accrued for a lawsuit, which the Bank expects to lose. The total cost of potential loss related to the lawsuit is BGN 4,017 thousand (as of 31 December 2021: BGN 0).

13. EMPLOYEE BENEFITS

	2022	2021
Staff remuneration and social security	(15,189)	(15,454)
Remuneration to members of the Management and Supervisory Boards	(1,253)	(1,373)
	(16,442)	(16,827)

Staff remuneration and social security	2022	2021
Salaries	(13,195)	(13,445)
Social security	(1,870)	(1,703)
Social benefits	(52)	(192)
Amounts accrued on retirement benefits	(72)	(114)
	(15,189)	(15,454)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Legal and consulting services	(1,793)	(1,472)
Bank supervision fees	(1,749)	-
Communications and IT services	(1,744)	(1,583)
Office and office equipment maintenance	(1,494)	(1,315)
Hired services	(783)	(1,550)
Advertising and entertainment expenses	(669)	(1,340)
Audit services by the registered auditors	(586)	(952)
Taxes and government charges	(395)	(364)
Other services provided by the registered auditors	(118)	(103)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(91)	(65)
Rents	(56)	(8)
Business trips	(55)	(32)
	(9,533)	(8,784)

The amounts charges for the year for services provided by the registered audit firms of the Bank include: independent financial audit: BGN 586 thousand (2021: BGN 952 thousand), as well as agreed-upon procedures for BGN 118 thousand (2021: BGN 103 thousand) as a result of agreed-upon procedures related to regulating requirements and Pillar assessment for the purposes of funds assignment by the European Commission and business review of the subsidiary. The Bank did not receive tax advisory services or other services not related to audit by the statutory auditors, except the above.

15. TAXATION

	2022	2021
Current tax expense	(358)	(16,442)
Deferred tax benefit due to temporary differences	305	105
Tax loss asset not recognized	358	16,442
Total current tax benefit	305	105

	2022	2021
Accounting profit / (loss)	19,914	(155,956)
Income tax calculated at the effective tax rate (10% for 2022, 10% for 2021)	(1,991)	15,596
Expense on non-deductible expenses	(1,212)	(174)
Non-deductible income	3,866	1,125
Tax loss asset not recognized	(358)	(16,442)
Total tax benefit	305	105
Effective tax rate	n/a	n/a.

In 2022 and 2021, the Bank did not pay advance corporate income taxes.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. TAXATION (CONTINUED)

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		
	2022	2021	2022	2021	Changes in the statement of comprehensive income
Property and equipment	(3)	(6)	-	-	3
Other assets	(489)	(79)	-	-	(410)
Investment properties	-	-	130	29	101
Securities at fair value through other comprehensive income	(11,958)	(9,642)	-	-	(2,316)
	(12,450)	(9,727)	130	29	(2,622)

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

	2022	2021
Losses during the year	(23,163)	(7,605)
10% tax	2,316	761
Incl. debt instruments	(34,952)	*(2,044)*
10% tax	3,495	*205*
Incl. equity instruments	11,789	*(5,561)*
10% tax	(1,179)	*556*
Other comprehensive income for the year, net of tax	(20,847)	(6,844)

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

	2022	2021
Cash in hand	442	839
Current account with central banks	527,394	242,786
Of which with Deutsche Bundesbank	*313,747*	-
Of which with BNB	*213,647*	*242,786*
Incl. Minimum statutory reserves	*137,048*	*135,616*
Total cash with central banks	527,394	242,786
Total cash in hand and in accounts with central banks	527,836	243,625

In 2022 the current account with the Central Bank bears interest rate of between minus 0.70% and 0% on the excess over 105% of the minimum statutory reserves (2021: minus 0.70%).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. RECEIVABLES FROM BANKS

	2022	2021
Current accounts and demand deposits with local banks	118	200
Current accounts and demand deposits with foreign banks	12,292	33,739
Total current accounts and demand deposits	12,410	33,939
incl. Current accounts with an original maturity of less than 90 days	*5,413*	*21,666*
Term deposits with local banks (incl. repo deals)	33,048	-
Term deposits with foreign banks (incl. repo deals)	42,844	279,508
Total term deposits	75,892	279,508
incl. Term deposits with an original maturity of less than 90 days	*75,892*	*220,590*
Loans to local banks	52,387	73,990
Total loans granted	52,387	73,990
Allowance for impairment and uncollectability of receivables from banks	(1,384)	(2,090)
	139,305	385,347

As of 31 December 2022, special-purpose loans, denominated and BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 3.85% to 6.25% (2021: 1.50% to 4.50%), were extended with the aim to develop small and medium-sized enterprises.

Funds amounting to BGN 46,997 thousand were blocked in current accounts with foreign banks to cover letters of credit (2021: BGN 12,274 thousand).

As of 31 December 2022, a loan was provided to a local bank denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand (31 December 2021: 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

	2022	2021
Loans (gross amount)	1,746,625	2,068,281
Allowance for impairment and uncollectability of loans	(243,765)	(340,445)
	1,502,860	1,727,836

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2022	2021
A. Analysis by customer type (gross amount)		
Corporate and sole traders	1,742,275	2,063,891
Municipalities	338	427
Individuals	4,012	3,963
	1,746,625	2,068,281

	2022	2021
B. Analysis by industry sector (gross amount)		
Trade	450,592	631,007
Manufacturing Industry, total	326,337	313,044
Manufacturing Industry – manufacturing of plant and equipment	*92,598*	*91,086*
Manufacturing Industry – energy generation and distribution	*67,973*	*79,933*
Manufacturing Industry – manufacturing of foodstuffs	*46,965*	*46,465*
Manufacturing Industry – other industries	*118,801*	*95,560*
Tourist services	262,346	271,309
Financial services	197,186	207,370
Transport	130,094	207,079
Government sector	135,871	148,154
Construction	137,445	142,179
Real estate transactions	55,657	57,356
Agriculture	32,061	32,638
Other industries	19,036	58,145
	1,746,625	2,068,281

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

	2022	2021
As of 1 January	340,445	256,045
Impairment costs	105,790	226,753
Reversed impairment	(61,339)	(98,979)
Written-off against impairment	(141,131)	(43,374)
As of 31 December	243,765	340,445

20. RECEIVABLES FROM THE STATE BUDGET

	2022	2021
Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	23,598	18,866
Allowance for impairment and uncollectability of loans (collective impairment)	(61)	(49)
	23,537	18,817

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. RECEIVABLES FROM THE STATE BUDGET (CONTINUED)

The financing under the Programme goes through BDB. For the purpose, the Bank concludes trilateral agreements with regional governors (representatives of the State) and municipal mayors (authorized representatives of the owners' associations).

The Bank believes that the existing receivables bear a minimal credit risk in so far as the source of the payments is the budget of the Republic of Bulgaria. The resources attracted by international partners for the purpose of financing the Programme is covered by a State guarantee (see Note 30).

21. SECURITIES MEASURED AT AMORTIZED COST

The available securities, financial assets measured at amortized cost as of 31 December 2022 and 2021 are as follows:

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

2021	Nominal value *In original currency*	Gross amount	Impairment	Carrying amount
Bonds denominated in BGN	2,000	2,011	(91)	1,920
	2,000	2,011	(91)	1,920

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

	2022	2021
Government securities	451,935	544,305
Corporate bonds	42,984	47,638
Total debt instruments	494,919	591,943
Non-publicly traded companies' shares	28,150	19,807
Participation in investment program SIA (Note 37)	1,304	1,095
Public companies' shares	54,274	43,767
Of which shares of First Investment Bank AD	*54,268*	*43,760*
Total equity instruments	83,728	64,669
Total financial assets measured at fair value through OCI	578,647	656,612

Debt instruments

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Debt instruments (continued)

	2022	2021
As of 1 January	591,943	581,711
Increase (purchases)	159,712	329,832
Disposals (sale and/or maturity)	(221,784)	(315,869)
Net (decrease)/increase due to revaluation of financial assets measured at fair value through other comprehensive income	(34,952)	(3,731)
As of 31 December	494,919	591,943

Financial assets measured at fair value through other comprehensive income – debt instruments, consist mainly of government securities issued by the Republic of Bulgaria and other European states, as well as corporate bonds.

Equity instruments

The movement of the equity financial assets, measured at fair value through other comprehensive income in the current and prior period, is as follows:

	2022	2021
As of 1 January	64,669	54,059
Additions (purchases)	7,270	21,243
Disposals (sale and/or maturity)	-	(5,071)
Net (decrease)/increase due to revaluation of financial assets measured at fair value through other comprehensive income	11,789	(5,562)
As of 31 December	83,728	64,669

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 2022, 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 2022: BGN 1. 9842 (as of 31.12.2021: BGN 1.6000) per share.

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

Equity instruments (continued)

Shares in public companies (continued)

Chimimport AD

The Bank holds 9,632 shares of the Chimimport AD conglomerate. As of 31 December 2022, the price per share is BGN 0.62, and the total amount of the investment is BGN 6 thousand (as of 31.12.2021: BGN 7 thousand)

Shares in non-public companies

Three Seas Initiative

By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the 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.

The Bulgarian Development Bank EAD nominated two representatives to the management of the Three Seas Investment Fund – in March 2021 the executive directors of BDB Nikolay Dimitrov and Panayot Filipov were elected at the General Meeting of the Three Seas Investment Fund and to represent Bulgaria in the Investment Fund. After changes in the management of the BDB as new representatives of the Bank by decision of the General Meeting of the Investment Fund of 22 September 2021 were elected: as member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director and Mr. Ilia Lingorski – Chief economist of the BDB as member of the Management Board of the Investment Fund, which will provide part of the necessary funding to strengthen the co-operation between the member-states in the Black, Adriatic and Baltic Sea region. In July 2021 the BDB hosted an investment panel during the Three Seas Forum in Bulgaria.

As of 31 December 2022, the amount of the investment of BDB in the Three Seas Fund is BGN 22,030 thousand (as of 31.12.2021: BGN 14,321 thousand) and in 2022 the Bank subscribed additional shares in the amount of EUR 3,616 thousand (BGN 7,072 thousand). The commitment for capital contribution, which is still not due is disclosed in note 37 Contingencies and commitments.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Equity instruments (continued)

Shares in non-public companies (continued)

European Investment Fund

The non-public companies' shares held by the Bank include shares of the European Investment Fund (EIF) amounting to BGN 5,937 thousand. The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

Social Impact Accelerator (SIA)

BDB participates in the EIF initiative Social Impact Accelerator (SIA), providing funding for start-up companies. As of 31 December 2022, twenty-nine equity contributions were made under the initiative amounting to EUR 666 thousand equivalent to BGN 1,304 thousand (2021: EUR 560 thousand equivalent to BGN 1,095 thousand)

Borica AD

The remaining portion of the non-public companies' shares amounting to BGN 183 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA AD.

Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute.

The revaluation reserve formed on financial assets measured at fair value through other comprehensive income is presented in Note 36:

	2022	2021
Revaluation reserve as of 1 January	(74,608)	(67,764)
Impairment	3,170	1,687
Revaluation	(26,333)	(9,293)
Tax	2,316	762
Revaluation reserve as of 31 December	(95,455)	(74,608)

23. INVESTMENTS IN SUBSIDIARIES

As of 31 December 2022, 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 2022 consists of 800,000 shares of BGN 100 each (31 December 2021: 800,000 shares of BGN 100 per share). The registered capital as of 31 December 2022 amounts to BGN 80,000 thousand (31 December 2021: BGN 80,000 thousand). The investment in the subsidiary as of 31 December 2022 amounts to BGN 80,000 thousand (31 December 2021: BGN 80,000 thousand), measured at historical cost of acquisition. The valuation made as of the end of 2022 identified no indications of impairment.

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 2022 amounts to BGN 14,643 thousand, split into 146,430 shares of BGN 100 each (as of 31.12.2021: BGN 14,643 thousand, split into 146,430 shares of BGN 100 each). The investment in the subsidiary as of 31 December 2022 amounts to BGN 14,643 thousand (31 December 2021: BGN 14,643 thousand), measured at historical cost of acquisition. The valuation made as of the end of 2022 identified no indications of impairment.

Capital Investments Fund AD

Bulgarian Development Bank EAD and National Guarantee Fund EAD are owners of the capital of the Capital Investments Fund AD incorporated on 24 August 2018, its capital amounting to BGN 65,000 thousand. On incorporation BDB subscribed 550,000 registered shares for the total amount of BGN 55,000 thousand, representing 84.62% of the capital. National Guarantee Fund EAD subscribed 100,000 shares for the total amount of BGN 10,000 thousand, representing 15.38% of the Fund's capital.

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

As of 31 December 2022, the capital of the Fund has been fully paid-in. The book value of BDB's investment in the capital of the Fund as of 31.12.2022 amounts to BGN 49,302 thousand (as of 31 December 2021: BGN 54,414 thousand).

BDB Leasing EAD

The Bank is the sole owner of the capital of BDB Leasing EAD, registered according to the Trade Register and Register of Non-Profit Legal Entities on 12 March 2019 with capital amounting to BGN 2,000 thousand.

23. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

BDB Leasing EAD (continued)

In 2020 BDB increased the capital of BDB Leasing up to BGN 20,000 thousand by issuing new shares entirely purchased by the sole owner. On 23.08.2022 the Management Board of Bulgarian Development Bank EAD in order to cover the losses of the company decided to reduce the capital of BDB Leasing EAD from BGN 20,000,000 to BGN 18,630,000 by withdrawing 13,700 shares, as well as to change the company's statutes related to the capital decrease. The decisions for capital decrease and changes in the company's statutes were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 15.09.2022.

The carrying amount of the investment as of 31 December 2022 is BGN 20,000 thousand. The valuation as of the end of 2022 identified no indications of impairment.

BDB Factoring EAD

Until 7 July 2022 the Bank is the sole owner of the capital of BDB Factoring EAD, registered according to the Trade Register and Register of Non-Profit Legal Entities on 13 March 2019. As of 31 December, 2021, the total amount of the registered share capital is BGN 2,000 thousand, distributed into 20,000 shares of BGN 100 each. As of 31 December 2021, the carrying amount of the investment is BGN 1,255 thousand (2020: BGN 1,463 thousand). On 7 July 2022, BDB Factoring EAD merged into Bulgarian Development Bank EAD, on the principle of universal succession.

Trade Centre Maritsa EOOD

By decision of the Bank’s Management Board, as recorded in Protocol 29 of 18 May 2018, Trade Centre Maritsa EOOD became an ownership of Bulgarian Development Bank EAD. The carrying amount of the company’s shares is BGN 3,023 thousand as of 31 December 2022 (31 December 2021: BGN 3,200 thousand).

As at 31 December 2022, management conducted a review for impairment of the investments in subsidiaries and found that the participations in following companies are subject to impairment:

- Capital Investments Fund AD – BGN 5,112 thousand
- Trade Centre Maritsa EOOD – BGN 117 thousand

There are no indications of impairment for the remaining subsidiaries compared to the values in 2021.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Cost						
As of 1 January 2021	54,863	3,681	754	1,267	10,294	70,859
Additions	-	100	26	2	2,229	2,357
Disposals	-	(3)	-	(252)	(1,150)	(1,405)
As of 31 December 2021	54,863	3,778	780	1,017	11,373	71,811
Additions	-	130	2	6	882	1,020
Disposals	-	(9)	-	-	(1,641)	(1,650)
As of 31 December 2022	54,863	3,899	782	1,023	10,614	71,181
Accumulated depreciation/amortization						
As of 1 January 2021	3,057	2,072	463	403	2,228	8,223
Charge for the year	961	588	91	236	1,081	2,957
Disposals	-	(2)	-	(164)	-	(166)
As of 31 December 2021	4,018	2,658	554	475	3,309	11,014
Charge for the year	961	433	94	198	1,320	3,006
Disposals	-	(38)	-	-	(1,630)	(1,668)
As of 31 December 2022	4,979	3,053	648	673	2,999	12,352
Net book value						
As of 1 January 2021	51,806	1,609	291	864	8,066	62,636
As of 31 December 2021	50,845	1,120	226	542	8,064	60,797
As of 31 December 2022	49,884	846	134	350	7,615	58,829

As of 31 December 2022 the book value of fully-depreciated property, plant and equipment used in the activities of the Bank amount to BGN 1,990 thousand (31 December 2021: BGN 1,818 thousand), while intangible assets amount to BGN 1,405 thousand (31 December 2021: BGN 1,226 thousand).

25. INVESTMENT PROPERTY

	2022	2021
Carrying amount at the beginning of period	7,352	7,785
Gain/(loss) on change in the fair value included in profit or loss for the period	869	(433)
	8,221	7,352

The Bank holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2022 amounts to BGN 605 thousand (2021: BGN 903 thousand) (Note 10).

The Bank classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers using valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

26. ASSETS HELD FOR SALE

As of 31 December 2022 and 31 December 2021, assets held for sale realized the following movements and balances:

Movement in assets held for sale during the year:	2022	2021
Carrying amount at the beginning of period	4,107	608
Acquired from collateral foreclosure	2,561	4,107
Reclassified to assets acquired from collateral foreclosure	(4,107)	(608)
	2,561	4,107

These assets have not been used and it is not planned to be used in the Bank's activity. Management actively seeks buyers and plans to sell them by the end of 2023.

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

	2022	2020
Carrying amount at the beginning of period	34,719	33,938
Reclassified from held for sale	4,107	608
Additional capitalised costs	1,921	632
Sold	(3,164)	(52)
Impairment (Note 12)	(149)	(407)
Carrying amount at the period-end	37,434	34,719

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.

	2022	2021
Assets acquired from collateral foreclosure	37,434	34,719
Prepayments and advances	3,152	2,296
Art	66	69
VAT refundable	37	-
Other assets	3,091	2,116
Impairment of other receivables	*(824)*	-
	42,956	39,200

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2022	2021
Deposits from local banks	485	1,034
Deposits from foreign banks	2,156	685
	2,641	1,719

All deposits from credit institutions are demand deposits. There are no interest payables on deposits from credit institutions as of 31 December 2022 (2021: no payables).

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2022	2021
Companies and sole traders	924,186	810,888
Special-purpose deposits	63,128	63,065
Individuals	6,754	7,720
	994,068	881,673

	2022	2021
Term deposits	115,581	132,450
Demand deposits	878,487	749,223
	994,068	881,673

Interest payable on deposits from customers, other than credit institutions as of 31 December 2022 amount to BGN 198 thousand (2021: BGN 96 thousand)

The amount of the special-purpose deposits comprises the deposits of National Guarantee Fund EAD, a subsidiary of BDB, in connection with projects for establishing a Guarantee Fund to support rural areas of the country under the Rural Development Programme of the Republic of Bulgaria (2007-2013) at the Ministry of Agriculture and Food, and of the Operational Programme for Development of Fisheries Sector (2007-2013) at the Executive Agency Fisheries and Aquacultures (EAFA).

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

	2022	2021
China Development Bank	557,604	720,813
Industrial and Commercial Bank of China /EUROPE/	118,000	132,041
Export–Import Bank of China	49,415	98,395
Long-term loans from the European Investment Bank	36,850	40,901
Long-term framework loan agreement with the Council of Europe Development Bank	17,628	82,159
Long-term loans from the Kreditanstalt für Wiederaufbau	-	35,678
Long-term loans from the Nordic investment bank	-	753
	779,497	1,110,740

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 2022 are in the range from 2.03% to 4.15% (31.12.2021: from 0% to 1.70%).

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

The interest payables on the borrowings from international institutions as of 31 December 2022 amount to BGN 1,721 thousand (2021: BGN 1,299 thousand).

As of 31 December 2022, the main funding sources of the Bulgarian Development Bank EAD are presented below, as follows:

China Development Bank

On 12 May 2017, BDB signed a loan agreement with China Development Bank for the amount of EUR 80,000 thousand. The purpose of the loan is financing the general lending activity of BDB – investment and working capital loans. BDB could also use the funds to support strategic projects within the Belt & Road initiative. The loan is unsecured, utilized and used according to purpose.

As of 31 December 2022, the loan was fully repaid (31 December 2021: EUR 76,000 thousand equivalent to BGN 148,643 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured. As of 31 December 2022, the loan is fully utilized and used according to purpose.

As of 31 December 2022, the outstanding principal on the loan amounts to EUR 285,000 thousand equivalent to BGN 557,412 thousand (as of 31 December 2021: EUR 292,500 thousand equivalent to BGN 572,080 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

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

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured. As of 31 December 2022, the loan is fully utilized and used according to purpose.

As of 31 December 2022, the nominal debt on the loan amounts to EUR 60,000 thousand equivalent to BGN 117,350 thousand (as of 31 December 2021 EUR 67,500 thousand equivalent to BGN 132,019 thousand.) The interest rate is floating, based on the 6M EURIBOR plus a margin.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

The Export – Import Bank of China

On 28 September 2017, BDB signed an agreement with the Export – Import Bank of China for the amount of EUR 50,000 thousand. This was the first loan agreement between BDB and the Export – import Bank of China, following the financial cooperation agreement, signed in 2014 between the two institutions and setting their interest in joint financing of key projects or areas. The funds can be used to finance the overall lending activity of BBD, a short-term and mid-term trade financing, trans-border economic and commercial transactions between China and Bulgaria. The loan is unsecured. As of 31 December 2022, the loan is fully utilized and used according to purpose.

As of 31 December 2022 the outstanding principal on the loan amounts to EUR 25,000 thousand equivalent to BGN 48,896 thousand (31 December 2021: EUR 50,000 thousand equivalent to BGN 97,792 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

European Investment Bank

On 18 November 2016, BDB signed a third contract with European Investment Bank for the amount of EUR 150,000 thousand for financing of projects of small and medium-sized enterprises. The funds are provided with the support of the EU and are backed by an EFSI (European Fund for Strategic Investment) guarantee, part of the Investment Plan for Europe – the Juncker Plan. The funds are intended to finance SMEs, including innovative projects, to support regions with high unemployment rates, as well as youth employment or start-up company projects. The loan can be allocated through partner banks, other financial intermediaries or directly. The loan is unsecured.

As of 31 December 2022, the outstanding principal under the loan amounted to EUR 18,819 thousand equivalent to BGN 36,806 thousand (as of 31 December 2021: EUR 20,910 thousand equivalent to BGN 40,89thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

Council of Europe Development Bank

On 30 March 2011, a loan agreement was signed between Bulgarian Development Bank EAD and the Council of Europe Development Bank for EUR 20,000 thousand. The purpose of the loan is to improve the access to financing of the Bulgarian small and medium-sized enterprises, to create new jobs, and to preserve already existing ones. The loan is unsecured.

As of 31 December 2022, the loan is fully repaid (31.12.2021: EUR 3,000 thousand equivalent to BGN 5,867 thousand). The interest rate on the first tranche is floating, based on the 3 M EURIBOR plus margin, and the interest rate on the second tranche is fixed.

On 23 February 2016, Bulgarian Development Bank EAD signed a Loan agreement with the Council of Europe Development Bank (CEDB) amounting to EUR 150,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan has a special purpose and will be used for renovation of multi-family buildings. As of 31 December 2022, the loan was fully utilised.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Council of Europe Development Bank (continued)

The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between the CEDB and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 3 May 2016.

As of 31 December 2022, the loan payable amounts to EUR 9,000 thousand equivalent to BGN 17,602 thousand (as of 31.12.2021: EUR 39,000 thousand equivalent to BGN 76,277 thousand). The interest rate on the first tranche of the loan is floating, based on 3M EURIBOR plus a margin, and on the second tranche it is fixed.

Kreditanstalt für Wiederaufbau (*KfW)*

On 16 August 2016, Bulgarian Development Bank EAD signed an Agreement with KfW for EUR 100,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures, implemented by SMEs in Bulgaria under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between KfW and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 30 December 2016.

As of 31 December 2022 the loan is fully repaid (31 December 2021: EUR 18,182 thousand equivalent to BGN 35,561 thousand. The interest rate is floating, based on the 6M EURIBOR plus margin.

Nordic Investment Bank

On 15 December 2010, a second credit line was signed between the Nordic Investment Bank and Bulgarian Development Bank EAD for EUR 20,000 thousand. The purpose of the loan is financing of renewable energy projects or environmental projects; projects involving the Nordic Investment Bank member states, as well as indirect financing through commercial partner banks. The loan is unsecured.

As of 31 December 2022, the loan is fully repaid (31 December 2021: EUR 385 thousand equivalent to BGN 753 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

31. OTHER BORROWINGS

	2022	2021
Loan financing from the Ministry of Finance with funds from KfW	11,286	11,236
KfW funds provided by the Ministry of Finance for trust management	5,322	5,510
	16,608	16,746

Interest payables accrued on other borrowings as of 31 December 2022 amount to BGN 12 thousand and as of 31 December 2021 to BGN 0.

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 2022, the outstanding principal amounted to EUR 5,765 thousand equivalent to BGN 11,275 thousand (as of 31 December 2021: EUR 5,745 thousand equivalent to BGN 11,236 thousand). The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2022, the Bank has extended under this contract loans to commercial banks amounting to EUR 5,765 thousand equivalent to BGN 11,275 thousand (31 December 2021: EUR 5,745 thousand equivalent to BGN 11,236 thousand).

KfW funds provided by the Ministry of Finance for trust management

Since 2001 the Bank has been working on the concluded agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt 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 2022, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,721 thousand equivalent to BGN 5,322 thousand (31 December 2021: EUR 2,817 thousand equivalent to BGN 5,510 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

31. OTHER BORROWINGS (CONTINUED)

KfW funds provided by the Ministry of Finance for trust management (continued)

The Bank receives a management fee and accrues interest on the special account on a quarterly basis.

32. PROVISIONS

	2022	2021
Provisions for guarantee programmes related to the COVID-19 pandemic	127,215	176,370
Bank guarantee provisions	1,745	1,345
Total provisions for guarantees	128,960	177,715
Provisions for lawsuits	4,017	-
Provisions for unutilized loans	19	32
	132,996	177,747

Provisions for guarantee programmes related to COVID-19 pandemic represent the valuation of expected credit losses on the guarantees issued in relation to programmes loans to individuals, micro, small and medium-sized enterprises and large enterprises, assigned to BDB by the Council of Ministers of the Republic of Bulgaria (see Note 37). They are calculated according to a methodology adopted by the BDB especially for these loans.

In 2023, the Bank reassessed the provisioning rates based on the results of the guaranteed portfolios in 2021 and 2022. As a consequence, the Bank raised the provisioning rate on guarantees for loans to enterprises to 27.6% (as at 31 December 2022: 18.7%) and maintained that on guarantees for loans to individuals to 36% (as of 31 December 2021: 36%). Cumulatively, in 2022, the movement in the provisions under guarantee programs related to the COVID-19 pandemic is a decrease of BGN 15,386 thousand (2021: increase by BGN 17,802 thousand) of provisions for guarantees on loans to enterprises, and a decrease of BGN 33,769 thousand (2021: increase by BGN 38,260 thousand) of provisions for guarantees on loans to 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 2022 amounted to BGN 1,745 thousand (2021: BGN 1,345 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

32. PROVISIONS (CONTINUED)

The table below presents the movement of guarantee provisions:

	2022	2021
Balance as of 1 January	177,715	123,090
Accruals for the year – anti-COVID programmes	14,029	62,745
Utilised in the year	(5,020)	(245)
Reversed in the year	(58,164)	(6,438)
	(49,155)	*56,062*
Accruals for the year – bank guarantees	756	1,329
Utilised in the year	2,578	301
Reversed in the year	(2,934)	(3,067)
	400	*(1,437)*
Balance as of 31 December	128,960	177,715

33. LEASE LIABILITIES

Lease liabilities represent liabilities to lease companies, related to assets purchased on lease. As of 31 December 2022, these liabilities amount to BGN 299 thousand (as of 31 December 2021: BGN 492 thousand.)

34. OTHER LIABILITIES

	2022	2021
Accruals for expenses	2,263	973
Payables to personnel for salaries and social security	872	898
Retirement benefit liabilities	610	754
Tax liabilities	105	304
Charges on debenture loans and guarantees	635	168
Other creditors	919	1,062
	5,404	4,159

Payables to personnel for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon.

Employee retirement benefits are due by the Bank to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he/she has worked for more than 10 years for the Bank – to six gross monthly salaries at the time of retirement. The Bank estimated the amount of these liabilities by using mathematical models and the services of a certified actuary. On the basis of the calculations made, the amount of BGN 610 thousand was included in the separate statement of financial position as of 31 December 2022 (31 December 2021: BGN 754 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

	2022	2021
Present value of the liability as of 1 January	754	650
Current service cost	67	112
Interest expense	4	3
Amounts paid in the period	(43)	-
Actuarial gains from changes in demographic and financial assumptions and actual experience	(172)	(11)
Present value of the liability as of 31 December	610	754

	Amounts on retirement for old age and length of service		Amounts on retirements due to illness		Total	
	2022	2021	2022	2021	2022	2021
Actuarial gain / (loss) as of 1 January	(31)	(42)	-	-	(31)	(42)
Actuarial gain / (loss) recognized in other comprehensive income for the period	172	11	-	-	172	11
Actuarial gain / (loss) as of 31 December	141	(31)	-	-	141	(31)

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2022:

- 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 2019 – 2021;
- 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 – 5.5% (2021 – 0.6%);
- assumptions for the future level of working salaries in the Bank are based on the Bank’s development plan for 2022 – 2% compared to the 2022 level and for 2024 and subsequent years – 2% compared to the previous year level.

The effect for 2022 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "–"- decrease)	12	(11)
Change in the present value of the liability as of 31 December 2022 ("+"- increase, "–"- decrease)	54	(48)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(8)	8
Change in the present value of the liability as of 31 December 2022 ("+"- increase, "–"- decrease)	(46)	53

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(15)	17
Change in the present value of the liability as of 31 December 2022 ("+"- increase, "–"- decrease)	(52)	59

The effect for 2021 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "–"- decrease)	19	(16)
Change in the present value of the liability as of 31 December 2021 ("+"- increase, "–"- decrease)	80	(70)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(8)	10
Change in the present value of the liability as of 31 December 2021 ("+"- increase, "–"- decrease)	(70)	82

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(17)	20
Change in the present value of the liability as of 31 December 2021 ("+"- increase, "–"- decrease)	(74)	86

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. SHARE CAPITAL

	2022	2021
Share capital		
Ordinary shares issued paid in cash	1,427,964	1,427,964
Ordinary shares issued – in-kind contribution (land for the building of the bank)	12,200	12,200
Ordinary shares issued – in-kind contribution (the building of the bank)	1,610	1,610
	1,441,774	1,441,774

As of 31 December 2022, the capital of the Bank consists of 14,417,735 ordinary registered voting shares with par value of BGN 100 each (2021: 14,417,735 shares with par value BGN 100).

The Bulgarian Development Bank Act provides that not less than 51 per cent of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51 per cent of the registered share capital are non-transferable.

By virtue of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the shares of the Bank's capital, apart from the Bulgarian state, may be acquired and held by the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, by development banks from EU member states. In these cases Art. 31 of the Credit Institutions Ac is not applied. In view of the provision of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the members of the management and control bodies, the procurators and the senior management may not hold shares and may not be provided with options on BDB securities, and in subsequent reporting periods no agreements may arise, as a result of which changes in the relative share of shares held by current shareholders may occur in the future.

Capital decrease of Bulgarian Development Bank EAD

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

36. RESERVES

In accordance with the general provisions of the Commercial Act, the Bank shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10% of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least ½ of its after-tax annual profit until the reserves reach 50% of its share capital.

The Reserve Fund may be used by the Bank only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is similar.

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

As of 31 December 2022, the Reserve Fund of the Bank amounted to BGN 0 thousand (31 December 2021: BGN 74,939 thousand).

As of 31 December 2022, the Additional Reserves of the Bank amounted to BGN 141 thousand (31 December 2021: BGN 80,148 thousand) and are formed as a result of distribution of profits of the Bank from prior periods, according to decisions of the General Meeting of Shareholders.

In 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 2022, this reserve is a negative value in the amount of BGN 95,455 thousand. (31 December 2021: negative value of BGN -74,608 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. CONTINGENCIES AND COMMITMENTS

	2022	2021
Contingent liabilities		
Anti-COVID guarantees	403,208	680,938
Bank guarantees and letters of credit	126,772	130,108
incl. with cash collateral	(9,081)	(10,688)
Letters of credit, incl. with borrowings-		
Reported as loan commitment	-	187
Guarantee provisions (Note 32)	(128,960)	(177,715)
Incl. provisions under guarantees for Anti-Covid programmes	*(127,215)*	*(176,370)*
Total contingent liabilities	391,939	622,830
Irrevocable commitments		
Unutilised amount of approved loans	184,715	241,448
Provisions on unutilized loans (Note 32)	(19)	(32)
Unpaid portion of shares of Three Seas Initiative	17,970	25,031
Participation in the SIA investment program	652	861
Unclaimed portion of par value of EIF shares	-	4,694
Total irrevocable commitments	203,318	272,002
	595,257	894,832

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:

<u>Measures for individuals and households</u>

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

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

The program parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans. Term for application was extended until 30 August 2021, or until the guarantee limits are exhausted. These changes became effective in January 2021.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

Measures for individuals and households (continued)

According to Decision of the Council of Ministers No 194/05.03.2021, "Bulgarian Development Bank" AD was granted the right to increase by up to BGN 100 million the amount of the guarantee programme for interest-free loans to individuals on unpaid leave and self-insured (the "Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic") at the expense of the budget of the Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic. Thus, the possibilities for making guarantee commitments under the Guarantee Programme for interest-free loans for individuals on unpaid leave and self-insured was increased to BGN 300 million.

By Decision of the Council of Ministers No 506/15.07.2021, the deadline for applying under the Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted.

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

As of 31 December 2022, BGN 189,631 thousand portfolio guarantees have been issued to commercial banks. BBR has guaranteed 46,863 loans worth BGN 182,069 thousand. The guarantees paid to the commercial banks and the costs of establishing and collecting the credits due are in the amount of BGN 1,146 thousand, of which BGN 25 thousand have been reimbursed to BBR as of the same date.

As of 31 December 2021, the total approved limit under the programme is BGN 290,543 thousand, portfolio guarantees amounting to BGN 283,438 thousand were issued to commercial banks and 52,925 loans to individuals were approved in the total amount of BGN 236,109 thousand.

Measures for micro, small and medium-sized enterprises

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

The guarantee program, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million. It can include enterprises from all sectors, and the measure is expected to benefit mainly companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

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

In order to apply for loans, it is sufficient for the companies to meet one of the following conditions:

- To be micro, small and medium-sized enterprises, as determined in the manner specified in the Law on small and medium-sized enterprises or large enterprises-commercial companies, whose indicators for personnel and assets and/or turnover exceed the indicators specified in the Law on small and medium-sized enterprises
- That the enterprises were not in a difficult situation as of 31.12.2019, which is established by checking pre-set, normative criteria. Recent changes to the programme introduce a relief from the "Temporary Framework for State Aid" for micro and small enterprises. It is sufficient for them not to have been the subject of insolvency proceedings, under national law and have not received rescue or restructuring aid (meaning rescue or restructuring aid). In addition, if the BDB guarantee includes existing loans, they must not have been non-performing, and the borrower must not be overdue for more than 90 days – in 2019. For existing loans, the borrower must have submitted to the commercial bank - partner forecast estimates and forecast plan for resumption of its activities, which does not require a strictly defined form and details;

Funding and guarantee can be used by companies that have encountered difficulties or have fallen into difficulty after 31 December 2019 due to the outbreak of the COVID-19 epidemic. The difficulty is identified by the borrower himself, and it is sufficient to describe one of the following reasons that led to his difficulties:

- Decrease in turnover after the first quarter of 2020 compared to the same period in 2019 (based on financial statements or documents of the company);
- Existence of receivables from customers, that have not been received/amounts not paid to suppliers after 1 March 2020 (based on financial statements and documentation of the company);
- 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.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

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

Because the funding covered by the guarantee under the programme is state aid:

- Borrowers are prohibited from financing one and the same expenditure with a loan under the programme and other state/minimum aid. (The same expense means, for example, payment on a specific invoice from 30 November 2020 or payment of rent for a specific office for the month of December 2020, or payment of salaries of specific employees for a specific month.) If the client uses for these specific expenses state/minimum (de minimis) aid, the client cannot use the loan to cover the same costs (prohibition of double financing)
- The borrower must not have infringed the State aid rules and be entered in the specially created "Degendorf Register" https://stateaid.minfin.bg/bg/page/483;
- If the borrower or a related person has benefited from/uses other state /minimum aid for the same type of expenses, as the expenses that he or she wants to be financed by the loan under the programme (e.g., total costs for salaries, total rental costs, total costs for maintenance of facilities), he or she is obliged to declare this to the commercial bank by a declaration according to a model of the programme and should not to allow double financing as mentioned above.

New loans, as well as existing loans, may be included in the programme managed by the Bulgarian Development Bank, but provided that the company is experiencing difficulties in servicing the loans after 31 December 2019 and has no overdue payments over 90 days during the last year. The loans which the commercial banks will grant have a maximum amount of BGN 300,000 and the BDB will cover up to 80% of the loans.

The banks themselves will determine the minimum and maximum repayment period and the grace period for newly granted loans will be up to three years.

During the last quarter of 2020 the Programme was renewed by Decision of the Council of Ministers 979/2020, as follows:

- The loans granted now have an amount up to BGN 1 million for small and medium-sized enterprises and up to BGN 2 million for large enterprises;
- The term of inclusion of loans in the Guarantee portfolio has been extended until 31 December 2021;
- The deadline for application under the measure for micro, small and medium-sized enterprises is 30 June 2022.
- The percentage of collateral for the loans has changed from 20% to up 50%, according to the amount of financing;
- A reduction of at least 80 basis points on loan interest rates is required;
- The term of the guarantee provided by BDB has be extended from 5 to 6 years;
- The guarantee coverage will cover investment loans granted by the banks;

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Anti-COVID programmes (continued)

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

- The limit of the guarantee payments by the BDB AD has been extended from 30% to 50%.

The Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic was updated by Decision of the Council of Ministers No 194/05.03.2021 and by Decision of the Council of Ministers No 578/05.08.2021. The programme is aiming to synchronize it with the upgrading mechanism for intervention developed in May 2021 by the Ministry of Economy and the Ministry of Finance, which provides liquid support to enterprises – "Portfolio guarantee to overcome the consequences of COVID-19".

The formation of portfolios under the Program ended on 30.06.2022, and according to final data from the commercial banks - partners in the scheme, 2,894 loans were guaranteed, the original amount of the loans being BGN 630,349 thousand, for which a guarantee was provided by BBR in the amount of 80 % or for BGN 504.279 thousand.

The portfolio status is updated on a quarterly basis. As of 31 December 2022, portfolio guarantees were issued for BGN 213,577 thousand, and 2,617 loans with a total amount of BGN 533,910 thousand were guaranteed. Approved requests for payment of guaranteed sums under the Program amount to BGN 1,749 thousand, and those reimbursed to BBR at the end of 2022 are in the amount of BGN 98 thousand.

As of 31 December 2021, the total approved limit under the programme is BGN 795,000 thousand, portfolio guarantees amounting to BGN 397,500 thousand were issued to commercial banks and 2,290 loans to individuals were approved in the total amount of BGN 413,555 thousand.

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 2022, twenty-nine equity contributions were made under the initiative amounting to EUR 660 thousand equivalent to BGN 1,304 thousand (2021: EUR 560 thousand equivalent to BGN 1,095 thousand) (Note 22).

Guarantee programmes for small and medium-sized businesses NAPRED

In 2015, the Bank launched a new program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30 per cent of the amount of the individual sub-loans - on loans granted by partner banks to businesses.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

As of 31 December 2022, the Bank has active agreements with three partner banks and the size of the portfolio of guarantees is BGN 816 thousand (31 December 2021: three partner banks and a portfolio of guarantees worth BGN 1,118 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 2022 is EUR 13.6 million, including 294 loans to micro, small and medium-sized enterprises. As of the same date, BDB has submitted two claims for payment under the counter-guarantee and has received EUR 41,000 from EIF. euro.

BDB's programme for indirect financing of SMEs with guarantee facility and *counter-guarantee under the EIF COSME+ Programme, with the support of the European Fund for Strategic Investments (Cosme+ Programme)*

At the end of 2018 BDB EAD updated framework conditions of the on-landing product: BDB Programme for Indirect Financing of SMEs with Guarantee Facility and Counter-Guarantee under the COSME + Programme of the European Investment Fund, with the support of the European Fund for Strategic Investments with which, in addition to banks, non-bank financial institutions are allowed to participate in the Programme.

The purpose of the Program is to provide long-term targeted funding plus a guarantee for payment of up to 60% of principal and accrued contractual interest by the 90th day on each of the eligible subcontracts of the Programme, but not more than a certain "Payment Limit" (CAP), in amount of 12% of the guarantee from BDB EAD. The EIF provides a counter-guarantee covering up to 50% of BDB's commitment.

As of 31 December 2022, BDB has concluded contracts under the Programme with 8 financial institutions in the total amount of EUR 26,149 thousand, of which with two commercial banks and six non-banking financial institutions entered in the register of BNB.

As of 31 December 2022, the amount of the sub-loans guaranteed by BDB EAD is BGN 26,570 thousand (EUR 13,585 thousand), and the guaranteed amount is BGN 15,942 thousand (EUR 8,151 thousand).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BDB's programme for indirect financing of SMEs with guarantee facility and *counter-guarantee under the EIF COSME+ Programme, with the support of the European Fund for Strategic Investments (Cosme+ Programme) (continued)*

As of 31 December 2021, BDB has concluded contracts under the Programme with 8 financial institutions in the total amount of EUR 26,149 thousand, of which with two commercial banks and six non-banking financial institutions entered in the register of BNB.

As of 31 December 2021, the amount of the sub-loans guaranteed by BDB EAD is BGN 29,071 thousand (EUR 14,864 thousand), and the guaranteed amount is BGN 17,443 thousand (EUR 8,918 thousand).

Pan-European Guarantee Fund

The Pan-European Guarantee Fund was established as part of the overall package of measures of the EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises in the EU and public enterprises, providing important services such as healthcare, medical research and others. 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 2022 the portfolio guaranteed under the agreement amounted to EUR 21.71 million and included 52 transactions of micro, small and medium-sized enterprises.

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Nature of the instruments and credit risk (continued)

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

	2022	2021
Cash in hand (Note 17)	442	839
Current accounts with the central banks (Note 17)	527,394	242,786
Receivables from banks with original maturity up to 3 months (Note 18)	81,305	242,256
	609,141	485,881

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 2022 and 31 December 2021.

	1 January 2022	Cash inflows	Cash outflows	31 December 2022
Current borrowings from international institutions	1,110,740	-	(331,243)	779,497
Current liabilities on other borrowings	16,746	160	(298)	16,608
Total liabilities from financing activity	1,127,486	160	(331,541)	796,105

* The interest accruals of BGN 16,836 thousand are included in the operating cash flows of the Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. CASH AND CASH EQUIVALENTS (CONTINUED)

	1 January 2021	Cash inflows	Cash outflows	31 December 2021
Current borrowings from international institutions	1,238,904	-	(128,164)	1,110,740
Current liabilities on other borrowings	16,932	112	(298)	16,746
Total liabilities from financing activity	1,255,836	112	(128,462)	1,127,486

* The interest accruals of BGN 15,381 thousand are included in the operating cash flows of the Bank.

39. MERGER OF BDB FACTORING INTO BULGARIAN DEVELOPMET BANK EAD

On 09.07.2022 BDB Factoring was merged with BDB EAD through merger. The date 01.01.2022 was chosen for accounting purposes. The fair values of identifiable assets and liabilities as of this date are presented in the table below:

	31.12.2021
Assets	
Receivables from banks	47
Receivables on factoring	10,631
Property, plant and equipment	2
Right-of-use assets	118
Other assets	77
Total assets	10,875
Liabilities	
Borrowings	10,189
Other liabilities	128
Liabilities on right-of-use assets	118
Total liabilities	10,435
Equity	
Share capital	2,000
Accumulated loss	(1,560)
Total equity	440
Total liabilities and equity	10,875

40. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

Entity/person	***Type of control***
Ministry of Economy	State Ministry, exercising rights of ownership on the Bank on behalf of the State until 18 March 2022
Ministry of Innovation and Growth	State Ministry, exercising the rights of ownership on the Bank on behalf of the State after 18 March 2022
Ministry of Finance	State Ministry, issuer of securities, depositor
National Guarantee Fund EAD	Subsidiary
BDB Micro Financing EAD	Subsidiary
Capital Investments Fund AD	Subsidiary
TC Maritsa EOOD	Subsidiary
BDB Leasing EAD	Subsidiary
Kohoferm OOD	Company controlled by BDB, in liquidation
Roadway Construction AD	Company controlled by BDB
Avtomagistrali EAD	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
Eco Antracite EAD	Company under joint control with the State
Montazhi –Sofia EOOD	Company under joint control with the State
ICGB AD	Company under joint control with the State
Holding Bulgarian State Railways EAD	Company under joint control with the State
Saint Ekaterina University Multiprofile Hospital for Active Treatment	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
Terem – Holding EAD	Company under joint control with the State
Bulgarian Energy Holding EAD	Company under joint control with the State
Energy Investment Company EAD	Company under joint control with the State
Kintex EAD	Company under joint control with the State
Water Supply and Sewerage EOOD Plovdiv	Company under joint control with the State
TPP Maritsa East 2 EAD	Company under joint control with the State
State Consolidation Company EAD	Company under joint control with the State
Aviosnams AD	Company under joint control with the State
Water Supply and Sewerage Shumen OOD	Company under joint control with the State
Montazhi EAD	Company under joint control with the State
Bulgarian ViK Holding EAD	Company under joint control with the State
Bulgartransgaz EAD	Company under joint control with the State
State Enterprise KABIYUK DP	Company under joint control with the State
MBAL Lozenets EAD	Company under joint control with the State
BDZ – Freight transport EOOD	Company under joint control with the State
Sofia Tech Park AD	Company under joint control with the State
UMBAL Aleksandrovska EAD	Company under joint control with 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

Related party balances in the statement of financial position:

Assets

Entity/person	*Type of balance*	2022	2021
Ministry of Finance	Financial assets at fair value through other comprehensive income	273,233	388,127
BDB Micro Financing EAD	Loans and advances to customers	20,752	20,755
BDB Leasing EAD	Loans and advances to customers	54,662	41,829
BDB Leasing EAD	Other assets (Prepaid expenses)	15	18
BDB Factoring EAD [3]	Loans and advances to customers	-	10,149
Companies controlled by BDB	Loans and advances to customers	8,381	406
Companies under joint control with the State	Loans and advances to customers	261,394	317,252
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	19,875	23,113
Total		*638,312*	*801,649*
Of which with subsidiaries		*75,429*	*72,751*

Liabilities

Entity/person	*Type of balance*	2022	2021
Ministry of Finance	Other borrowings	16,608	16,746
National Guarantee Fund EAD	Liabilities to customers on deposits	96,909	79,676
BDB Micro Financing EAD	Liabilities to customers on deposits	7,179	8,281
BDB Leasing EAD	Liabilities to customers on deposits	2,615	3,917
BDB Leasing EAD	Other liabilities (lease liabilities)	299	388
BDB Factoring EAD	Liabilities to customers on deposits	-	47
Trade Center Maritsa EOOD	Liabilities to customers on deposits	6	-
Capital Investments Fund AD	Liabilities to customers on deposits	41,267	51,745
Companies under joint control with the State	Liabilities to customers on deposits	191,872	273,750
Total		*356,755*	*434,550*
Of which with subsidiaries		*148,275*	*144,054*

[3] BDB Factoring EAD merged with Bulgarian Development Bank EAD on 09 July 2022 and the carrying amounts as of 31 December 2021 were added.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Related party transactions in the statement of comprehensive income:

Entity/person	*Type of relation*	2022	2021
Ministry of Finance	Fee and commission income	55	57
	Interest income	1,025	1,410
	Interest expenses	(159)	(113)
National Guarantee Fund EAD	Fee and commission income	2	2
	Interest expenses	(2)	(2)
	Rental income	88	93
BDB Micro Financing EAD	Fee and commission income	1	4
	Interest income	411	305
	Rental income	75	58
BDB Leasing EAD	Fee and commission income	2	2
	Interest expenses	(9)	(11)
	Interest income	939	609
	Other operating income	62	62
BDB Factoring EAD	Fee and commission income	-	1
	Interest income	-	162
	Other operating income	-	44
Capital Investments Fund AD	Interest expenses	(36)	-
	Other operating income	46	12
Companies under joint control with the State	Interest income	13,967	8,512
	Fee and commission income	180	202
	Interest expenses	(27)	(12)
	Other operating expenses		-
	Other operating income		-
Total income		*16,853*	*11,535*
Total expenses		*(233)*	*(138)*
Total income from transactions with subsidiaries		*1,626*	*1,354*
Total expenses for transactions with subsidiaries		*(47)*	*(13)*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Commitments and contingencies with related parties:

Entity/person	***Type***	2022	2021
BDB Micro Financing EAD	Unutilised amount of a loan approved	3,500	3,500
BDB Leasing EAD	Unutilised amount of a loan approved	13,356	26,673
BDB Factoring EAD	Unutilised amount of a loan approved	-	24,411
Companies under joint control with the State	Unutilised amount of a loan approved	20,532	23,038
Companies under joint control with the State	Bank guarantees issued	17,360	2,933
Total		*54,748*	*80,555*
Of which with subsidiaries		*16,856*	*54,584*

Relations with key management personnel:

Balances with key management personnel	2022	2021
Payables to customers on deposits	177	261
Remuneration payable	15	22

Transactions with key management personnel	2022	2021
Remuneration and social security contributions	(1,253)	(1,373)

41. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the separate financial statements apart from the following non-adjusting events:

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

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

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank’s Statute were filed with the Commercial Register and the register of non-profit legal entities on 23 May 2023. The change affect neither the value of Bank’s net assets as of 31 December 2022 or as of subsequent periods nor the amount of Bank’s regulatory equity.

41. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

Change in the Management Board of Bulgarian Development Bank EAD

By decision of the Supervisory Board with Protocol No 2 dated 12.01.2023, Iliya Zapryanov Karanikolov and Ivan Valentinov Tserovski were elected as new members of the Management Board of BDB. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 20.01.2023. By decision of the Management Board with Protocol No 5/13.01.2023, Mr. Iliya Zapryanov Karanikolov and Mr. Ivan Valentinov Tserovski are authorized to represent and manage the Bank as Executive Directors. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 20.01.2023. Mr. Iliya Zapryanov Karanikolov was elected Chairman of the Management Board.

By decision of the Supervisory Board with Protocol No 9 dated 08.02.2023, Krum Georgiev was dismissed as a member of the BDB Management Board. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 14.02.2023.

By Protocol No 14 dated 09.03.2023 of the Supervisory Board, Mrs. Mariyana Dimitrova Petkova was dismissed as a member of the BDB Management Board and Executive Director. The decision was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 16.03.2023.

Changes in the Audit Committee

By decision of the Minister of Innovation and Growth with Protocol No RD-02-17-29/29.12.2022, Svetlana Kurteva, Svetlodara Petrova and Delyana Ivanova were elected members of the Audit Committee effective as of 01.01.2023.

Changes in the management bodies of subsidiaries

BDB Leasing EAD

By decision with Record dated 07.03.2023 of the Management Board of BDB, as the sole owner of the capital of BDB Leasing EAD, Krum Georgiev was dismissed as a member of the Board of Directors of the company, and Ivan Valentinov Tserovski was elected as a new member. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 17.03.2023. Mr. Ivan Valentinov Tserovski was elected Chairman of the Board of Directors of the company.

National Guarantee Fund EAD

By decision with Record dated 10.03.2023 of the Management Board of BDB, as the sole owner of the capital of the National Guarantee Fund EAD, Krum Georgiev was dismissed as a member of the Board of Directors of the company, and Ivan Valentinov Tserovski was elected as a new member. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 17.03.2023. Mr. Ivan Valentinov Tserovski was elected Chairman of the Board of Directors of the company.

41. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in the management bodies of subsidiaries (continued)

BDB Microfinance EAD

By decision dated 07.03.2023 of the Management Board of BDB, as sole owner of the capital of BDB Microfinance EAD, Mr. Tsanko Rumenov Arabadzhiev was elected as a member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 22.03.2023. Mr. Tsanko Rumenov Arabadzhiev was elected Chairman of the Board of Directors of the company.

With Protocol No 23 dated 07.03.2023 and Protocol No 26 dated 10.03.2023, the Management Board of BDB, exercising the rights of the Bank as sole owner of the capital of BDB Microfinance EAD, decided to amend the Statute of BDB Microfinance EAD regarding the way the company is represented - namely: the company is represented jointly by the two Executive Directors or at least one Executive Director and one member of the Board of Directors. The changes are entered under the file of BDB Microfinance EAD in the Commercial Register on 22.03.2023.

By Protocol No 4 dated 09.03.2023 of the Board of Directors of BDB Microfinance EAD, Mrs. Mariyana Dimitrova Petkova was elected second Executive Director. By decision with Protocol No 26 dated 10.03.2023, the Management Board of BDB, as sole owner of the capital of BDB Microfinance EAD, approves the election of Mrs. Mariyana Dimitrova Petkova as Executive Director and confirms that Ivana Borisova Tsaneva continues to perform the functions of Executive Director of the company. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 22.03.2023.

Trade Centre Maritsa EOOD

By decision with Protocol No 18 dated 21.02.2023 of the Management Board of BDB, as the sole owner of the capital of Trade Center Maritsa EOOD, Vaska Borisova Stancheva was dismissed as managing director of the company, and Nadezhda Yordanova Nikova was elected as the new managing director. These circumstances were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 17.03.2023.

The banking crisis in the United States and Switzerland

With the closure of Silicon Valley Bank on 10 March 2023, the banking sector around the world was gripped by uncertainty, with plummeting bank share quotes. On 12 March 2023, it was followed by Signature Bank, and a few days later doubts arose about First Republic, which currently continues to operate. The banking regulator and the Federal Deposit Insurance Corporation took swift action to place both banks under supervision and subsequent restructuring in order to limit the negative impact of these failures on the US and global banking system. Bulgarian Development Bank is still analysing the potential effects that these bank failures may have on the sources and cost of funding, as well as the overall impact on the national and European economy.

41. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

The banking crisis in the United States and Switzerland (continued)

As of the date of these financial statements, BDB and its subsidiaries have no exposures to the above-mentioned banks.

In a separate event, after weeks of uncertainty, Switzerland's Credit Suisse was acquired by rival UBS in a deal that generated more than $17 billion losses to holders of stock and subordinated bonds of the acquired bank. Separately, the Swiss central bank provided liquidity over 100 billion Swiss francs. The decision on the acquisition was taken jointly by the Swiss government and the banking regulator, with Credit Suisse shareholders not being consulted.

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

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