BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED ANNUAL MANAGEMENT REPORT ON THE ACTIVITIES

INDEPENDENT AUDITORS' REPORT AND

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2022

Unofficial translation from Bulgarian

BULGARIAN DEVELOPMENT BANK GROUP

ANNUAL CONSOLIDATED MANAGEMENT

REPORT ON THE ACTIVITIES

for 2022

Unofficial translation from Bulgarian

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1 GENERAL INFORMATION

Bulgarian Development Bank EAD

The shareholding structure as of 31 December 2022 and as of the date of approval of this report: the state through the Minister of Innovation and Growth – 100%

Supervisory Board (SB) as of 31 December 2022 and as of the date of approval of the annual financial statements:

- Rosen Andreev Karadimov – Chairman of the SB
- Delyana Valerieva Ivanova - Deputy – chairman and member of the SB
- Stamen Stamenov Yanev – member of the SB

Management Board (MB) as of 31 December 2022 and as of the date of approval of the consolidated financial statements:

MB as of 31 December 2022:	**MB as of the date of approval of the financial statements:**
- Mariana Dimitrova Petkova - Chairman of the MB and Executive Director - Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director - Krum Georgiev Gueorguiev – Member of the MB	- Iliya Zapryanov Karanikolov - Chairman of the MB and Executive Director - Ivan Valentinov Cerovski - Member of the MB and Executive Director - Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director

Head office and registered address as of 31 December 2022:
1000 Sofia, Sredets area, 1 Dyakon Ignatij Str.
Registration Number - UIC 121856059

Joint auditors of Bulgarian Development Bank EAD:

Deloitte Audit OOD
CPA Rositsa Boteva
103, Al. Stambolijski Blvd.
1303 Sofia
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Grant Thornton OOD
CPA Sylvia Dinova
26, Cherni Vrah Blvd.
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Auditor of the National Guarantee Fund EAD and BDB Leasing EAD:
Deloitte Audit OOD
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Auditor of BDB Microfinancing EAD and Capital Investments Fund AD:
Grant Thornton OOD
CPA Sylvia Dinova
26, Cherni Vrah Blvd., 1421 Sofia, Bulgaria
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Auditor of Trade Center Maritsa EOOD:
AUDIT CORRECT-2010 OOD
Margarita Koshutanska
Sofia, 5, Pirotska Str., 3rd floor, office 5

Auditor of Roadway Construction AD:
SMART AUDIT AND CONSULTING EOOD
CPA Diana Yordanova Deyanova – Rangelova
Bankya, Izgrev region, 98, Sofia Street
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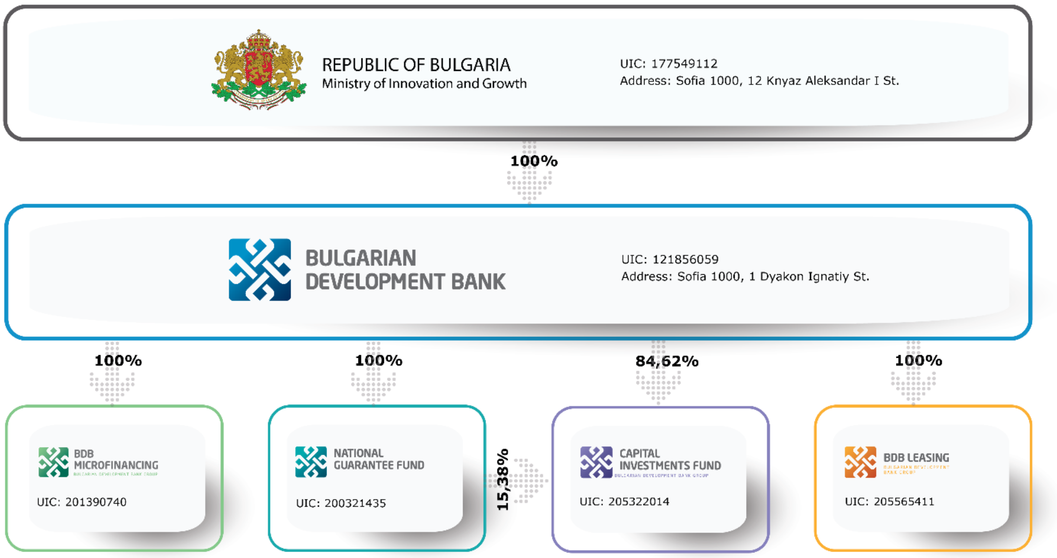
2 INFORMATION ABOUT BDB GROUP

2.1 BDB GROUP OVERVIEW

As of the end of 2022 the Financial Group Bulgarian Development Bank ("the Group", "BDB Group" or "Financial Group") includes Bulgarian Development Bank EAD ("BDB", "the Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), BDB Microfinancing EAD, Capital Investments Fund AD ("CIF") and BDB Leasing EAD ("BDB Leasing")[1].

The Group has the following organizational structure as of 31 December 2022 and as of the approval of this report:



The number of employees as of 31 December2022 in BDB Group is 276 (as of 31.12.2021 – 284 employees).

BDB Group complies with the applicable Bulgarian and European environmental protection legislation. The Group conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, BDB Group requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects.

[1] In addition, the Group exercises control over and consolidates the companies Trade Center Maritsa EOOD and Roadway Construction AD, together with its subsidiary Patstroyengineering AD, which are not part of its Strategy.

Subject to stricter environmental requirements set out in the loan agreements with external creditors, the Group requires compliance with these higher standards by its clients and monitors their performance.

Human capital is a key factor in the realization of the new strategy and business objectives of BDB Group.

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

As of 31 December 2022, there are no pending judicial, administrative or arbitration proceedings in the BDB Group regarding liabilities or receivables of the BDB Group in the amount of 10 percent or more of the equity.

At the end of 2022, the BDB Group has no obligations under existing or new securities issues.

2.2 BULGARIAN DEVELOPMENT BANK EAD

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

The Bulgarian Development Bank Act (BDBA) was adopted on 23 April 2008. It regulates the scope of the Bank's activities and the planned establishment of its subsidiaries.

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

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

The Bank fulfils the requirements of the BNB for the minimum required share capital for the exercise of banking activity. From its establishment until August 2017, the state participation in BDB was under the control of the Minister of Finance. With an amendment to the Bulgarian Development Bank Act in 2017, the management of state participation passed under the control of the Minister of Economy.

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

As of 31 December 2022, the ownership of the capital is distributed as follows: 100% is owned by the Republic of Bulgaria, with the rights of the state as the sole owner of the capital being exercised by the Minister of Innovation and Growth.

As of 31 December 2022, the Bank's capital is in the amount of BGN 1,441,773,500 and consists of 14,417,735 ordinary registered voting shares, with a nominal value of BGN 100 each. BDB shares are not traded on a regulated market.

By decision of 21.07.2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD, decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease.

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

The Bulgarian Development Bank Act stipulates that no less than 51% of the shares in the Bank's capital are owned by the state and are non-transferable. Share rights cannot be subject to transfer transactions.

By virtue of Art. 6 para. 4 of the Bulgarian Development Bank Act, the shares of the Bank's capital, apart from the Bulgarian state, may be acquired and held by the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, by development banks from EU member states. In these cases Art. 31 of the Credit Institutions Act is not applied.

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

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

No shares of the Bank were acquired, owned or transferred by the members of the management bodies during the year.

According to Art. 6, para. 4 of the BDBA, the members of the management and control bodies, procurators and senior management cannot own shares, and they cannot be granted options on BDB securities, and in subsequent reporting periods, no arrangements can arise as a result of which in a future period may change in the relative share of shares owned by current shareholders.

The objectives of Bulgarian Development Bank EAD as set out in its Statute are:

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

According to the Statute of BDB, the Bank's credit activity is focused on:

- pre-export and export lending to small and medium enterprises;
- lending through intermediary banks or directly to other types of activities of small and medium-sized enterprises;
- refinancing of banks lending to small and medium enterprises;
- financing of investments outside the country of small and medium-sized enterprises;
- participation in public and public-private projects or partnerships of strategic, national and/or regional importance.

Lending to small and medium-sized enterprises with high added value is a priority in the Bank's loan activity.

The Bank also provides other types of loans in order, such as exposure to one customer or a group of related parties, other than credit institutions, central governments and central banks, subject to compliance with the requirements and restrictions of Regulation 575/2013/EU, the acts on their implementation and the Statute of the Bank, after taking into account the effect of reducing the credit risk in accordance with the procedure determined by the Bank's Management Board.

The Bank cannot form exposures on an individual and consolidated basis to one client or a group of related clients, the total amount of which exceeds the amount of BGN 5,000,000. The limitation under the previous sentence does not apply to exposures to subsidiaries of the Bank, other credit institutions, the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, by development banks from member states of the European Union, in the cases, in which the Bank carries out financial transactions, within the scope of its activity, under programs specifically commissioned by the Government of the Republic of Bulgaria, as well as in certain cases with existing exposures.

The Bank shall not lend funds to:

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

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

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

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

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

As of the end of 2022 the Bank has 233 employees.

Bulgarian Development Bank EAD has no branches.

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

2.2.1 Significant changes in the management and structure of the Bank in 2022 and 2023, until the date of approval of the consolidated report on activities:

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

2.2.1.1 Change in principal

Until 18 March 2022, the rights of the State in the BDB were exercised by the Minister of Economy. After that date, the State's rights are exercised by the Minister of Innovation and Growth.

2.2.1.2 Changes in the Bank’s Management Board

By decision of the Supervisory Board under Protocol No 28 of 6.06.2022 Mariana Dimitrova Petkova was elected as new member of the Management Board. This circumstance was recorded in the Commercial Register on 13.06.2022. 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 9.06.2022 Vladimir Rashkov Gueorguiev was dismissed as member of the Management Board of the Bank. On 16.06.2022 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.

By decision of the Supervisory Board under Protocol No 2 of 12 January 2023 Iliya Zapryanov Karanikolov and Ivan Valentinov Cerovski were elected as new members of the Management Board of BDB. This circumstance was recorded in the Commercial register on 20 January 2023. By decision of the Management Board under Protocol No 5/13.01.2023 and approved by decision of the Supervisory Board under protocol No 5 from 16 January 2023, Mr. Iliya Zapryanov Karanikolov and Mr. Ivan Valentinov Cerovski are authorized to represent and manage the Bank as Executive Directors.

This circumstance was recorded in the Commercial register and register of non-profit legal entities on 20 January 2023. Mr. Iliya Zapryanov Karanikolov was elected as Chairman of the Management Board.

By decision of the Supervisory Board under Protocol No 9 dated 8 February 2023 Krum Georgiev 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.

2.2.1.3 Changes in the Banks's Supervisory Board

On 13.01.2022, the decision of the sole owner of the Bank's capital was entered in the Commercial Register and register of non-profit legal entities, by which Velina Ilieva Burska and Mitko Emilov Simeonov were dismissed from the Supervisory Board of the Bank.

By decision of the sole owner of BDB under Protocol dated 7.11.2022 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 14.11.2022.

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 of the capital of BDB under Protocol dated 30.11.2022 was entered in the Commercial register and register of non-profit legal entities on 7.12.2022.

2.2.1.4 Changes in the Audit committee of the Bank

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

2.2.1.5 Changes in the statute and capital of the Bank

By decisions of the Minister of Innovation and Growth, according to the protocol dated 07.06.2022 and according to the protocol dated 21.07.2022, amendments were made to the Bank's statute related to the financing of existing exposures. The specified changes in the statute have been approved by Bulgarian National Bank, they have been entered into the Commercial register and the register of non-profit legal entities under the file of Bulgarian Development Bank EAD and are effective from 28.07.2022.

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.

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

2.2.2 Change in the structure of the Bank

Change in the responsibilities of MB members in 2022 and 2023

Following the changes in the MB and SB membership in 2022 and the beginning of 2023, the organizational structure is grouped into three main streams, which have the following executive directors:

Stream № 1 with a structure subordinate to Mr. Iliya Zapryanov Karanikolov, Executive director and Chairman of the MB:

- Finance Division
- Risk Division
- Compliance Division
- Security Division
- Legal Division
- Credit Administration Division
- Information Technology Division
- Corporate Communications Division
- Non-performing Loans Division
- Project management and methodology Division
- Prevention of money-laundering and fraud Division

Stream № 2, with a structure subordinate to Mr. Ivan Valentinov Cerovski, Executive Director and member of the MB:

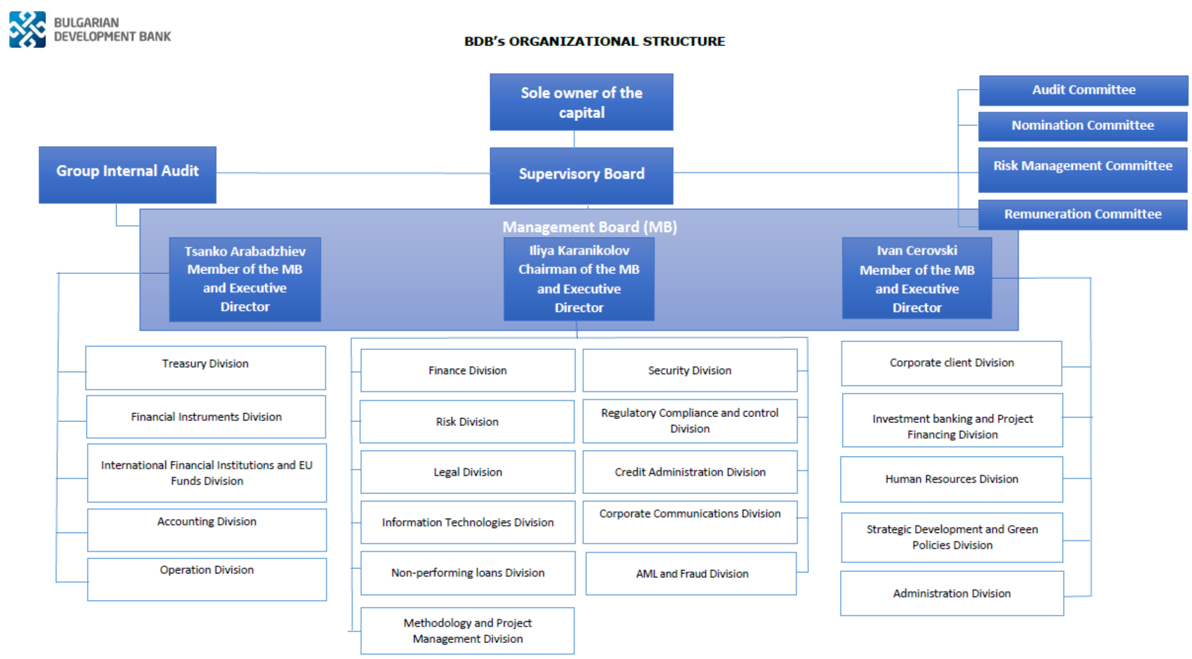
- Corporate Clients Division
- Investment Banking and Project Finance Division
- Human Resources Division
- Strategic development and green policies Division
- Administrative Division

Stream № 3 with a structure subordinate to Mr. Tsanko Rumenov Arabadzhiev, Executive director and member of the MB:

- Treasury Division
- Financial Instruments Division
- International financial institutions and EU funds Division
- Accounting Division
- Operations Division

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

The chart of the Bank's last current organizational structure (effective as of 6 July 2023) is as follows:



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

In 2022 and until the preparation of this report the following changes have been made to the organizational structure of the Bank:

By a decision of the BDB Management Board of 15.02.2022, approved by the Supervisory Board on 04.03.2022, the structure, functional responsibilities and name of the Strategic Analysis and Development Department has been amended, transforming the unit into the Strategic Development and Green Policies Division.

The division is assigned functions related to activities related to the implementation of the regulatory framework ESG, climate tracking and compliance analysis, introduction of models for green, sustainable and climate-neutral loans for SMEs, advisory and consultancy assistance for SMEs, contribution assessment and monitoring of activity.

With a decision of the BDB Management Board of 22.02.2022, approved by the Supervisory Board on 04.03.2022, the name of the Public Relations Department is changed to Corporate Communications in order to respond most closely to the functions and activities of the unit, and the change is also reflected in the organizational structure of the Bank.

On 16.06.2022, the Management Board of the Bank has adopted a new organizational structure of the Bank, with the redistribution of the structural units in the sectors of the Executive Directors and the members of the Management Board and changes in part of the Bank's units, as follows:

- ✓ The Corporate Banking Division has been transformed into Small and Medium-sized Enterprises, the Investment Banking and Project Finance Division has been renamed to Project Finance and the Operations and Customer Service Division has been changed to Operations;
- ✓ Classified Information Division and Compliance Division are united in one Classified Information and Compliance Division;
- ✓ The Secretariat Department is included in the Administrative Division, the Project and Process Management Department becomes part of the Information Technology Division and the position of Chief Economist is closed.

In connection with the merger of BDB Factoring EAD into the Bank, the 2021 decision to establish a new Factoring Division has been reviewed, and the functions of servicing factoring operations have been transferred to the Small and Medium-Sized Enterprises Department until they are exhausted. The decisions of the Management Board and the Supervisory Board are from 21.06.2022 and 22.06.2022, respectively.

By a decision of the Management Board of 14.07.2022 and of the Supervisory Board of 20.07.2022, the positioning of the Project and Process Management Division directly subordinate to the Executive Director as an independent unit was approved.

By a decision of the Management Board of 27.10.2022, approved by the Supervisory Board on 02.11.2022, the name of the Classified Information and Compliance Division has been changed to "Regulatory Compliance". The change is effective from 09.11.2022.

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

- ✓ The Regulatory Compliance Division is transformed into two new functional units - the Regulatory Compliance and Control Division, which will be responsible for the adequate identification, measurement and management of compliance risk and is part of the internal control environment of the Bank, and the Prevention of Money Laundering and Fraud Division, the functions of which will be related to the implementation of the measures against money laundering and terrorist financing in the BDB Group, protection of classified information and protection of individuals with regard to the processing of their personal data.
- ✓ The Small and Medium-sized Enterprises Division is renamed Corporate Clients.
- ✓ In order to ensure compliance between the name of the Project Finance Division and the functions it actually performs, the same is changed to the Investment Banking and Project Finance Division and the Corporate Communications Department is transformed into a division.
- ✓ In view of the similarity in the functions and objectives of the divisions External Programs and Financial Instruments and in order to achieve synergy at expert level, they are united in the Financial Instruments Division, structured in two departments.
- ✓ Establishment of Methodology and Project Management Division, which will carry out activities related to the coordination and provision of methodological support to the units in the preparation of internal regulations and process optimization and will allow the other units to focus on the implementation of their main functions, and the Project and Process Management Department is closed.

2.3 NATIONAL GUARANTEE FUND EAD (NGF)

National Guarantee Fund EAD, UIN 200321435, is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act (CIA), the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art. 3, Par. 2 of the CIA. In compliance with the Statute of the company the principal activities include:

- Issuance of guarantees to supplement the collateral on loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;

- Guarantees issued by NGF on its own risk may cover up to 50 per cent of the liability. With the amendments to the BDB Act promulgated in State Gazette No. 102 of 21 December 2012, the guarantees issued by the NGF with regard to guarantee schemes under the Rural Development Program 2007 - 2013 and Operational Program for Development of the Fisheries Sector 2007 - 2013 may cover up to 80 per cent of the liability;
- Other activities, not particularly prohibited by law.

The scope of activity of NGF EAD is stipulated in section X of the Bulgarian Development Bank Act (SG 43/29.04.2008).

In 2022, the Company did not establish branches or subsidiaries, did not acquire interests in any form in other commercial entities and did not implement commercial projects jointly with other enterprises.

The registered capital of the Company as of 31 December 2022 amounted to BGN 80,000,000 divided into 800,000 shares with nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The sole owner of the capital is BDB EAD. The capital of NGF is fully paid in.

The seat and registered address of the NGF is 1000 Sofia, 1 Dyakon Ignatii Str. The Company rents an office in Sofia 1421, 105, Arsenalski Blvd.

As of 31 December 2022, NGF had 11 employees.

As of 31 December 2022, NGF had no branches.

2.4 BDB MICROFINANCING EAD (BDB MICROFINANCING)

BDB Microfinancing EAD was registered into the Commercial Register on 14 January 2011.

The sole owner of the company's capital is Bulgarian Development Bank EAD.

BDB Microfinancing EAD is a financial institution. The scope of activity is microfinance, including granting microloans, acquisition by third parties and leasing of industrial equipment, cars and other vehicles, as well as other items (financial leasing), purchase and sale and import of such items, consulting services, commercial representation and mediation of local and foreign individuals and legal entities operating in the country, as well as any other activity not prohibited by law.

As of 31.12.2022, the registered capital of BDB Microfinancing is BGN 14,643,000, divided into 146,430 shares with a nominal value of BGN 100 each. The shares are ordinary, materialized, registered and indivisible, each share giving the right to one vote. The capital of the company is fully paid.

The seat and registered address of the BDB Microfinancing EAD is 1000 Sofia, 1 Dyakon Ignatii Str. The Company rents an office in Sofia 1421, 105 Arsenalski Blvd.

As of 31 December 2022, BDB Microfinancing EAD had 15 employees.

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

2.5 CAPITAL INVESTMENTS FUND AD (CIF)

Capital Investments Fund AD was incorporated on 24 August 2018 and registered on 4 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% direct participation of BDB, or 550,000 shares, and indirect participation through NGF – 15.38%, participation in capital).

Capital Investments Fund AD is a financial institution.

The scope of activity of CIF includes:

- Participation in the capital of small and medium-sized enterprises;
- Provision of consulting services regarding the capital structure of small and medium-sized enterprises; consultancy and services relating to business transformation under Article 261 of the Commercial Act;
- Investment consultancy;
- Consulting services on the management of pools of securities of small and medium-sized enterprises;
- Other activities, not specifically prohibited by law.

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

As of 31.12.2022, the registered and paid share capital amounts to BGN 57,814,000, divided into 578,140 shares with a nominal value of BGN 100 each. The shares are ordinary, materialized, registered and indivisible, with each share giving the right to one vote. The capital of the company is fully paid.

The seat and registered address of the Capital Investments Fund AD is 1000 Sofia, 1 Dyakon Ignatii Str.

As of 31 December 2022, CIF had 5 employees.

As of 31 December 2022, CIF had no branches.

2.6 BDB LEASING EAD (BDB LEASING)

BDB Leasing EAD, was established on 06.03.2019 and registered into the Commercial Register on 12.03.2019. Bulgarian Development Bank EAD is the sole owner of the capital of the company.

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

The sole owner of the capital of BDB Leasing EAD is Bulgarian Development Bank EAD.

The capital of the company, paid in at the incorporation, amounts to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100.

As of 31.12.2022, the registered capital of BDB Leasing is BGN 18,630,000, divided into 186,300 shares with a nominal value of BGN 100 each. The shares are ordinary, materialized, registered and indivisible, each share giving the right to one vote. The capital of the company is fully paid.

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

As of 31 December 2022, BDB Leasing had 12 employees.

As of 31 December 2022, BDB Leasing had no branches.

2.7 BDB FACTORING EAD (BDB FACTORING)

The transformation of BDB Factoring EAD through a merger into the Bulgarian Development Bank EAD was entered in the Commercial Register on 09.07.2022. BDB Factoring EAD was deleted as of 09.07.2022.

2.8 SIGNIFICANT CHANGES IN THE MANAGEMENT BODIES AND STATUTES OF THE SUBSIDIARIES FROM THE BEGINNING OF 2022 UNTIL THE DATE OF APPROVAL OF THIS REPORT

2.8.1 BDB Microfinancing EAD (BDB Microfinancing)

By a decision of the Protocol of 10.06.2022 of the BDB Management Board, in its capacity of sole owner of the capital of BD MICROFINANCING EAD, Vladimir Rashkov Gueorgiev was dismissed as a member of the Board of Directors of the company, and Mariana Dimitrova Petkova was elected as a new member. These circumstances were entered in the Commercial Register on 23.06.2022.

By a decision of the Protocol of 07.03.2023 of the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, Mr. Tsanko Rumenov Arabadzhiev was elected as 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.

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

By a decision under Protocol No 4 of 09.03.2023 of the Board of Directors of BDB Microfinancing EAD, Mrs. Mariana Dimitrova Petkova was elected as Second Executive Director. By a decision under Protocol No 26 of 10.03.2023, the Management Board of BDB, as the sole owner of the capital of BDB Microfinancing EAD, approves the election of Mrs. Mariana 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.

By a decision of the Management Board of Bulgarian Development Bank EAD, as sole owner of the capital, from 05.07.2023, Mrs. Mariana Dimitrova Petkova was dismissed as a member of the Board of Directors and Executive Director of BDB Microfinancing EAD. Mr. Tsanko Rumenov Arabadzhiev is registered as a member of the Board of Directors. This circumstance was entered in the Commercial Register on 26.07.2023.

By a decision of the Management Board of the Bulgarian Development Bank EAD, as the sole owner of the capital, from 05.07.2023, the statute of BDB Microfinancing EAD was also changed, in the part concerning the way of representing the company. After the change of the statute, the company is jointly represented by the Executive Director and one of the members of the Board of Directors, and in the absence of the Executive Director - jointly by any two of the members of the Board of Directors. The current Statute was entered in the company's file in the Commercial Register on 26.07.2023.

2.8.2 BDB Leasing EAD (BDB Leasing)

By Protocol No 79 of 23.08.2022, the Management Board of BDB, exercising the rights of the Bank as the sole owner of the capital of BDB Leasing EAD, decided 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 invalidating BGN 13,700 (thirteen thousand seven hundred) ordinary registered materialized voting indivisible 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 in p. with art. 247a, para. 2 of the Commerce Act. The decision was entered in the Commercial Register on 15.09.2022.

By a decision of the Protocol of 07.03.2023 of the Management Board of BDB, as the sole owner of the capital of BDB Leasing EAD, Krum Georgiev Georgiev was dismissed as a member of the Board of Directors of the company, and Ivan Valentinov Cerovski 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 Cerovski was elected Chairman of the Board of Directors of the company.

2.8.3 National Guarantee Fund EAD (NGF)

By Decision under Protocol No 55 of 10.06.2022 of the Management Board of BDB EAD, in its capacity of sole owner of the capital of the Company, Mr. Zhivko Ivanov Todorov was dismissed as a member of the Board of Directors of the National Guarantee Fund EAD. The circumstance was entered in the Commercial Register on 23.06.2022. Mr. Krum Georgiev Georgiev was elected as a new member of the Board of Directors – a decision under Protocol No 60 of 23.06.2022. The circumstance was entered in the Commercial Register on 06.07.2022.

By a decision of the Protocol of 10.03.2023 of the Management Board of BDB, as the sole owner of the capital of the National Guarantee Fund EAD, Krum Georgiev Georgiev was dismissed as a member of the Board of Directors of the company, and Ivan Valentinov Cerovski 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 Cerovski was elected Chairman of the Board of Directors of the company.

2.8.4 Capital Investment Fund AD

By a decision of the General Meeting of Shareholders of the company, held on 09.09.2022, Rusalin Stanchev Dinev was elected as a new member of the Board of Directors of the Capital Investment Fund AD. Krasimir Tanev Atanasov was dismissed as a member of the Board of Directors. These circumstances were entered in the Commercial register and the register of non-profit legal entities on 16.09.2022.

The General Meeting of Shareholders of the Capital Investment Fund AD, at its extraordinary meeting from 09.09.2022, decided 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 invalidating BGN 71,860 (seventy-one thousand eight hundred and sixty) ordinary registered materialized voting indivisible 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.

2.8.5 Trade Center Maritsa EOOD

By a decision under Protocol No 18 of 21.02.2023 of the Management Board of BDB, in the capacity of 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.

3 KEY HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2022

3.1 KEY EVENTS AND PROCESSES

3.1.1 Regulatory changes

In 2022, the following can be identified as the most significant changes in the regulatory framework of the BDB Group: "Guidelines on policies and procedures related to compliance management and the role and responsibilities of the compliance officer in relation to the BDS/BTF pursuant to Article 8 and Chapter VI of Directive (EU) 2015/849" (EBA/GL/2022/05, from 14 June 2022); Guidelines for indicators related to the recovery plan (EBA/GL/2021/11); Ordinance amending and supplementing Ordinance No 20 of the BNB of 24 April 2019 on the issuance of approvals for members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements related to the performance of their functions; Act on Amendment and Supplement to the Markets in Financial Instruments Act; Ordinance amending and supplementing Ordinance No 38 of 21.05.2020 on the requirements to the activity of investment intermediaries; Ordinance on amendment and supplement to Ordinance No 58 of 28.02.2018 of the FSC; Guideline amending Guideline EBA/GL/2018/10 on disclosure of non-performing and restructured exposures (EBA/GL/2022/13) (applicable from 31.12.2022); Guidelines on the criteria for the use of input data in the risk measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (EBA/GL/2021/07) (applicable from 01.01.2022); Guidelines for assessing the suitability of members of the management bodies and key management (EBA/GL/2021/06) (applicable from 31.12.2021); Guidelines on internal governance under Directive 2013/36/EU (EBA/GL/2021/05) (applicable from 31.12.2021); Guidelines for sound policies for determining remuneration in accordance with Directive 2013/36/EU (EBA/GL/2021/04) (applicable from 31.12.2021).

3.1.2 Rating

In August 2023, Fitch Ratings reaffirmed the positive outlook for the Bank's long-term credit rating by BBB. This is the highest credit rating for a Bulgarian financial institution, and for BDB it is limited to the rating of the sovereign – the Bulgarian state.

Rating effective as of:	**Date of preparation of the rating:**	**Long - term IDR Rating**	**Outlook**
As of 31.12.2022	17.08.2022	„BBB“	Positive
As of the date of approval of the financial statements	07.08.2023	„BBB“	Positive

The rating agency's assessment is based on the reliable support of the sovereign – the Bulgarian state, its good capitalisation, as well as its growing role in supporting the government's economic policy.

The sound capital base contributes significantly to high levels of capital adequacy ratio. BDB is the institution with the highest ratio of capitalization in the banking system in Bulgaria, significantly above the regulatory minimum.

3.2 BUSINESS HIGHLIGHTS

In 2022, the development of the Group's product and credit portfolio, as well as the diversification of funding sources continued.

3.2.1 COSME+ Programme

At the end of 2022, BDB continued the implementation of agreements under the Programme of Bulgarian Development Bank for development of indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee under COSME Programme of EIF with the support of the European Fund for Strategic Investments (COSME+ Programme) with two commercial banks and six non-bank financial institutions with approved amount of BGN 51,143 thousand.

The programme is implemented with the support of the European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee. The mechanism implemented by EIF Cosme+ Programme upgrades the Entrepreneurship and Innovation Programme (EIP) established within the period 2007 - 2013. The total budget amounts to EUR 2,3 billion in the period 2014-2020. It covers four areas of support – improving access to finance for SMEs in the form of equity and debt instruments; improving access to markets for SMEs globally; improving the framework conditions for business competitiveness and promoting entrepreneurship. The only request for payment in 2022 under the guarantee commitment of BDB, amounting to EUR 42 thousand is satisfied for which BDB has received a corresponding payment under the counter-guarantee given by the EIF.

3.2.2 Leasing Line Programme

In 2022 two new on-lending agreements have been concluded for EUR 3.5 million under the Leasing line programme which is aimed at partners which are non-banking financial institutions – lessors registered at BNB and which are carrying out financial leasing. The programme is designed to lend to leasing companies in order to facilitate access to resources for the purchase and leasing of assets used in the business of small and medium-sized enterprises.

3.2.3 BROD Programme

BDB continues to implement the newest product for indirect financing to small and medium-sized enterprises BROD Programme. The Programme budget is EUR 20 million. The partners under the Brod programme finance SMEs in compliance with a certain interest rate ceiling and a total annual increase, which are consistent with changes in the value of EURIBOR. In 2022, 2 agreements amounting to EUR 3 million were concluded.

3.2.4 Anti COVID-19 guarantee programmes

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

The total amount which BDB may guarantee is BGN 700 million as this amount is fully covered against Bank's capital increase with the same amount in 2020.

As of 31 December 2022 BDB has issued guarantees in the total amount of BGN 403,208 thousand[2], guaranteeing exposures under the two programs in the total amount of BGN 715,979 thousand (31.12.2021: BGN 649,663 thousand).

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

At the end of 2022 the expected credit losses provisions on anti-COVID programmes amount to BGN 127,215 thousand (31 December 2021: BGN 176,370 thousand) which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

3.2.4.1 Programme for companies – Recovery Programme

The Recovery Program is a Portfolio Guarantee Program to support the liquidity of enterprises affected by the emergency situation and the COVID-19 epidemic – Recovery Programme (approved by Decision of Council of Ministers No. 310/07.05.2020, updated and amended under Decision of Council of Ministers No. 797/04.11.2020, and amended by Decision of Council of Ministers No. 194/05.03.2021, Decision of Council of Ministers No. 578/05.08.2021 and Decision of Council of Ministers No. 95/25.02.2022).

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

The guarantee programme, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million (the budget was decreased to BGN 400 million subsequently due to redirection of funds to anti COVID measures for individuals).

[2] For programme for individuals, 100% of the principal exposure of the partner bank to the client is guaranteed. For SME programme BDB guarantees 80% of the principal on the loans, capped at 50% limit on guarantee payments on portfolio basis.

Companies from all sectors benefit the programme, and companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc. were financed with priority.

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

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

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

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

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

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

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

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

In connection with the sixth amendment to the Temporary Framework and its extension, by Decision of the Council of Ministers No 95/25.02.2022 the deadline for applying for funding under the SME Programme was extended until 22.06.2022.

The formation of portfolios under the Programme ended on 30.06.2022, according to final data from the commercial banks – partners under the scheme, 2,894 loans with an original loan amount of BGN 630,349,165 have been guaranteed, for which a guarantee of BDB has been provided in the amount of 80% or BGN 504,279,332.

The status of the portfolio is updated on a quarterly basis. As of 31 December 2022, 2,617 loans with a total amount of BGN 533,910 thousand have been guaranteed. Eligible requests for payment of guaranteed amounts under the Programme amount to BGN 1,749 thousand. The reimbursed amounts to BDB at the end of 2022 are BGN 98 thousand.

3.2.4.2 Programme for individuals and households

Measures for individuals and households – Program to guarantee interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of up to BGN 300 million (approved by Decision of Council of Ministers No 257/14.04.2020, amended by Decision of Council of Ministers 408/19.06.2020, Decision of Council of Ministers No 910/10.12.2020, Decision of Council of Ministers No 194 / 05.03.2021, Decision of Council of Ministers No 506 / 15.07.2021 and Decision of Council of Ministers 448 / 07.07.2022) – Interest-free lending programme.

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

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

The parameters of the programme were further amended by decisions of the Council of Ministers in order to increase the benefits in the interest of the persons affected by the pandemic, as follows: Decision of Council of Ministers 408/2020, Decision of Council of Ministers 910/10.12.2020, and Decision of Council of Ministers No 194/05.03.2021. Eligible borrowers had the opportunity to receive interest-free loans of up to BGN 6,900. (Initially, the maximum amount allowed was BGN 4,500), which are granted at once or in tranches. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No interest, fees, commissions and penalties are due on the loans.

In July 2021, by its Decision No 506/2021, the Council of Ministers extended the deadline for applying for the Individuals Programme until 31.08.2021 or until the guarantee limits by the partner banks are exhausted, whichever comes first.

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

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

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

As of 31.12.2022, BDB has guaranteed 46,863 loans amounting to BGN 182,069 thousand. The guarantees paid to commercial banks and the costs of establishing and collecting the loans amount to BGN 1,146 thousand, of which BGN 25 thousand have been reimbursed to BDB as of the same date.

3.2.5 Three Seas Initiative

The Three Seas Initiative (Black, Adriatic, Baltic) aims to strengthen investment, ties and cooperation – politically and financially – between the member states in the region. This is a public-private financial instrument whose purpose is to complement funding from the Structural and Other Funds of the European Union. By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved BDB's participation in the Investment Fund to the Three Seas Initiative. At the end of 2020, a Subscription Agreement relating to Three Seas Initiative Investment Fund (S.A. SICAV – RAIF) was signed between BDB and the Fund, with which BDB officially became a Class A shareholder in the Fund. As of 31 December 2022, BDB has paid share contributions amounting to EUR 10,941 thousand.

In 2022, the structuring of the Three Seas Innovation Fund began, with a working group with representatives from the current shareholders in the Three Seas Investment Fund being formed. An existing EIF plan for the creation of a new multilateral fund of funds, the Central Europe Fund of Funds 2, was presented in continuation of the Central Europe Fund of Funds, established in 2017. The Fund is expected to be in the amount of EUR 60-180 million. It aims to increase opportunities for capital investment in growth-stage enterprises in the CEE region by attracting investment from other private and public investors in the region. Further negotiations with the EIF to clarify the target sectors and other details of the founding of the fund are forthcoming.

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

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

3.2.6 The InvestEU Programme

The InvestEU Programme provides for a single European Investment Support Facility for the new programming period 2021-2027. The programme is based on the successful experience of the implementation of the EFSI and the current EC instruments. The InvestEU Programme will provide an EU budget guarantee to support financial products provided by partners implementing the Programme. The funds are allocated to four "windows" (areas) where financial products will be developed: 1) sustainable infrastructure; (2) research, innovation and digitalisation; 3) SMEs and small companies with medium market capitalization; 4) social investment and skills. BDB received approval from the European Commission for eligibility in principle for an InvestEU Implementing Partner. As part of the application process for financial products under the Programme, BDB carried out a Pillar Assessment audited by an independent auditor, which was finally completed in 2023. The Pillar Assessment is mandatory for organisations receiving funding from the European budget under indirect management, such as the InvestEU Programme. The final adoption of the assessment by the European Commission is expected. In 2021, BDB applied in the first announced procedure for financial products of future implementing partners, and its expression of interest was evaluated and approved by the EC. In 2022, BDB is designated as an implementation partner at national level. A guarantee agreement is expected in the current year.

3.2.7 Products, programmes and platforms to support SMEs and specific sectors

3.2.7.1 BDB programme with a guarantee from the Pan-European Guarantee Fund (PEGF)

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

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

Customers-final recipients must comply with certain conditions and requirements related to the guarantee of the PEGF and the state aid regime. The maximum amount of the portfolio guaranteed under the PEGF is EUR 40 million, whereas EUR 30 million is the agreed.

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

3.2.7.2 New products

Since mid-2021, led by its mandate to support small and medium-sized businesses in difficult economic conditions, BDB has developed and announced several products aimed at sectors and companies that face difficulties in financing from commercial banks:

Green Energy Financing Programme

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

Support to Tourism Programme (inactive at the date of issue of this report)

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

Support for Rose Processing Programme

Also in January 2022, the Bulgarian Development Bank EAD created a special product with preferential conditions for Bulgarian rose processors named "Support for Rose Processing" (*amended parameters and conditions in May 2023*).* When it was created, the aim of the programme was to support the sector, overcome the negative consequences of the Covid-19 pandemic and alleviate pro-inflationary pressures. Bulgarian rose oil is known as one of the most sought after and expensive on the international market, but in recent years the industry has faced problems that lead to the accumulation of large stocks of the valuable product. The volume of the programme is BGN 20 million.

**In May 2023, the maximum amount from BGN 1 million to BGN 1.5 million has been increased; the period has been extended from 36 to 60 months; greater flexibility in terms of collateral has been provided. The requirements regarding the documents submitted to the bank have been eased. The aim is now to support a traditional and strategic sector in the Bulgarian economy, with a strong seasonality and cyclicality.*

Hospital Funding Programme

The program was announced at the beginning of July 2022. In pursuance of Decision No 568 of the Council of Ministers of 29.07.2022, BDB offers long-term financing of multiprofile hospitals for active treatment with open "Emergency units", which are subject to the policy pursued by the state for rehabilitation and development of hospitals (Hospitals of systemic importance for the regions). The program includes investment and/or working capital loans for the improvement of infrastructure and medical equipment in order to increase the volume and quality of medical services provided up to BGN 5 million. The application deadline is 31.08.2023. The volume of the program is BGN 25 million, with the possibility of increasing it to BGN 50 million, in case of budget implementation before the expiry of the deadline for applying under this Programme.

Programme "Financing of Groups and Organizations of Agricultural Producers"

The programme was announced in December 2022. Beneficiaries of the programme are groups and organizations of farmers, and these groups are required to be recognized by the Minister of Agriculture and to have at least one completed financial year. The application deadline is 31.12.2023. The volume of the new programme of the Bank is BGN 10 million.

Programme for financing SMEs with project proposals under European and national programmes

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

This is the first credit programme of the state bank, developed entirely in synchronization with the business. Through it, BDB provides access to resources for the implementation of projects under European and national programmes, making it easier for companies facing difficulties to start their activities due to lack of bridge or complementary funding.

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

Other programmes developed during the period to support specific needs of micro, small and medium-sized enterprises were:

Energy Support Programme (inactive at the date of issue of this report)

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

Working Capital Credit for Raw Materials Programme (inactive at the date of issue of this report)

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

The announced in August 2022 Program "Energy Efficiency of SMEs" has been replaced by the SME Finance Programme with project proposals under European and national programmes (inactive at the date of issue of this report).

The Technological Modernization of SMEs Programme announced in December 2022 has been replaced by the SME Finance Programme with project proposals under European and national programmes **(inactive at the date of issue of this report)**.

3.2.7.3 Business Booster Digital platform

The Bank is in the process of implementing a digital platform "Business Booster", which is expected to significantly shorten the process of providing information by potential customers and, accordingly, the approval process for new loans.

3.2.7.4 National programme for energy efficiency of multi-family residential buildings (NPEEMFRB)

In 2022, the Bulgarian Development Bank EAD continued its activities under the National Programme for Energy Efficiency of Multi-family Residential Buildings (Programme), adopted by Decree No 18 of February 2, 2015, of the Council of Ministers of the Republic of Bulgaria. It is aimed at the renovation of multi-family residential buildings, providing better living conditions for citizens in multi-family residential buildings, thermal comfort and higher quality of life environment.

The implementation of energy efficiency measures in residential buildings is expected to contribute to a higher level of energy efficiency and reduce energy costs, improve performance, extend the life cycle of buildings and ensure a living environment in line with sustainable development criteria. The programme has a significant environmental effect: according to expert assessment as a result of the Programme, the expected reduction in carbon dioxide emissions is estimated at 319,000 tCO2/year and the energy savings – 726,000,000 kWh/year.

The economic effect is also related to providing more opportunities for economic activity of the business – designers, construction industry, companies for technical audits, companies for energy efficiency audits, manufacturers of materials, etc. – as well as participation in the implementation of the Programme of small and medium-sized companies from all over the country. The programme has also achieved a social impact by improving living conditions in buildings, reducing energy costs, providing additional employment, establishing traditions in the management of multi-family residential buildings, raising public awareness of ways to increase energy efficiency.

The activities under the Programme are carried out throughout the territory of the Republic of Bulgaria within 265 municipalities with a total financial budget under the Programme amounting to BGN 2 billion.

3.2.8 Highlights of activities of subsidiaries, projects and important activities

3.2.8.1 National Guarantee Fund EAD

The National Guarantee Fund aims to provide guarantees for the benefit of SMEs, thereby facilitating businesses' access to finance.

In 2022 **The National Guarantee Fund EAD** (NGF) has supported over 339 clients who have received funding totalling BGN 76.7 million, including under the COSME programme, implemented with funds under the "Juncker" Plan.

Since the launch of its operations in 2008 until the end of 2022, the National Guarantee Fund has implemented 11 guarantee programmes, supported over 11,000 enterprises that have received funding totalling BGN 3.1 billion.

In 2022, NGF agreed with its long-standing partners the new guarantee instruments noted in the main tasks for the past year:

- Guarantee scheme "NGF-2022", a continuation of the main guarantee instrument at the Company's own risk, under which agreements were signed with eight commercial banks and the last agreement under the programme is to be signed in early 2023. The agreed total guarantee limit under the programme amounts to BGN 629 million, nearly double that under the last current guarantee programme of the Fund.

- Guarantee scheme "NGF-Leasing-2022", the first on the market guarantee scheme in support of leasing companies with an agreed total guarantee limit of BGN 157.5 million.

3.2.8.2 BDB Microfinancing

In 2022, BDB Microfinancing EAD provided financing to end customers under a total of 103 loan agreements totalling BGN 8.3 million. For the period, the approved transactions are 121 (98 enterprises) for a total amount of BGN 9 million. From the moment of the start of the activity until the end of the fourth quarter of 2022, BDB Microfinancing EAD has provided financing to 1,350 legal entities totalling BGN 75.9 million.

As of 31 December 2022, the active loan and leasing portfolio of the Company amounts to BGN 31,485 thousand, represented at amortised cost and consists of 486 credit and leasing transactions.

3.2.8.3 BDB Leasing

As of 31.12.2022, **BDB Leasing EAD** has concluded a total of two hundred and fifty-one (251) financial leasing contracts with a total financed value of BGN 115 million. In 2022, the approved leasing transactions and limits are worth BGN 40.6 million. For the period January - December 2022, 120 new leasing contracts with a total financed value of BGN 37.1 million have been concluded.

As of 31.12.2022, BDB Leasing formed a leasing portfolio exceeding BGN 70 million, which represents a growth of 25% compared to the prior year. Twenty-four (24) leases with a financed value of BGN 13.5 million are in the process of delivery of the leasing assets and are not included in the active leasing portfolio as of 31.12.2022. Advances paid for delivery of assets under these contracts amount to BGN 3.46 million.

The largest share in BDB Leasing’s portfolio is the manufacturing industry. This group includes all types of industrial production. In this niche is the main competitive advantage of BDB Leasing – the financing of production machinery and equipment, where often the assets have a more specific purpose and there is a market shortage. In second and third place are the transport and construction sectors, respectively. SMEs are mainly funded.

BDB Leasing EAD was one of the first financial institutions in Bulgaria to sign a guarantee agreement with the European Investment Fund (EIF) under the Pan-European Guarantee Fund in Response to the Covid-19 pandemic in May 2021 for direct financing of small and medium-sized enterprises under eased conditions with an EIF guarantee.

According to the signed agreement, the guaranteed portfolio amounts to up to EUR 20 million, the EIF covers up to 70% of the loss at the level of individual exposure. In January 2022, an additional agreement was signed with the EIF, according to which the deadline of the guarantee program was extended to 30.06.2022 and the maximum limits of state aid for individual sectors were also increased. At the end of June, the programme was extended until 31.12.2022.

As of 31.12.2022, a total of 132 lease contracts were concluded under the PEGF guarantee programme with 54 lessees with a total financed value of BGN 39,076 thousand. Only in 2022, under the PEGF guarantee programme, 104 new contracts were signed with 47 lessees with a total financed amount of BGN 33,201 thousand. The absorption period under the programme expired on 31.12.2022, and BDB Leasing realized the full volume of the approved limit under the programme.

In the 2nd quarter of 2022, BDB Leasing applied for two of the new guarantee programmes of the European Investment Fund (EIF) under the InvestEU Program, namely – Sustainability Guarantee and SME Competitiveness Guarantee. The procedure of review of the request and due diligence was completed within the first quarter of 2023. On 17.07.2023, a Guarantee Agreement was signed between EIF and BDB EAD under the InvestEU Programme, under which BDB Leasing EAD is a Participating Party. According to the agreement, BDB Leasing EAD has the opportunity to provide financing to final recipients, under eased conditions, for a period of two years from the date of the agreement.

3.2.8.4 Capital Investment Fund AD

In 2022 **Capital Investment Fund AD** reviewed 98 potential transactions for investments in equity instruments of developing companies, and a preliminary screening of 16 transactions was carried out. A shareholder agreement was signed and funds for equity investments were absorbed in 3 transactions, and as of 31.12.2022 one is under final approval (by the Board of Directors of CIF AD and the Management Board and Supervisory Board of BDB EAD). In the past 2022, CIF successfully exited the investment in M2 Prom AD – a contract for the purchase of shares was signed, under which the Fund sold all its available shares in the company in the amount of a total of 34% of its share capital.

3.3 FUNDING ATTRACTED

3.3.1 International financial institutions

BDB's policy is to attract mainly long-term resources to finance its lending activities and thus creates a natural balance between the maturity of the asset and the liability. Since its establishment, BDB has signed more than 35 credit agreements with 16 international institutions amounting to EUR 1,364 million.

Given the high liquidity of the Bank, in 2022, through the cooperation with international financial institutions, a Portfolio Guarantee Agreement with EIF under the Pan-European Guarantee Fund has a contribution to the development of the portfolio.

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

3.4 HUMAN RESOURCES

For the successful implementation of the set goals and the stable development of the teams in the BDB Group, it is essential to provide a favorable and effective working environment that stimulates the creative atmosphere, motivation and personal growth of employees. Over the past year, in a dynamic external and internal environment, the main priority in human capital management was attracting and hiring highly qualified specialists for the announced positions, providing appropriate trainings to master the necessary professional skills, developing potential and upgrading competencies.

The management of the BDB Group focused its attention on bringing teams together and receiving feedback on employee satisfaction and expectations by conducting an eNPS survey, external meetings with middle and high-level managers, as well as expert level. As an additional benefit, employees were provided with a larger amount of paid annual leave in order to motivate employees to increase their engagement and achieve optimal results in their work.

3.5 INFORMATION TECHNOLOGIES

The period 2020-2022 was extremely challenging in the context of the global COVID-19 pandemic. One of the main changes for the BDB Group EAD was a change of the working scheme from 100% attendance to a significant degree of remote working. The main focus of the IT teams was ensuring the work of all business functions and processes remotely and at the same time observing the highest level of information security.

The IT infrastructure is maintained with an up-to-date version of the antivirus software for the entire BDB Group EAD - ESET Protect and the Anti-malware platform. In BDB EAD is an updated solution for hardware and software monitoring of the overall environment - Axence Nvision.

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

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

Company migration projects were launched: NGF, CIF and BDB Microfinancing for migration to BrightOS (the system used by the Bank).

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

3.6 COMMUNICATIONS AND PUBLIC RELATIONS

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

In the second half of the year, the Bank's communication activity was focused **on the launch of the Business Booster digital platform**, **the new loan programme for energy efficiency** and on **the equity investments** of CIF in the companies "Econic One" and "Barin Sports".

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

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

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

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

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

4 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2022

4.1 ECONOMIC ENVIRONMENT

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

In 2022, the real growth of Bulgaria's gross domestic product reached 3.4% with an expected growth of 2.9% in the autumn forecast of the Ministry of Finance (MF). Higher growth is due to increase in consumption. Expectations for a slowdown in the growth of consumer spending in the second half of the year, due to the weaker growth of real disposable income, did not materialize.

From the last quarter of 2022, there is a downward trend in the annual Harmonised Index of Consumer Prices (HICP). From September 2022, when the highest value of inflation of 15.6% on an annual basis was recorded, it slowed down to 13.7% in February 2023. The slowdown of inflationary processes in the country is mainly due to the decrease in international prices of energy products and other raw materials.

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

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

4.2 BANKING SECTOR

In 2022, banks in Bulgaria carried out their activities in an environment of accelerated inflation and increased uncertainty in the economic environment. From mid-2022, the European Central Bank (ECB) began to tighten its monetary policy in order to control rising inflation. The interest rate on deposits at the ECB began to rise steadily and in 2022 it increased by 250 basis points. The Euribor value followed the same trend and reached its levels since 2007. This led to a similar rise in the Euribor value and added pressure to the European banking system.

Credit activity remains high in the conditions of the current strongly negative values of real interest rates and a high level of capital adequacy and liquidity in the banking system, which factors stimulate the demand and supply of credits, respectively. The rapid growth of credit volumes has a positive impact on the profitability of the banking sector.

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

The net interest income of banks increased by 17% on an annual basis (compared to an increase of 4.1% on an annual basis at the end of 2021) and as of December 2022 amounted to BGN 3.2 billion (EUR 1.65 billion) against the backdrop of increased credit activity during the year.

At the end of 2022, net fee and commission income increased by 15.2% year-on-year (up from 19.5% at the end of 2021) to BGN 1.4 billion. (EUR 731 million). As of 31 December 2022, the net profit of the banking system amounted to BGN 2.079 billion (EUR 1.063 million) at BGN 1.416 billion (EUR 724 million) in the previous year.

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

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

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

The influence of several regulations and regulatory requirements also has an impact on the performance of the banking sector. In October 2022, the BNB identified eight banks as other systemically important institutions (OSIIs), and the OSIIs buffer rates are in the range of 0.50%-1% effective as of 1 January 2023. The increase in the countercyclical capital buffer by the BNB from 1% to 1.5% as of January 2023 and the announced increase to 2%, effective from 1 October 2023, will also have an impact on capital indicators. The activity of the banking system in 2022 is also under the influence of banks' preparations for the upcoming introduction of the euro.

4.3 LEASE SECTOR

As of 31.12.2022, the receivables of the leasing companies under financial and operating leases totalled BGN 5,293 million against BGN 4,757 million as of 31.12.2021 - an increase of 15.7%. Receivables under financial lease contracts are BGN 4,937 million, which represents a growth of 13.5% - almost twice as large as compared to a year earlier. The share of receivables under finance lease contracts is 93% at the end of 2022. Receivables under operating lease contracts are BGN 355.8 million, with the latter increasing by 58% on an annual basis. The growth is mainly due to the increase in operating leasing of other assets, where there is an increase in the portfolio by BGN 108 million.

By type of asset at the end of 2022, the largest is the portfolio of receivables under lease contracts for cars with a share of 43.4% of receivables under financial leases compared to 41.7% as of 31.12.2021.

As of 31.12.2022, the net value of receivables under finance lease contracts for trucks and vans was 25.09%, which is a decrease compared to the previous year, when it was 30%. The portfolio of receivables under contracts for financial lease of machinery, equipment and industrial equipment as of 31.12.2022 is BGN 1,372 million (27.8% of receivables under financial lease). This is an increase of 34% compared to 31.12.2021. As of 31.12.2021, the share of real estate in financial lease contracts was 2.45%, others – 1.14%.

The main part of the clients of the leasing companies are non-financial commercial companies - by the end of 2022, the volume of receivables under leasing contracts with commercial companies is BGN 3,996 million - 81% of all receivables under financial leasing contracts. The portfolio of receivables under lease contracts with individuals registered a growth of 14.6% (BGN 135 million) - the total portfolio as of 31.12.2022 was BGN 924 million.

The non-serviced receivables in the portfolios of the lease companies remained unchanged as a percentage of the total receivables under the lease contracts - 2%, increasing in absolute value by BGN 14 million.

The sector development is directly related to the development of sectors that traditionally use lease financing - transport, construction, agriculture, processing industry. Expectations are for a moderate growth of the total amount of receivables under lease contracts in the medium term.

5 OVERVIEW OF ACTIVITY AND SELECTED FINANCIAL INFORMATION

5.1 OPERATING RESULTS OF BDB GROUP

5.1.1 Comprehensive income

BDB Group continues to actively pursue its objectives, maintaining high levels of liquidity and capitalization.

Consolidated Statement of comprehensive income for 2022

	2022	2021	YoY change
Net interest income	63,482	61,353	3.5%
Net fee and commission income	3,005	3,034	(1.0%)
Net income on foreign exchange deals	524	426	23.0%
Net (loss)/gain on financial assets at fair value through other comprehensive income	(851)	1,101	(177.3%)
General and administrative expenses incl. depreciation and amortization	(34,502)	(34,490)	-
Other income from the activity	2,092	730	186.6%
Operating profit before impairment and provisions	33,750	32,154	5.0%
Expenses for impairment and provisions of non-financial assets and financial instruments	(7,065)	(187,223)	96.2%
Gain / (Loss) before tax	26,685	(155,069)	117.2%
Income tax benefit / (expense)	29	(186)	115.6%
Net profit /(loss) for the year	**26,714**	**(155,255)**	**117.2%**
Actuarial gains on defined benefits plans, net of taxes	172	11	1,463.6%
Net change in fair value of equity financial assets at fair value through other comprehensive income	11,062	11,499)	196.2%
Net change in fair value of debt financial assets at fair value through other comprehensive income	(39,544)	(3,014)	(1,212.0%)
Total comprehensive income	**(1,596)**	**(169,757)**	**99.1%**

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

The interest income for the financial year 2022 amounted to BGN 82,351 thousand (for 2021: BGN 80,076 thousand), reporting a moderate growth of 2.8%, mainly due to the increased interest income from deposits provided in other banks, as well as to the higher interest income from customers maintaining large account balances, which compensate for the reduced volume of receivables in the Bank's direct loan portfolio.

In the past 2022, interest expenses in the Bank's financial statements increased by a minimum of 0.8%, reaching BGN 18,869 thousand compared to BGN 18,723 thousand for the respective period in 2021. This annual change is due to the increased cost of the funding due to the increased market levels of interest rates. Similar to 2021 the greater part of 2022 was highlighted by negative interest rates.

As a result of the realized interest income and expenses in 2022, net interest income reported was 3.5% higher compared to 2021, its value amounting to BGN 63,482 thousand (for the financial year 2021: BGN 61,353 thousand).

Fee and commission income for the twelve months of 2022 amounted to BGN 6,715 thousand and increased by 6.9% compared to the same period of 2021. The net result of accrued fees and commissions for 2022 was positive and amounted to BGN 3,005 thousand, almost without changes compared to the net income in the amount of BGN 3,034 thousand for the same period in 2021. The result is mainly influenced by the increased revenues under agent commissions on portfolio COVID-19 guarantees for legal entities, as well as by the decreased expenses for agent commissions for co-management to commercial banks in connection with the portfolio guarantees issued under the guarantee programme for guaranteeing interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic.

For the financial year 2022, a net loss on financial assets measured at fair value through other comprehensive income of BGN 851 thousand was realised. For the previous year, a gain on sale of financial instruments measured at fair value through other comprehensive income of BGN 1,101 thousand was reported.

In 2022, general and administrative expenses and depreciation and personnel costs amounted to BGN 34,502 thousand and stood at same level compared to the costs for 2021 (2021: BGN 34,490 thousand). According to NSI data, the reported average annual inflation (HICP) as of 31.12.2022 is 13.0%, with which the Bank Group actually accounts for savings in realized general and administrative expenses. Compared to the planned expenditure levels in the budget of the BDB Group for 2022, savings have also been reported.

At the end of 2022, the amount of costs for the period is below the planned levels in the Bank's budget for 2022.

In 2022 the Bank once again reported a negative result from accrued impairments and provisions of loans, receivables and off-balance-sheet commitments – a net expense of BGN 7,065 thousand. For comparison, for the same period of the previous 2021, the Bank reported a net impairment expense and provisions of loans, receivables and off-balance-sheet commitments amounting to BGN 187,223 thousand. The reported negative result for 2022 is determined by both: (1) reintegration of provisions on off-balance-sheet commitments – portfolio guarantees issued to commercial banks under the two guarantee programmes – "Programme to guarantee interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic" and "Programme to support the liquidity of enterprises affected by the emergency situation and the COVID-19 epidemic", with which the Bank has been mandated by the Government of the Republic of Bulgaria to provide financial assistance to support the economy and to overcome the consequences of the pandemic, as well as by (2) the accrued impairment costs to cover expected credit losses in the Bank's portfolio.

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

The financial result of the Bulgarian Development Bank EAD for 2022 is an after-tax profit of BGN 26,714 thousand and a reported loss for 2021 after taxes amounting to BGN 155,255 thousand.

5.1.2 Financial position

As of 31 December 2022, the BDB Group’s assets amounted to BGN 3,030,553 thousand, or a decrease of 7.3% compared to the previous year. The main elements of the statement of financial position are presented in the table below.

Consolidated statement of financial position as at 31.12.2022 and 31.12.2021 of BDB Group:

	As of 31.12.2022	As of 31.12.2021	YoY change
Assets			
Cash in hand and balances in current account with the Central Bank	527,924	243,635	116.7%
Receivables from Banks	139,420	385,348	(63.8%)
Financial assets at amortized cost, incl.	1,485,009	1,726,599	(14.0%)
Loans and advances to customers	1,449,701	1,695,802	(14.5%)
Receivables from the State Budget	23,537	18,817	25.1%
Securities	11,771	11,980	(1.7%)
Financial assets at fair value through other comprehensive income– debt and equity securities	638,753	728,430	(12.3%)
Net investment in financial lease	70,866	56,977	24.4%
Fixed assets	70,775	64,409	9.9%
Goodwill	23,745	-	100%
Other assets	74,061	63,541	16.6%
Total assets	**3,030,553**	**3,268,939**	**(7.3%)**
Liabilities			
Borrowings from international institutions	779,497	1,110,740	29.8%
Deposits from customers other than credit institutions	857,895	738,030	(16.2%)
Deposits from credit institutions	3,130	1,742	(79.7%)
Other borrowings	82,938	82,695	(0.3%)
Liabilities under finance and operating lease	90	345	(7.4%)
Other liabilities	152,901	189,678	19.4%
Total liabilities	**1,876,451**	**2,123,230**	**11.6%**
Equity			
Share capital	1,441,774	1,441,774	-
Accumulated loss	(195,293)	(388,300)	49.7%
Revaluation reserve on financial assets at fair value through other comprehensive income	(106,953)	(78,471)	(36.3%)
Reserves	14,574	170,706	(91.5%)
Total equity	**1,154,102**	**1,145,709**	**0.7%**
Total liabilities and equity	**3,030,553**	**3,268,939**	**(7.3%)**

5.2 LENDING ACTIVITY

5.2.1 Direct Lending

In 2022, the Bank continued to develop its activities, supporting the Bulgarian business by continuing to maintain diversification of the industry structure of its loan portfolio. Increased dynamics were observed in the relative shares in the loan portfolio of the following sectors and sub-sectors: increases for: Industry (+12%) and in particular "Industry - other manufacturing" (+ 44%); as well as decrease for "Trade" (-29%), "Transport" (- 26%), "Financial services" (-10%) and "Industry - Energy production and distribution" (-15%).

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

At the end of 2022, the loans and advances granted (financial assets reported at amortised cost – receivables from customers) amounted to BGN 1,449,701 thousand and registered a decrease of 14.5% (as of 31.12.2021: BGN 1,695,802 thousand). The decline is due to the decrease of the granted loans and advances (BGN 246,101 thousand), as the decrease in gross loans amounted to BGN 343,812 thousand (respectively of the impairments by BGN 97,711 thousand).

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

The financing of the Programme is carried out through the Bulgarian Development Bank. For this purpose, the Bank concludes trilateral contracts with the regional governors (representatives of the state) and the municipal mayors (proxies of the owners' associations). As of the end of December 2022 the total amount of the agreed funding under signed contracts amounts to BGN 1,977,438 thousand (compared to the end of 2021 – BGN 1,973,964 thousand). The objects for which special purpose financing contracts have been concluded with the Bank are a total of 2,022 (of which 1,885 buildings under NPEEMFRB and 137 buildings transferred from Energy Renovation of Bulgarian Homes (ERBH) Programme). Under the National Programme for Energy Efficiency of Multi-Family Residential Buildings by the end of 2022 the matured loans under which the Ministry of Regional Development and Public Works has transferred amounts to BDB AD are for 1,936 buildings. The utilized amount is BGN 1,949,190 thousand and gross receivables on loans under NPEEMFRB amount to BGN 23,598 thousand (as of 31.12.2021 – BGN 18,866 thousand). From the beginning of the Programme by the end of 2022, a total of BGN 1,950,374 thousand were repaid with funds from the state budget, which amount includes a principal repayment of BGN 1,926,314 thousand and interest paid on finalized contracts at the amount of BGN 24,060 thousand.

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

5.3 ANTI-COVID-19 GUARANTEE PROGRAMMES

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

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

At the end of 2022, BDB has issued guarantees for a total of BGN 403,208 thousand[3] by guaranteeing exposures under both programmes totalling BGN 715,979 thousand. (31.12.2021: BGN 649,663 thousand). For these programs, BDB adopted a special methodology for determining expected credit losses in view of the specifics of the programmes, the profile of customers and the structure of product-related commitments for cash inflows and outflows. The methodology is described in detail in the Bank's annual financial statements for 2022.

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

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

5.4 BORROWINGS FROM INTERNATIONAL INSTITUTIONS

The funding from international institutions at the end of 2022 accounted for 41.5% of the liabilities and amounted to BGN 779,497 thousand compared to BGN 1,110,740 thousand at the end of 2021. The decrease in 2022 amounted to BGN 331.2 million compared to the end of 2021 and was determined by scheduled repayments undersigned financial agreements, as well as a full early repayment of BGN 144.7 million to China Development Bank at the end of the period.

5.5 ACTIVITY OF THE GROUP IN TERMS OF MICROCREDIT THROUGH BDB MICROFINANCE EAD

In the period from 01.01.2022 to 31.12.2022, 103 new credit contracts were concluded for a total amount of BGN 8,318 thousand.

As of 31 December 2022, the active loan and lease portfolio of the company amounts to BGN 31,485 thousand presented at amortised cost after impairment and consists of 486 loan and lease transactions.

The amount of the assets of BDB Microfinancing as of 31 December 2021 stands at BGN 35,879 thousand.

The liabilities of the company at the end of 2022 amount to BGN 21,843 thousand and consist of BGN 21,500 thousand residual amount under a revolving credit line contract with Bulgarian Development Bank EAD, excluding residual amount under a loan agreement with Bulgarian Development Bank EAD, BGN 287 thousand liabilities to suppliers and other liabilities, lease liabilities in the amount of BGN 52 thousand and deferred tax liabilities in the amount of BGN 4 thousand.

The reported financial result for 2022 is positive – the profit before taxes amounts to BGN 1,794 thousand.

The total revenue of the company in 2022 amounts to BGN 2,271 thousand and the interest income amounts to BGN 2,106 thousand, which represents 93% of the total revenue.

5.6 ACTIVITY OF THE GROUP IN RESPECT OF GUARANTEE SCHEMES THROUGH NGF EAD

The National Guarantee Fund aims to provide guarantees for the benefit of small and medium-sized enterprises (SMEs), thereby facilitating businesses' access to finance.

5.6.1 Own risk guarantee schemes

The first guarantee scheme of the NGF - **Guarantee scheme 2009-2013**, launched in 2009, with loans able to be included until February 2013. Under the first guarantee scheme 11 contracts with commercial banks were signed. Under the scheme the NGF issues loan guarantees to SMEs of up to BGN 500 thousand investment and working capital loans, as well as bank guarantees. The maximum term of guarantees is up to 10 years, and the NGF approves the inclusion of loans in the guaranteed portfolio on a case-by-case basis. During the period of inclusion of loans in the guaranteed portfolio, NGF has approved guarantees of BGN 168,000 thousand on loans for BGN 391,000 thousand. A total of 2,471 enterprises were supported under the scheme.

As at 31 December 2022, the approved amount of guarantees included in the portfolios of partner banks amounted to BGN 614 thousand (2021: BGN 1,269 thousand) and the amount of the guaranteed debt is BGN 213 thousand. Deadline of validity of the guarantees - 31.01.2023. – 16.11.2027.

In March and April 2017, guarantee agreements totalling BGN 328,000 thousand were signed between NGF EAD and 10 commercial banks. **The guarantee scheme 2017-2018** is a prolongation of NGF 2015. The scheme guarantees up to 50% of the loan amount, but not more than BGN 1 million. Deadline for loans that can be guaranteed by this agreement, expired on 30 September 2018. Since the launch of the guarantee scheme until 31 December 2022, 3,000 SMEs have been supported, with a subsequent annexation of the total limit of funds granted to banks to include loans in the portfolio amounting to BGN 416,131 thousand. As at 31 December 2022, the approved amount of guarantees included in the portfolios of partner banks amounted to BGN 526 thousand and the amount of the guaranteed debt is BGN 501 thousand. Deadline of validity of the guarantees - 31.01.2023.

In the beginning of 2019, NGF started a procedure for selection of partner banks under a new **Guarantee scheme 2019-2020**. Eligible for inclusion are only new loans granted for investments and working capital. Under the scheme the NGF guarantees up to 50% of the amount of the loan but not more than BGN 1.5 million on the level of related parties. The term of inclusion of loans in the guarantee portfolio was until 30 September 2020. The guarantee is on portfolio basis and for amounts over BGN 500 thousand a preliminary written approval by the NGF is required. Under the guarantee scheme there is a maximum limit for payments for each guaranteed portfolio in the amount of up to 25%, and the NGF reserves the right to exclude loans from the guarantee portfolio, which are non-incompliant with the terms of the scheme. The banks pay a guarantee fee on the basis of achieved volumes and the borrowers are exempt from fees under the guarantees of the NGF. At the end of 2021 agreements were signed with 6 banks in a maximum amount in the guarantee portfolio of BGN 244,000 thousand. As of 31 December 2022, the approved amount of the guarantees included in the portfolios of the partner banks amounts to BGN 138,764 thousand and the amount of the guaranteed debt is BGN 108,796 thousand. The number of SMEs which have been supported is 1,341. Deadline of validity of the guarantees - 31.12.2024.

Guarantee scheme under the COSME Programme of the European Commission – in December 2016, an agreement was signed between the European Investment Fund (EIF) and National Guarantee Fund EAD (NGF EAD), by virtue of which another EUR 40 million was ensured for financing Bulgarian small- and medium-sized enterprises under the COSME Programme of the European Commission. The funds have been provided with the support of the European Fund for Strategic Investment (EFSI), on which the Investment Plan for Europe (the "Juncker Plan") is based.

EIF ensures a guarantee line of EUR 20 million, by which NGF will support an EUR 40 million financing to SMEs in Bulgaria that experience difficulties in ensuring collateral required. At 31 December 2022, NGF EAD has signed agreements with five financial institutions.

As of 31 December 2022, 484 loans amounting to BGN 87,315 have been guaranteed. The amount of the guaranteed debt according to book value as of 31 December 2022 is BGN 20,772 thousand. 444 SMEs were supported. Deadline of validity of the guarantees - 31.12.2032

5.6.2 Guarantee schemes for third-party risk – risk free guarantees

The guarantee program in support of beneficiaries under Operational Programme Fisheries Sector Development 2007 – 2013 (DFSOP) is a financial engineering instrument and a process for the issuance of guarantees to supplement the collateral on loans extended by banks to borrowers for the purpose of implementing projects approved under the following DFSOP measures:

Measure 1.3: Investments on board of fishing vessels and selectivity

Measure 2.1: Manufacturing investments in aquaculture

Measure 2.5: Inland fishing

Measure 2.6: Investments in the processing and marketing of fishery products and aquaculture

Measure 3.3: Investments in reconstruction and modernisation of fishing ports, landing sites and boat shelters.

And also under Priority axis 4: Sustainable Development of Fisheries Areas of projects of some of the beneficiaries under the Priority axes One, Two and Three and all beneficiaries under the Priority axis Four of DFSOP.

With the support of the scheme, projects valued at BGN 46,000 thousand were implemented, of which projects worth BGN 33,000 thousand were under measure 2.1 (79% of the measure's budget); under measure 2.6, projects worth BGN 12,000 thousand (77% of the measure's budget) were supported. Projects for BGN 500 thousand were supported under Measure 4.1. of Priority axis 4. 25 SMEs were supported. The book value of the guaranteed debt as at 31 December 2022 was BGN 137 thousand.

The guarantee scheme in support of beneficiaries under Rural Development Programme 2007 – 2013 (RDP) is a financial engineering instrument approved by the Eighth Amendment to the RDP and a process for the issuance of guarantees to supplement the collateral on loans extended by banks to borrowers for the purpose of implementing projects approved under Measure 121 Modernisation of Agricultural Enterprises, Measure 122 Improvement of the Economic Value of Forests, and Measure 123 Adding Value to Agricultural and Forestry Products of RDP of the Republic of Bulgaria (2007 – 2013).

As of 31 December 2022, applying a maximum amount of the guarantee coverage of 80%, NGF EAD has issued risk-free guarantees for the company and counter-guarantees on loans issued by partner banks for financing approved projects under the Rural Development Programme of the Republic of Bulgaria 2007-2013, amounting to BGN 185,606 thousand. The total amount of loans is BGN 238,112 thousand. The book value of the guaranteed debt as at 31 December 2022 was BGN 1,365 thousand.

The guarantee scheme in support of beneficiaries under Rural Development Programmes 2007-2013, 2014 – 2020, and enterprises operating in the sectors of Crop and Animal Production - Guarantee scheme - MAF 2016-2018, is a joint initiative with the MAF, which is implemented using funds released from the Guarantee Scheme under RDP 2007-2013 amounting to BGN 50 million. The issued guarantees by the NGF EAD under the programme are risk free for the company since the claims are paid at the expense of funds provided under the RDP. Under the guarantee scheme, agreements have been signed with 17 commercial banks and BDB Microfinancing EAD, a company within the BDB Group providing financing up to BGN 300 thousand.

In the first quarter of 2022 by decision of the Consultative committee of the programme the term for inclusion of loans in the guarantee portfolio, as well as the term of validity of the guarantees, has been extended. The deadline for inclusion of loans was changed to 30.06.2023 and the deadline for submitting payment requests by the partner banks is 28.02.2026.

As of 31 December 2022, by applying the maximum amount of the guarantee coverage of 50%, risk free guarantees for the NGF EAD, as well as counter-guarantees on loans, have been issued by partner banks for financing of approved projects under the Rural Development Programme of the Republic of Bulgaria 2014 - 2020 in the amount of BGN 122,736 thousand with total amount of loans BGN 247,209 thousand.

As of 31 December 2022, the guaranteed loans are 136 and the total amount is BGN 34,420 thousand. The book value of the guaranteed debt as at 31 December 2022 was BGN 17,416 thousand. The number of SMEs that have been supported is 357.

Guarantee scheme 2022

At the beginning of 2022, NGF EAD launched a procedure for selecting partner banks under the new guarantee scheme NGF 2022. Only newly granted loans for investment and turnover needs are eligible for inclusion. Under the scheme, NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1.5 million at related parties level. The deadline for including loans in the guaranteed portfolio is June 30, 2025. The guarantee is portfolio-based, and for amounts over BGN 500,000, prior written consent from NGF EAD is also required. Under the guarantee scheme, a maximum payment limit of up to 25% has been introduced for each guaranteed portfolio, and NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the terms of the scheme. Banks pay a guarantee fee based on the volumes achieved, and borrowers are exempt from fees under the guarantees from NGF EAD.

As of 31.12.2022, guarantee agreements were signed with Allianz Bank Bulgaria AD, Bulgarian-American Credit Bank AD, DSK Bank AD, First Investment Bank AD, United Bulgarian Bank AD, Municipal Bank AD, ProCredit Bank (Bulgaria) EAD. At the beginning of next year, agreements were concluded with "Eurobank Bulgaria" AD - 10.01.2023, "UniCredit Bulbank" AD - 08.02.2023. Maximum size of the guaranteed portfolio in the amount of BGN 629,000 thousand.

As of 31.12.2022, the approved amount of the guarantees included in the portfolios of the partner banks is BGN 9,041 thousand, and the amount of the guaranteed debt is BGN 8,949 thousand. 77 SMEs are supported. Deadline for guarantees - 30.06.2028.

Guarantee scheme 2022 - Leasing

At the beginning of 2022, NGF EAD launched a procedure for selecting partner banks under the new guarantee scheme NGF 2022 - Leasing. Only newly granted loans for investment and turnover needs are eligible for inclusion. The deadline for including loans in the guaranteed portfolio is December 31, 2023. Under the guarantee scheme, a maximum payment limit of up to 25% has been introduced for each guaranteed portfolio, and NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the terms of the scheme. Banks pay a guarantee fee based on the volumes achieved, and borrowers are exempt from fees under the guarantees from NGF EAD. According to this scheme, portfolio guarantee agreements have been concluded with "Eurobank Bulgaria" AD, "OTP Leasing" EOOD, "UniCredit Leasing" EAD.

As of 31.12.2022, the approved amount of the guarantees included in the portfolios of the partner banks is BGN 6,585 thousand, and the amount of the guaranteed debt is BGN 5,995 thousand. 116 SMEs are supported. Deadline for guarantees - 31.12.2028.

5.6.3 Financial result of NGF EAD

The financial result after taxes of the National Guarantee Fund for 2022 is profit in the amount of BGN 2,515 thousand.

Based on the results of the application of the risk assessment test on the guarantee portfolio as of the end of 2022, the management of the NGF EAD adopted that the coverage with the expected credit losses of the portfolio should be increased from 1.82 % for 2021 to 3.02 % for 2022, in relation to the commitment assumed by the NGF EAD. On the basis of the risk assessment on the guarantee portfolio, the allocated provisions ensure adequate coverage of the expected future losses.

The operating income of the Fund in 2022 amounts to BGN 3,434 thousand (21% decrease compared to 2021, taking into consideration the uncertainties regarding the spread of Covid-19 pandemic and the economic crisis), and is the result of two main sources:

- Interest income from the invested capital of the Fund in deposits and government securities in the amount of BGN 1,451 thousand;
- Income from commissions on issued guarantees amounting to BGN 1,942 thousand.

The main costs incurred by the Fund for its activity in 2022 are administrative expenses and depreciation/amortization expenses amounting to BGN 1,230 thousand.

During the period, positive net impairment of BGN 389 thousand on financial assets was reported. Also, positive result of expected credit losses on guarantee portfolios amounting to BGN 202 thousand was recognized.

5.7 THE GROUP'S ACTIVITY THROUGH BDB LEASING EAD

As of 31 December 2022, the assets of the company amount to BGN 77,070 thousand. The largest share is for the receivables under finance lease presented at net value after impairment is BGN 70,874 thousand, and there is an increase in the amount of total assets BGN 14,212 thousand compared to 2021.

As of 31.12.2022, two hundred and fifty-one (251) finance lease contracts were concluded with a total financed value of BGN 114,814 thousand (as of 31.12.2021 – BGN 77,830 thousand). From a total of 251 signed contracts, 227 are in the active leasing portfolio. Twenty four lease contracts with a financed value of BGN 13.5 million are in the process of delivery of the leased assets and as of 31.12.2022 do not appear in the leasing portfolio. Taking into account the assets in the process of delivery, the adjusted portfolio amounts to BGN 85 million.

The book value of receivables under lease contracts as at 31 December 2022 was BGN 70,874 thousand, VAT included, compared to BGN 56,778 thousand for 2021 – a growth of 25% was reached compared to 2021. The reported payments for delivery of lease assets amount to BGN 3,462 thousand, VAT excluded (2021: BGN 1,973 thousand).

BDB Leasing uses a revolving credit line amounting to BGN 70 million from the Bulgarian Development Bank EAD for financing its core activities. The loan contract was signed on 13.11.2019 with repayment deadline 30.10.2030.

The signed office rental contract and the leased car are stated as right-of-use assets under IFRS 16 Lease and as at 31 December 2022 their carrying amount is BGN 56 thousand (2021: BGN 109 thousand).

The liability amounts to BGN 57,295 thousand (2021: BGN 44,224 thousand) and includes BGN 56,642 thousand utilized portion under the loan contract from BDB, BGN 57 thousand liabilities under lease contracts, BGN 479 thousand payables to suppliers and customers, BGN 28 thousand provisions for off-balance sheet commitments and BGN 89 thousand other liabilities.

The total reported revenue in 2022 amounts to BGN 3,355 thousand and the main share of the revenue is interest income on lease contracts which is BGN 2,830 thousand (2021: BGN 2,014 thousand). The total reported general expenses amount to BGN 2,214 thousand.

The net financial result for the period ending 31 December 2022 is profit after taxation in the amount of BGN 1,141 thousand (2021 – negative financial result amounting to BGN 415 thousand).

5.8 THE GROUP'S ACTIVITY THROUGH CAPITAL INVESTMENTS FUND AD

As of 31.12.2022, the registered capital in the Company has been fully paid in.

For 2022 the financial result of the Fund's activity is a loss of BGN 493 thousand (2021: a loss in the amount of BGN 401 thousand).

For 2022 the Company reports total revenue at the amount of BGN 192 thousand formed mainly by revenue from fees and commissions (fees for review) in the amount of BGN 151 thousand and interest income on deposits - BGN 39 thousand.

The Fund's expenses for 2022 are in the total amount of BGN 685 thousand, as follows:

- general and administrative expenses at the amount of BGN 148 thousand - representing expenditure on administrative services (legal, accounting, information services and audit services), costs of economic and legal opinions, ongoing costs for bank commissions, costs of notarial fees;
- remuneration costs to personnel amounting to BGN 523 thousand.
- other operating expenses at the amount of BGN 14 thousand.

The total expenses of the Fund for the same period of 2021 amount to BGN 715 thousand of which the expenses for remuneration is BGN 626 thousand.

6 DEVELOPMENT STRATEGY OF THE BDB GROUP

BDB, together with its subsidiaries, form BDB Group. In preparing the strategy, the management of the Bank and the subsidiaries form common goals, as each company participates in its implementation according to its specialization. The strategy is prepared on a group basis and approved by the Council of Ministers.

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

The strategy of BDB EAD 2021 - 2023 was adopted by a decision of the Council of Ministers on 15 April 2021. In the early spring of 2021, a decision was taken for the Bank to return to its priorities set out in the BDBA and to focus its activities on the main target group - SMEs. The subsequent change in the Bank's management presented new strategic guidelines for operation and development. The current update of the Strategy for the remaining period until 2023 was adopted by a decision of the Council of Ministers on 29 July 2023 and summarizes and introduces the new moments.

With its activities, BDB follows three main **Strategic priorities**:

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

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

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

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

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

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

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

For the period, the BDB Group's activities will be consistent with the dynamics of business and the economy as a result of crises. The humanitarian and economic consequences of the war in Ukraine and the sanctions imposed on Russia negatively change the business situation.

The Group will strive to best respond to the demand and need of SMEs to finance and address negative economic effects by creating sustainable business models.

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

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

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

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

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

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

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

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

7 RISK MANAGEMENT

In the course of the ordinary activity, BDB Group is exposed to various financial risks, the occurrence of which may lead to losses and to deterioration of the financial stability of the Group. These risks are identified, measured, assessed and controlled using control mechanisms so that they can be managed and avoid the concentration of unjustified risk. The risk management process is important for the Group's profitability. The most significant risks, to which the Group is exposed, are credit, market, liquidity and operational risks.

In managing the various types of risk arising from its activity, the Group follows the conservatism, objectivity and full compliance with the current national and European regulations principles. In support of this policy, the Group maintains significantly higher levels of liquidity buffers and capital adequacy than the regulatory ones.

BDB EAD's Risk Management and Control Policy and the BDB EAD Group's Risk Strategy and Risk Appetite set out the goals and principles for managing the main risks identified in the activities of the Bulgarian Development Bank EAD, including risk appetite, strategies, risk framework, management organization, as well as the responsibilities for their measurement, control, management and reporting. The policy is applicable to the Bulgarian Development Bank EAD and its subsidiaries National Guarantee Fund EAD, BDB Microfinancing EAD, Capital Investment Fund AD, BDB Leasing EAD.

The management of BDB Group's main risks is described in details in the attached Declaration on Corporate Governance of the BDB Group.

7.1 CREDIT RISK

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

7.2 MARKET RISK

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

In managing interest rate risk, the BDB Group follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the frequency of change in interest on assets and liabilities, as well as a correlation between the applicable reference interest rates on assets and on the liabilities of the BDB Group. A system of limits for the maximum acceptable (quantitative) impact of various shock scenarios on the change in market interest rates on net interest income in a one-year horizon and the economic value of the BDB Group's capital has been introduced. The internal limit framework mitigates the potential risk on expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group.

The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement of the economic value of capital, analysis of discrepancies, interest rate stress scenarios.

The assumption of risks when transacting on the money and capital markets is managed by a system of limits reflecting the risk profile of the investments. These limits are determined according to parameters of the portfolio, like counterparty, financial instrument, maturity, etc. The system of limits is periodically reviewed, while the compliance with the limits is subject to daily monitoring. The securities portfolio, created by BDB Group in order to invest the available funds, is characterized by a relatively low interest rate risk and comprises government securities and securities issued by reliable institutions with high liquidity and credit quality. In 2022, BDB Group did not maintain a trade portfolio and was not subject to capital requirements for market risk from trading activities, in accordance with regulatory provisions.

7.3 LIQUIDITY RISK

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

The liquidity of BDB Group is managed by strictly monitoring the ratios, indicating the liquidity position by periods. The liquidity risk is measured by applying additional scenarios for the cash flows from operations. In addition, the liquid buffers of the Bank are measured and monitored, as well as the additional sources of financing upon market and idiosyncratic shocks. The main focus of liquidity management is to maintain an adequate level of high-quality assets and stable sources of financing in accordance with the established limits and restrictions set according to the risk tolerance of the BDB Group.

7.4 OPERATIONAL RISK

For operational risk management BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the BDB Group. The operational risk is managed by strictly monitoring and registering all operational events occurring in the activity of the various units as a result of the processes within the BDB Group identifying and managing the full range of operational risks. Operational events, which are more frequent, and the ones having great potential or real impact on the BDB Group's financial result, are subject to strict investigation and monitoring.

They serve as the basis for the analysis of the operational risk in various scenarios, including operational risk stress tests. The operational risk is measurable and controllable, while a registry of the operational events is maintained and used as basis for analysis and improvement of the BDB Group's working processes and for minimizing the conditions, which could potentially lead to operational events and loss for the BDB Group. When calculating the regulatory capital requirements for operational risk, the BDB applies the Basic Indicator Approach determined according to the applicable regulatory framework.

7.5 RECOVERY PLAN (DIRECTIVE 59/15.05.2014/EU)

BDB has developed a Recovery Plan of the BDB Group. Its latest update, was adopted by a decision of the MB under Protocol No 116/16.12.2022 and by a decision of the SB under Protocol No 68/20.12.2022. The Recovery Plan complies with the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Intermediaries, adopted in the middle of 2015, Guidelines on recovery plan indicators and technical recommendations on the definition of critical functions and key business lines (Technical advice on critical functions and core business lines) of the European Banking Authority (EBA).

The Recovery Plan addresses the systemically important/critical functions of the BDB Group and sets out the recovery indicators - a system of indicators the Bank observes with the aim of early identification of potential situations which could jeopardize the financial performance of the institution.

The prerequisites for the implementation of the recovery measures set out in the Recovery Plan are described. Scenarios and recovery options are considered which, in the event of activation of the Recovery Plan, can be taken, as well as the internal communication and decision-making process. A communication action plan has been elaborated in case of activation of the Recovery Plan.

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

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

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

The calculation of the indicators is carried out on a monthly basis and is provided to the Management as part of the package of management information. The units designated as responsible for the calculation and monitoring of individual indicators are the units that have the obligation to initiate an escalation in decision-making in the event of indications of a violation of the reference values.

8 CONTROL ENVIRONMENT

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

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

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

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

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

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

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

- The First Line of Defence covers risk management by business and risk-taking units - divisions Small and Medium-sized Enterprises, Project Financing, External Programs, Problem Receivables, Treasury and Financial Instruments. Their activities are supported by the divisions Legal, Loan Administration, Security, Finance, Operations and IFI and European Funds", that evaluate and analyse the implementation of internal and regulatory constraints and support the decision-making activity in taking and managing risks.

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

- The second line of defence provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk and Regulatory Compliance. Risk Division performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting their implementation in accordance with the approved escalation procedures. Compliance Division has two departments as follows: Regulatory Compliance and Control and Prevention of Money Laundering and Fraud. The Regulatory Compliance and Control Department is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB Group to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Department controls the prevention of money laundering and terrorist financing.

  The second line of defence is organizationally independent of the first and exercises preventive and ongoing control.

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

  The Internal Audit of the Group Division provides overall assurance from the position of the highest level of independence in the organization, through direct subordination of the Supervisory Board.

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

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

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

The Bank's Audit Committee informs the governing bodies of the Bank about the results of the statutory financial audit monitors the financial reporting processes, the effectiveness of the internal control environment, controls the creation and change of accounting policies by the Bank and subsidiaries of the Group in connection with the implementation of the audit of the consolidated financial statements of the Group; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the statutory audit of the annual financial statements (separate and consolidated); familiarizes itself with the audit strategy and audit plan of the statutory audit; monitors the implementation of the audit plan by providing recommendations to the Bank's management and auditors to remedy any difficulties; reviews the draft auditors' reports under art. 59 and art. 60 of the IFAA and the identified key audit matters, the findings made and the auditor's opinion expressed; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends its appointment; prepares an annual report and reports its activities to the sole owner of the capital once a year and other responsibilities detailed in the Statute of the Audit Committee.

9 BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN AND EUROPEAN LEGISLATION

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2022, BDB has complied with all regulatory requirements of the BNB and the Bulgarian legislation.

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

Effective 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by the BNB in close cooperation with the ECB.

The ECB's monitoring includes control on the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM). The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision. In 2020, the Bulgarian lev joined the Exchange Rate Mechanism II (ERM II) and together with the established close cooperation are a condition for Bulgaria's future membership of the Eurozone.

As of 1 October 2020, Bulgaria has joined the Single Resolution Mechanism and began close cooperation between the Bulgarian National Bank and the European Central Bank

In this regard, the Single Resolution Board has taken over the monitoring of the resolution planning process with regard to the Bank. European banking supervision, together with the Single Resolution Mechanism, are the two pillars of the EU Banking Union.

BDB's reported capital adequacy on a consolidated basis as at 31 December 2022 is 43.72% (31 December 2021: 36.04%). The values of asset coverage with capital buffers exceed many times the statutory levels. Respectively, the aggregated data for the capital adequacy banking system are: 20.88% (as of 31 December 2022) and 22.62% (as of 31 December 2021). BDB continues to maintain a good level of liquidity.

As of 31 December 2022, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the BDB Group is 283.6% (compared to a value of 473.9% at the end of 2021). For the banking system, the aggregated liquidity coverage ratio was 235.0% (as of 31 December 2022) and 274.1% (as of 31 December 2021).

As part of the Basel III regulatory framework, effective as of 28 June 2021, a 'net stable funding ratio' (NSFR) with a minimum regulatory requirement of 100% applies. The information about it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) with quarterly frequency, on an individual and consolidated basis. As of 31 December 2022, the aggregate level of NSFR for the banking system was 162.4% and for the BDB Group it was 127.4%.

10 INTERNATIONAL COOPERATION

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

The membership in international specialized associations allows BDB to take part in seminars and meetings with the European Commission and its Directorates.

BDB has been a shareholder in the European Investment Fund (EIF) since 2003. BDB purchased two new shares in the capital increase of EIF, bringing the total number of shares held to five shares.

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

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

In 2022, BDB continued its participation in the activities of the European Association of Long-Term Investors (ELTI). BDB is a co-founder of this organization.

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

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

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

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

11 GOVERNANCE OF THE BDB GROUP

11.1 BANK GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Valentin Mihov holds a Master's degree in International Economic Relations from the Moscow State Institute for International Relations and a Master in Business Administration from INSEAD. He has considerable experience in bank management. From 1999 to 2008 he was a consultant and junior partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany, and Russia.

Between 2008 and 2017 he held senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as at the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. From 2018, he advised banks and companies as a consultant or independent member of the Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

His professional biography goes through the Ministry of Economy and Energy and the Ministry of Labour and Social Policy. He has extensive expertise in areas such as public administration, European integration, EU strategies and programmes. Lecturer on topics such as cost-benefit analysis of large infrastructure, municipal and private projects, control of structural funds, financial instruments, etc.

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

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

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

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

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

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

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

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

His main responsibilities were related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2022, there are no concluded transactions or offers between BDB and related parties for concluding such transactions that are outside the usual activity or materially deviate from the market conditions to which BDB or its subsidiary is a party.

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

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

A participation, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31.12.2022 and the date of approval this report):

Members of MB and SB

I. With regard to members of the SB of the Bank, who participated in its composition in 2022 and as of the date of approval of this report:

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

Participation in the management of other companies: none

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

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

Participation in the management of other companies: none

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

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

Participation in the management of trade companies:

- First Ukrainian International Bank – Member of SB.

Participation in the share capital of commercial entities:

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

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

Participation in the management of trade companies:

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

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

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

Participation in the management of trade companies:

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

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

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

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

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

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

II. With regard to members of the MB of the Bank, who have participated in its composition in 2022and as of the date of approval of this report:

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

Participation in the management of other companies: none

Participation in the capital of commercial companies or cooperatives:

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

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

Participation in the management of other companies:

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

Participation in the capital of commercial companies or cooperatives:

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

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

Participation in the management of other companies:

- Capital Investments Fund AD, UIC: 205322014 – member of the Board of Directors – from 5 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – from 22 March 2023;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

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

Participation in the management of other companies:

- BDB Microfinancing EAD, UIC: 201390740 – member of the Board of Directors – from 23 June 2022 and Executive Director from 22 March 2023 to 26 July 2023

Participation in the capital of commercial companies or cooperatives: none

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

Participation in the management of other companies:

- BDB Leasing EAD, UIC: 205565411 – member of the Board of Directors - from 23 August 2021 to 17 March 2023;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 6 July 2022 to 17 March 2023;
- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

Participation in the management of other companies:

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

Participation in the capital of commercial companies or cooperatives:

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

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

Participation in the management of commercial companies:

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

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

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

11.1.4 AUDIT COMMITTEE IN 2022, AS OF 31 DECEMBER 2022 AND AT THE DATE OF APPROVAL OF THIS REPORT:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11.2 MANAGEMENT OF THE SUBSIDIARIES

As of 31 December 2022, and as at the date of approval of this report, BDB is the equity owner of the following subsidiaries:

Sole owner of:

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

Participates jointly with NGF AD in the capital of:

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

As of 31 December 2022, BDB exercises control over Cohofarm OOD[4], UIC 201807408, by virtue of exercised rights under the pledge of commercial enterprise. In 2021 the Bank acquired the main production assets of the company in the amount of approximately BGN 2.5 million. As of 31 December 2022, and as at the date of this report, the company does not own significant assets.

As of 31 December 2022, BDB also exercises control over Roadway Construction AD, UIC 205427809, as well as over its subsidiary Patstroyengineering AD, UIC 108001767 by virtue of exercised rights under a pledge of a commercial enterprise.

11.2.1 NATIONAL GUARANTEE FUND EAD (NGF)

NGF EAD has a one-tier management system - Board of Directors, consisting of four members. As at 31 December 2022 and at the date of approval of this report the BoD members are:

[4] Cohofarm OOD, Roadway Construction AD and Ponsstroyengineering AD are not part of the strategic business model of the financial group of BDB.

Board of Directors as of 31.12.2022	**Board of Directors as of the date of approval of the consolidated report:**
- Krum Georgiev – Chairman of the Board of Directors from 6 July 2022 to 17 March 2023 - Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors since 20 May 2020 - Zaharina Damyanova Todorova – Member of the Board of Directors since 20 May 2020 - Deyan Petrov Kalapchiev – Member of the Board of Directors since 27 September 2021	- Ivan Valentinov Cerovski - Chairman of the Board of Directors since 17 March 2023 - Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors since 20 May 2020 - Zaharina Damyanova Todorova – Member of the Board of Directors since 20 May 2020 - Deyan Petrov Kalapchiev – Member of the Board of Directors since 27 September 2021

The company is represented jointly by any two of the members of the Board of directors.

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

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

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

Ivan Valentinov Cerovski - Member of the Board of Directors since 17 March 2023

Participation in the management of trade companies:

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

Participation in the capital of trade companies and cooperatives:

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

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

Participation in the management of trade companies:

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

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

Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors of NGF since 20.05.2020

Participation in the management of trade companies:

- Glenridge Capital EOOD, UIC 205578775, managing director;
- Thracian Invest EAD, UIC 207223310 – Member of the Board of Directors.

Participation in the capital of trade companies:

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

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

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, Executive Director and Member of the Management Board from 14 April 2020 to 23 June 2022;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank – Member of the Board of Directors from 20 May 2020 to 23 August 2021.

Participation in the share capital of trade entities or cooperatives, including as general partner- none.

Zaharina Damyanova Todorova – Member of the Board of Directors of NGF since 20 May2020

Participation in the management of trade companies - none.

Participation in the share capital of trade companies - none.

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

Participation in the management of trade companies:

- G&L Properties OOD, UIC: 175172659, managing director until 21 September 2022;
- Capital Alliance EOOD, UIC: 175172627, managing director.

Participation in the share capital of trade companies:

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

11.2.2 BDB MICROFINANCING EAD

BDB Microfinancing has a one-tier management system - Board of Directors, consisting of three to five members. As at 31 December 2022 and at the date of approval of this report the BoD members are:

Board of Directors as of 31.12.2022	**Board of Directors as of the date of approval of this report:**
- Mariana Dimitrova Petkova – Chairman of the Board of Directors since 23.06.2022	- Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 22.03.2023
- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors since 20.05.2020	- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors since 20.05.2020
- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020	- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020
- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021	- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021

The company is represented jointly by the executive director and one of the members of the Board of Directors, and in the absence of the executive director - jointly by either two of the members of the Board of Directors.

Tsanko Rumenov Arabadzhiev - Member of the Board of Directors since 22 March 2023;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board and Executive Director since 7 July 2021
- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors since 5 August 2021

- BDB Factoring EAD, UIC 205566082 – Member of the Board of Directors from 16 September 2021 to 9 July 2022

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

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

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

Participation in the management of trade companies:

- IB Advisory OOD, UIC: 207399333, Managing Director;

Participation in the capital of trade companies:

- IB Advisory OOD, UIC: 207399333, partner.

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

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- ImmBera EOOD, UIC: 205983300, Managing Director
- SENMON EOOD, UIC: 202994314, Managing Director;

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- ImmBera EOOD, UIC: 205983300, sole owner of the capital;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

In 2022 and 2023 the following members participated in the Board of Directors:

Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors from 23 August 2021 until 23 June 2022.

Participation in the management of trade companies:

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

Participation in the capital of trade companies or cooperatives:

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

Mariana Dimitrova Petkova – Member of the Board of Directors from (from 23 June 2022 to 22 March 2023) and Member of the Board of Directors and Executive Director from 22 March 2023 to 26 July 2023.

Participation in the management of trade companies:

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

Participation in the capital of trade companies – none.

11.2.3 CAPITAL INVESTMENTS FUND AD (CIF)

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

CIF AD has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2022 and as at the date of approval of this report the Board of Directors consists of the following members.

Board of Directors:

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors since 20 August 2021;

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

Rusalin Stanchev Dinev – Member of the Board of Directors since 16 September 2022.

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

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

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

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

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

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

Participation in the management of trade companies:

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

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

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

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

Participation in the management of trade companies: none.

Participation in the capital of trade companies:

- RM FRUIT OOD, UIC 206485936, partner.

Rusalin Stanchev Dinev – Member of the Board of Directors since 16 September 2022

Participation in the management of trade companies:

- Barin Sports AD, UIC: 204332774 - Member of the Board of Directors;
- Eljoy AD, UIC: 206157003 - Member of the Board of Directors.

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

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

Participation in the management of trade companies:

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

Participation in the capital of trade companies:

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

11.2.4 BDB LEASING EAD

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

<u>Board of Directors:</u>

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

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

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

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

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

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

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

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

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

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

Participation in the management of other trade companies:

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

Participation in the capital of trade companies or cooperatives:

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

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

Participation in the management of other trade companies:

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

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

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

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

Participation in the management of trade companies

- Optima Asset 21 EOOD – sole owner of the capital

Participation in the capital of trade companies- none

Ivaylo Kirilov Popov – procurator since 1 June 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies - none.

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

11.2.5 BDB FACTORING EAD

BDB Factoring EAD had a one-tier management system - Board of Directors, consisting of three to five members, which until the company’s deletion on 9 July 2022 consisted of the following members:

Board of Directors:

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

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

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

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

Participates in the management of other trade companies:

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

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

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

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

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board from 7 July 2021 to 14 February 2023
- BDB Leasing EAD, UIC: 205565411 – Member of the Board of Directors from 23 August 2021 to 17 March 2023
- National Guarantee Fund EAD, UIC: 200321435 – Member of the Board of Directors from 6 July 2022 to 17 March 2023

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

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

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

12 TRANSACTIONS WITH COMPANIES UNDER JOINT CONTROL OF THE STATE

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

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

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

Decrease of capital of Bulgarian Development Bank EAD

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD from BGN 1,441,773,500 to BGN 1,135,500 000 and approved changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute were entered into the Commercial Register and the register of non-profit legal entities on 30 May 2023.

Change in the Management Board of Bulgarian Development Bank EAD

Please see section 2.2.1.2 of the activity report of Bulgarian Development Bank Group for 2022.

Changes in the Audit Committee of Bulgarian Development Bank EAD

Please see section 2.2.1.4 of the activity report of Bulgarian Development Bank Group for 2022.

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

Please see section 2.2.1.5 of the activity report of Bulgarian Development Bank Group for 2022.

Changes in the management bodies and statutes of subsidiaries:

BDB Microfinance EAD

Please see section 2.8.1 of the activity report of Bulgarian Development Bank Group for 2022.

BDB Leasing EAD

Please see section 2.8.2 of the activity report of Bulgarian Development Bank Group for 2022.

National Guarantee Fund EAD

Please see section 2.8.3 of the activity report of Bulgarian Development Bank Group for 2022.

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.

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.

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.

As of the date of this report, BDB and its subsidiaries have no exposures to the abovementioned banks.

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, cannot be reliably measured.

14 MANAGEMENT STATEMENT

The management of BDB declares that the attached consolidated annual financial statements accurately reflect the financial position and the operating results of the BDB Group including the financial result for the year ending 31 December 2022, in accordance with the legislation in force. An appropriate accounting policy has been applied consistently. When preparing the consolidated financial statements, the necessary estimates have been made, in accordance with the conservatism principle. Management consistently uses the applicable accounting standards, and the consolidated financial statements are drawn up on a going concern basis.

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

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

This consolidated activity report was adopted with Protocol no. 70 of the Management Board dated 29 September 2023 by the Management Board of Bulgarian Development Bank EAD and with Protocol no. 42 of the Supervisory Board of the Bank dated 29 September 2023, and was signed by:

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

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

APPENDIX 1: BDB GROUP CORPORATE GOVERNANCE STATEMENT

1 PRINCIPLES OF CORPORATE GOVERNANCE

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

2 THE BDB GROUP

As of the end of 2022, the financial group of Bulgarian Development Bank [5] (the "Group", the "BDB Group" or the "Financial Group") includes Bulgarian Development Bank EAD [6] ("BDB", the "Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), BDB Microfinancing EAD, Capital Investments Fund AD ("CIF") and BDB Leasing EAD ("BDB Leasing").

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

Bulgarian Development Bank EAD holds a license for an investment intermediary according to which it may provide investment services and perform investment activities under Article 6, paragraph 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, paragraph 3 of the MFIsA according to a granted license from BNB. The Bank does not provide investment services or perform investment activities under Article 6, paragraph 2, items 8 and 9 of the MFIsA - organisation of a multilateral trading facility and an organised exchange.

[5] As of the end of 2022 the Bank is the sole owner of TC Maritza EOOD. The company is not part of the strategic business model of the Financial Group of BDB.

In 2022, BDB acquired control over Roadway Construction AD ("Roadway") and its subsidiary Patstroyengineering AD ("Patstroyengineering") as a result of non-performance of a loan agreement and appointed a manging director of the company. In the financial statements of the Group as of 31 December 2023, the assets and liabilities of Roadway and Patstroyengineering are presented at fair value in the relevant items in the Group's statement of financial position. The net amount of these assets, reflected in the Group's statement of financial position as at 31.12.2022, is BGN 7,031 thousand.

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

2.1 BULGARIAN DEVELOPMENT BANK EAD (BDB, THE BANK)

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

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

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

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

As of 31 December 2022 the Bank had 233 employees.

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

On 4 June 2021 Bulgarian Development Bank was entered in the Commercial Register and Register of Non-profit Legal Entities as a sole joint stock company.

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

As of 31 December 2022, the capital of the Bank amounts to BGN 1,441,773,500. composed of 14,417,735 ordinary registered, dematerialized shares with voting rights, with a nominal value of BGN 100 each. BDB shares are not traded on a regulated market.

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

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

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

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

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

At the end of 2022, BDB has no obligations under existing or new securities issues.

As of 31 December 2022, there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group at the amount of 10% or more of equity.

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

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

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

The Bank also provides other types of loans, whereas the amount of the exposure to one client or a group of related clients, other than credit institutions, central governments and central banks, in line with the requirements and restrictions of Regulation 575/2013/EU, the acts on their implementation and the Statute of the Bank, after taking into account the effect of reducing credit risk in accordance with the procedure established by the Management Board of the Bank.

The Bank shall not form exposures on an individual and consolidated basis to one client or group of related clients, the total amount of which exceeds the amount of BGN 5 million. The restriction under the previous sentence shall not apply to exposures to subsidiaries of the Bank, other credit institutions, the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, development banks from Member States of the European Union and the cases in which the Bank carries out financial transactions, within its scope of activity, under programs specifically assigned by the Government of the Republic of Bulgaria and in certain cases to existing exposures.

The Bank does not lend funds to:

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

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

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

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

The largest credit exposure of the Bank to a group of related parties /other than bank institutions/ amounts to BGN 172,448 thousand (including BGN 135,530 thousand balance sheet debt, BGN 34,589 thousand for utilization and BGN 2,329 thousand guarantees) at amortised cost (31.12.2021: BGN 179,362 thousand), which represents 16.40% of Group's equity/eligible capital ratio according to Regulation 575/2013/EU (31.12.2021: 16.57%).

An analysis of the structure of the loan portfolio is provided in the consolidated financial statements of the Group and the separate financial statements of the Bank and its subsidiaries.

Considering the specific activity of the Group, the funds attracted from the biggest 20 non-bank depositors as of 31 December 2022 represent 72.58% of the total amount of Deposits from customers other than credit institutions (31 December 2021: 85.76%). The share of the biggest non-bank depositor of the total amount of Deposits from customers other than credit institutions is 29.90% (31 December 2021: 16.22%).

In 2020, the Council of Ministers assigned to the Bulgarian Development Bank EAD implementation of two programmes aimed at reducing the economic consequences of COVID-19 spread:

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

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

2.2 NATIONAL GUARANTEE FUND EAD (NGF)

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

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

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;

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

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

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

As of 31 December 2022, NGF had 11 employees.

As of 31 December 2022, NGF had no branches.

2.3 BDB MICROFINANCING EAD (BDB MICROFINANCING)

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

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

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

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

As of 31 December 2022, BDB Microfinancing EAD had 15 employees.

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

2.4 CAPITAL INVESTMENTS FUND AD (CIF)

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

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

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

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

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

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

As of 31 December 2022, CIF had 5 employees.

As of 31 December 2022, CIF had no branches.

2.5 BDB LEASING EAD (BDB LEASING)

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

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

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

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

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

As of 31 December 2022, BDB Leasing EAD had 12 employees.

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

2.6 BDB FACTORING EAD (BDB FACTORING)

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

3 BDB GROUP RISK MANAGEMENT

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

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

The “Risk Management and Control Policy of BDB EAD” and “Risk Strategy and Risk Appetite of BDB Group” set out the objectives and principles for managing the main risks identified in the activities of “Bulgarian Development Bank” EAD, including risk appetite, strategies, risk framework, management organization, as well as responsibilities for their measurement, control, management and reporting. The policy is applicable to Bulgarian Development Bank EAD and its subsidiaries National Guarantee Fund EAD, BDB Microfinancing EAD, Capital Investments Fund AD, BDB Leasing EAD.

3.1 MAIN RISKS /AS OF 31 DECEMBER 2022/

3.1.1 Credit risk of BDB Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.1.2 Market risks of BDB Group

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

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

In managing interest rate risk, the BDB Group follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the frequency of change in interest on assets and liabilities, as well as a correlation between the applicable reference rates on the assets and liabilities of the Group. Management and control of interest rate risk is carried out through a system of limits on the maximum acceptable (quantitative) impact of various shock scenarios concerning the change in market interest rates on net interest income on a one-year horizon and the economic value of the Group's capital.

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

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

The portfolio of securities formed by the BDB Group for the purpose of investing available funds is characterized by relatively low interest rate risk and relatively liquid government securities and securities issued by reliable institutions. In 2022, the BDB Group did not maintain a trading portfolio and was not subject to capital requirements for market risk from commercial activities, according to regulations in place.

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

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

3.1.3 Operational risk of the BDB Group

For operational risk management BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. The operational risk is managed by strictly monitoring and registering all operational events occurring in the activity of the various units as a result of the processes within the Bank identifying and managing the full range of operational risks. Operational events, which are more frequent, and the ones having great potential or real impact on the financial performance of BDB or the companies of the Group, are subject to strict investigation and monitoring. They serve as the basis for operational risk analyses in various scenarios, including when performing an operational risk stress test. Operational risk is measurable and manageable by maintaining an operating event log that serves as a basis for analysing and improving work processes and minimizing conditions that would potentially lead to operational events and losses for the Group.

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

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

3.2 STRUCTURE OF RISK MANAGEMENT

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

For the Parent Company (the Bank):

- **Supervisory Board** - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is supported by specialized committees as follows:
    - **Audit Committee (AC)** – the responsibilities of the AC with regard to risk include monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring the independent financial audit, making recommendations for the selection of a registered auditor and reporting to the Supervisory Board on all matters within its competence.
    - **Risk Management Committee (RMC)** - advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's propensity to take risks and supports the control of its implementation by senior management staff. The RMC regularly reviews information on the analysis, management, and control of risks, informing it of the overall risk profile, implementation of the risk restrictions, as well as the capital and liquidity position of BDB.
    - **Remuneration Committee** - prepares and proposes remuneration decisions, taking into account the impact on risk and its management, the long-term interests of shareholders, investors and other parties concerned.
    - **Recruitment Committee** – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity, and suitability assessment in "Bulgarian Development Bank" EAD and makes recommendations for a change in it.
- **Management Board (MB)** – is responsible for the general approach to risk management and approves strategies, principles and specific methods, techniques and procedures for risk management. The Management Board has the following ancillary bodies, which function as specialised committees:

- **Assets and Liabilities Management Committee (ALCO)** – it is responsible for the management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations; determines strategy for attracting funds, and the loan pricing approach respectively, in order to ensure adequate margin above the cost of the resource; makes decisions regarding the Bank's strategic liquidity in order to ensure regular and timely meeting of current and future obligations both in normal conditions and in a liquidity crisis; determines the structure of liquidity buffers and sources of additional financing.
- **Committee on Impairments and Provisions (CIP)** controls the process of monitoring, evaluating, and classifying financial instruments, determining expected credit losses and forming impairment.
- **Complaints and Signals Commission** – a body for dealing with complaints and signals submitted by employees of the Group. As of 1 April 2022, the functioning of the commission has been terminated, and a new Procedure for reporting irregularities was introduced in the BDB Group.
- **Credit Committee for classified exposures (former Legacy Credit Committee) –** is a collective body that has functions and powers in relation to exposures in the amount of over BGN 5 million to one party or a group of related parties, advises the Bank's Management Board by proposing draft decisions on issues within its competences, takes decisions on operational issues, outside the competences of the Management Board and the Supervisory Board.
- **Operational Risk Committee (RICO)** – the committee has been functioning since 23.04.2023. The purpose of RICO is to ensure an adequate operational level of risk monitoring and management by MB, to carry out effective identification, measurement, assessment and control of risks by MB and to create a sustainable organizational structure, in accordance with the principle of proportionality and the risk management framework in the BDB Group (the Bank and its subsidiaries).

- **Executive Directors and Members of the MB** - exercise current operating control on maintaining and observing the specified limits for the particular types of risk and the application of the established procedures;
- **Risk Management Division -** provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks. The Division carries out activities related to identification, management, measurement, risk control and reporting, stress tests, monitoring limits and reporting their implementation in accordance with established escalation procedures, as well as providing opinions on risk management proposals and solutions for their compatibility with the Bank's risk tolerance;

- **Regulatory Compliance Division** – there are two separate departments within Regulatory Compliance Division as follows: Regulatory Compliance and Control and Money Laundering and Fraud Prevention. Money Laundering and Fraud Prevention Department supervises the prevention of money laundering and terrorist financing. Regulatory Compliance and Control Department is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in BDB to the current and future changes. In accordance with the Rules and Procedures for Compliance Regulation at Bulgarian Development Bank the Regulatory Compliance and Control Department provides information to the Management of BDB through regular compliance reports to the Management Board/Supervisory Board. If deficiencies are identified, it proposes remedy measures and drafts progress reports on their implementation. The internal regulatory documents at Group level are agreed by the Regulatory Compliance and Control Department, thus limiting the possibility of potential conflict with the applicable regulatory framework.
- **Finances Division** – performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, including risks at operational, business, reporting and strategic level;
- Business units that take a risk apply the established rules and procedures for the management of risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation, and informed decision-making. Their activities are supported by the divisions Legal, Credit Administration, Security, Finances, Operations and Microfinancing and European Funds.

For the subsidiary National Guarantee Fund EAD:

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

- Management Board of BDB EAD (the parent company) - performs overall supervision on risk management;
- Board of Directors - carries out overall risk management supervision; being responsible for overall risk management approach and for approval of risk management strategies, principles and the specific methods, techniques and procedures;
- Committee on Provisions - analyses the guaranteed portfolios in terms of overall credit risk management for the total guaranteed portfolio, as well as of each guarantee deal and beneficiary of the guarantee itself;

- Risk and Monitoring Division - performs general monitoring with respect to the guaranteed portfolios by carrying out inspections (current and after a claim for payment has been filed) of the commercial banks regarding the fulfilment of the terms and conditions of their guarantee agreements at the level of both the separate client and individual portfolio. The Division also identifies, assesses, monitors and applies measures for limiting the impact of the major risks.

For the subsidiary BDB Leasing EAD:

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

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

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

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

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

For the subsidiary BDB Microfinancing EAD:

The main units directly responsible for risk management are:

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

For the subsidiary Capital Investments Fund AD:

The main units directly responsible for risk management are:

<u>Board of Directors – the responsibilities include:</u>

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

<u>Risk Manager:</u>

- Carries out capital risk assessment and control of all rules and procedures related to the investment process and capital risk management;

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

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

4 BANKING REGULATORS UNDER BULGARIAN AND EUROPEAN LEGISLATION

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As of 31 December 2022, BDB has complied with all regulatory requirements of BNB and the Bulgarian legislation.

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

Effective from 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by BNB in close cooperation with the ECB.

ECB's monitoring includes monitoring the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM). The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision.

In 2020, the Bulgarian Lev joined the exchange rate mechanism II (ERM II) and together with the established close cooperation are a precondition for Bulgaria's future membership of the Eurozone.

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

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

BDB's reported capital adequacy on consolidated basis as at 31 December 2022 is 43.72% (31.12.2021: 36.04%). The values of asset coverage with capital buffers exceed many times the statutory levels. Respectively, the aggregated data for the capital adequacy banking system are: 20.88% (as of 31.12.2022) and 22.62% (as of 31.12.2021). BDB continues to maintain a good level of liquidity.

As of 31.12.2022, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the BDB Group is 283.6% (compared to a value of 473.9% at the end of 2021). For the banking system, the aggregated liquidity coverage ratio was 235.0% (as of 31.12.2022) and 274.1% (as of 31.12.2021).

As part of the Basel III regulatory framework, effective as of 28 June 2021, a 'net stable funding ratio' (NSFR) with a minimum regulatory requirement of 100% applies. The information about it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) with quarterly frequency, on an individual and consolidated basis. As of 31 December 2022, the aggregate level of NSFR for the banking system was 162.4% and for BDB EAD Group it was 127.4%.

5 CONTROL ENVIRONMENT

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

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

- management control;
- risk control;
- reporting and information; and
- internal audit.

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

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

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

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

- <u>The first line of defence</u> covers risk management by business and risk-taking units - divisions Small and Medium-sized Enterprises, Project Financing, External Programs, Problem Receivables, Treasury and Financial Instruments. Their activities are supported by the divisions Legal, Credit Administration, Security, Finance, Operations and MFI and European Funds, which evaluate and analyse the implementation of internal and regulatory constraints and support the decision-making activity in taking and managing risks.

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

- <u>The second line of defence</u> provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk and Regulatory Compliance. Risk Division performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting their implementation in accordance with the approved escalation procedures. Compliance Division has two departments as follows: Regulatory Compliance and Control and Prevention of Money Laundering and Fraud. The Regulatory Compliance and Control Department is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB Group to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Department controls the prevention of money laundering and terrorist financing.

The second line of defence is organizationally independent of the first and exercises preventive and ongoing control.

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

The Internal Audit of the Group Division provides overall assurance from the position of the highest level of independence in the organization, through direct subordination of the Supervisory Board.

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

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

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

The Bank's Audit Committee informs the governing bodies of the Bank about the results of the statutory financial audit monitors the financial reporting processes, the effectiveness of the internal control environment, controls the creation and change of accounting policies by the Bank and subsidiaries of the Group in connection with the implementation of the audit of the consolidated financial statements of the Group; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the statutory audit of the annual financial statements (separate and consolidated); familiarizes itself with the audit strategy and audit plan of the statutory audit; monitors the implementation of the audit plan by providing recommendations to the Bank's management and auditors to remedy any difficulties; reviews the draft auditors' reports under art. 59 and art. 60 of the IFAA and the identified key audit matters, the findings made and the auditor's opinion expressed; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends its appointment; prepares an annual report and reports its activities to the sole owner of the capital once a year and other responsibilities detailed in the Statute of the Audit Committee.

6 MANAGEMENT OF BULGARIAN DEVELOPMENT BANK EAD

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

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

6.1 SUPERVISORY BOARD OF BDB IN 2022, AS OF 31.12.2022 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

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

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

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

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

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

Stamen Yanev holds a Master's degree in Law from Sofia University St. Kliment Ohridski. He specialized in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Mr. Yanev is a lawyer specialized in the field of mergers and acquisitions, and investments.

His professional path passes through major international consulting companies, including the Bulgarian divisions of some of the four largest audit firms in the world.

Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

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

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

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

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

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

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

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

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

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

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

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

- Risk Management Committee – comprising three members, the chairman and the members of the Committee are members of the Supervisory Board of BDB. The RMC advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's risk appetite and assists its senior management in monitoring its implementation; examines, independently of the Remuneration Committee, whether the incentives set by the remuneration system take into account risks, capital, liquidity, as well as the probability of realising planned revenues and their distribution over time; submits to the Supervisory Board and/or the Management Board proposals for adjusting the pricing of the Bank's products when the price is not an adequate reflection of the business model and the risk strategy; periodically reviews risk management policies and makes recommendations to the Board of Directors if necessary; approves proposals approved by the Management Board for limits/restrictions and policies for risk management inherent in the Bank's activities; regularly reviews information related to risk analysis, management, and control, thus getting acquainted with the overall risk profile, the implementation of risk limits, as well as the capital and liquidity position of BDB; supervises the implementation of capital and liquidity management strategies, as well as all other relevant risks of the Bank, such as market, credit, operational risks (including legal and IT) and reputational risks, in order to assess their adequacy to the approved risk appetite and strategy; determines the nature, volume, form and frequency of the information about the Bank's risk profile, which should be provided to the RMC; provides advice on the appointment of external consultants that the Supervisory Board may decide to engage for advice or support; reviews a number of possible scenarios, including adverse scenarios, to assess how the Bank's risk profile would react to external and internal events; monitors consistency between all significant financial products and services offered to customers and the business model and risk strategy of the Bank; assesses the recommendations of internal or external auditors and follow up on the appropriate implementation of the measures taken; provides recommendations to the Supervisory Board on the necessary adjustments to the risk strategy arising from changes in the Bank's business model, market developments or recommendations made by risk management;
- Audit Committee - composed of three members, elected by the sole owner of the Bank's capital. The Audit Committee notifies the management bodies of the Bank of the results from the statutory audit, oversees the financial reporting process, oversees the effectiveness of internal control environment, oversees the establishment and change of accounting policies by the Bank and the Group's subsidiaries in relation to the audit of the consolidated financial statements of the Group; monitors the timely and reliable provision of financial information by subsidiaries

in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the internal audit' annual report on the activity; monitors the mandatory audit of the annual financial statements (separate and consolidated); gets acquainted with the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management and auditors for elimination of difficulties; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act and identified key audit matters, findings and expressed audit opinion; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee;

- <u>Remuneration Committee</u> – comprising three members, the chairman and the members of the Committee are members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. The Remuneration Committee prepares and proposes remuneration solutions, taking into account the impact on risk and its management in the BDB Group, the long-term interests of shareholders, investors and other stakeholders; provides advice to the Supervisory Board on the structure of remuneration policy, which also includes advice on gender neutrality and equal treatment of employees of different sexes; assists the Supervisory Board in monitoring compliance with remuneration policies, practices and processes related to remuneration; verifies the relevance of the existing remuneration policy and, if necessary, makes proposals for changes; review the appointment and remuneration of external consultants that the Supervisory Board may decide to engage for advice or assistance; ensure the adequacy of the information provided to the sole owner of BDB's capital, respectively to the sole owner of the capital / general meeting of shareholders of the subsidiaries on remuneration policies and practices, in particular on the proposed higher level of the fixed versus variable remuneration ratio; evaluates the mechanisms and systems adopted to ensure that the remuneration system takes proper account of all types of risks, liquidity and capital levels and that the general remuneration policy is consistent and promotes sound and effective risk management and is in line with the business strategy, objectives, the corporate culture and values, as well as the long-term interests of the BDB Group; assesses whether the objectives of BDB Group's activities have been achieved, as well as the need for subsequent risk adjustment, including the application of deduction clauses and clauses for reimbursement of the amount of variable remuneration; reviews possible scenarios to verify how remuneration policies and practices respond to external and internal events, as well as the back-testing of the criteria used to determine remuneration and ex-ante risk-based adjustments based on actual risk outcomes; directly controls the remuneration of the heads of the Group's Internal Audit Division, the Risk Division and the Regulatory Compliance Division; makes recommendations to the Supervisory Board regarding the structure of the remuneration conditions and the amount of remuneration to be paid to the heads of the Group's Internal Audit Division, the Risk Division and the Regulatory Compliance Division;

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

The composition of the committees of the Supervisory Board as of 31 December 2022 and as of the date of approval of this declaration is as follows:

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

* Rosen Karadimov was elected Chairman of the Remuneration Committee on 25 January 2023.

6.2 AUDIT COMMITTEE IN 2022, AS OF 31.12.2022 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

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

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

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

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

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

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

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

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

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

Dragomir Vuchev has extensive experience in working with fast-growing businesses – both in the financial sector and in other industries, including in the healthcare sector, where he has worked as CFO.

He gained considerable expertise in consulting services, working for over 17 years for KPMG Bulgaria, where he has headed the Professional Practice Department for the Balkans, dealing with complex IFRS cases and internal training. He participated in the preparation of the exams for the Institute of Certified Public Accountants.

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

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

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

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

6.3 BDB MANAGEMENT BOARD IN 2022, AS OF 31 DECEMBER 2022 AND AS OF THE DATE OF THIS DECLARATION:

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

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

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

His professional biography goes through the Ministry of Economy and Energy and the Ministry of Labour and Social Policy. He has extensive expertise in areas such as public administration, European integration, EU strategies and programmes. Lecturer on topics such as cost-benefit analysis of large infrastructure, municipal and private projects, control of structural funds, financial instruments, etc.

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

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

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

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

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

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

Tsanko Rumenov Arabadzhiev – member of the MB and executive director from 7 July 2021

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

His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc.

Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

<u>In 2022, the following members also participated in the composition of the Management Board:</u>

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

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

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

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

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

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

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions.

He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of non-performing loans.

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

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

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

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

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

6.4 COMMITTEES OF THE MANAGEMENT BOARD

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

- Assets and Liabilities Management Committee (ALCO) – it is responsible for the management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations; determines strategy for attracting funds, and the loan pricing approach respectively, in order to ensure adequate margin above the cost of the resource; makes decisions regarding the Bank's strategic liquidity in order to ensure regular and timely meeting of current and future obligations both in normal conditions and in a liquidity crisis; determines the structure of liquidity buffers and sources of additional financing;
- Committee on Impairment and Provisions (CIP) controls the process of monitoring, evaluating, and classifying financial instruments, determining expected credit losses and forming impairment in accordance with the applicable financial reporting standards and internal regulations;

- Credit Committee for classified exposures (former Legacy Credit Committee) – is a collective body that has functions and powers in relation to exposures in the amount of over BGN 5 million to one party or a group of related parties, advises the Bank's Management Board by proposing draft decisions on issues within its competences, takes decisions on operational issues, outside the competences of the Management Board and the Supervisory Board;
- Complaints and Signals Commission – a body for dealing with complaints and signals submitted by employees of the Group. As of 1 April 2022, the functioning of the commission has been terminated, and a new Procedure for reporting irregularities was introduced in the BDB Group.
- Operational Risk Committee (RICO) – the committee has been functioning since 23.04.2023. The purpose of RICO is to ensure an adequate operational level of risk monitoring and management by MB, to carry out effective identification, measurement, assessment and control of risks by MB and to create a sustainable organizational structure, in accordance with the principle of proportionality and the risk management framework in the BDB Group (the Bank and its subsidiaries).
- Change Management Committee (CMC) - CMC was established by decision of the MB under Protocol No. 56/06.07.2023. CMC is a collective body of the Bank, which is an auxiliary structure to the Management Board and is responsible for supporting decision-making in the change management process. The committee meets once a month and in extraordinary times whenever it is convened by its chairman.
- Sustainability Committee - The Sustainability Committee is a collective body of the Bank, which is an auxiliary structure that was established on 13.07.2023 (according to Protocol No. 57/13.07.2023 of the meeting of the MB):

The usual functions of the Committee are as follows:

- Provide strategic guidance on issues of sustainable development, introduction of ESG system (principles and elements) and the related reporting activities;
- Advise the Bank's Management Board by making proposals on issues in the field of sustainable development and green lending;
- Monitor the implementation of the Bank's goals and policies in the field of sustainable development;
- Integrate the elements of sustainable finance and ESG in the business model, credit activity, strategic planning;
- Perform a periodic review and update of the degree of implementation of the selected sustainable development goals;
- Ensure introduction of rules and policies related to ESG in accordance with the requirements of the regulators;
- Introduce practices for green lending, etc.

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

MB Committees	**Assets and Liabilities Management Committee**	**Legacy Committee***	**Complaints and Signals Commission (terminated as of 1 April 2022)**	**Committee on Impairments and Provisions**
Mariana Petkova	Member	Chairperson	-	Member
Krum Georgiev	Member	Deputy Chairperson	-	Chairperson
Tsanko Arabadzhiev	Chairperson	Member	-	-
Head of Problem Receivables Division	-	Member	-	Member
Head of Risk Division	Member	Member	Member	Member
Head of Market, liquidity and operational risk Department, Risk Division	Member	-	-	-
Head of Legal Division	-	Member	Member	-
Head of Security Division	-	-	Member	-
Head of Finance Division	Member	-	Member	Member
Head of Internal Audit of the Group Division	-	-	Member	-
Head of Treasury Division	Member	-	-	-
Head of Corporate Clients Division	-	Member	-	Member
Head of Monitoring Department, Corporate Clients Division	-	Member	-	-
Head of Compliance Division	-	-	Chairperson**	-
Head of International Financial Institutions and European Funds Division	Member	-	-	-
Head of Financial Instruments Division	Member	-	-	-

* With a decision of the MB from 20 April 2023 Legacy Committee is transformed into Credit Committee for classified exposures

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

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

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

MB Committees	Operational Risk Committee (RICO)	Change Management Committee	Sustainability Committee	Assets and Liabilities Management Committee	Credit Committee for classified exposures*	Committee on Impairments and Provisions
Head of Treasury Division	Member	-	-	Member	-	-
Head of International Financial Institutions and European Funds Division	-	-	-	Member	-	-
Head of Legal Division	-	-	Member	-	Member	-
Head of Financial Instruments Division	Member	-	-	Member	-	Member
Head of Regulatory Compliance and Control Division	Member	-	-	-	-	-
Head of Security Division	Member	-	-	-	-	-
Head of Operations Division	Member	-	-	-	-	-
Head of Strategic development and green policies Division	-	-	Chairperson	-	-	-
Head of Project management and methodology Division	-	Chairperson	-	-	-	-
Head of Information Technology Division	-	Member	-	-	-	-

* Former Legacy Committee

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

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

In 2022, there are no concluded transactions or offers between BDB and related parties for concluding such transactions that are outside the usual activity or materially deviate from the market conditions to which BDB or its subsidiary is a party.

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

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

A participation, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31.12.2022 and the date of approval this declaration):

Members of MB and SB

I. With regard to members of the SB of the Bank, who participated in its composition in 2022 and as of the date of approval of this declaration:

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

Participation in the management of other companies: none

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

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

Participation in the management of other companies: none

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

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

Participation in the management of trade companies:

- First Ukrainian International Bank – Member of SB.

Participation in the share capital of commercial entities:

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

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

Participation in the management of trade companies:

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

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

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

Participation in the management of trade companies:

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

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

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

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

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

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

II. With regard to members of the MB of the Bank, who have participated in its composition in 2022and as of the date of approval of this declaration:

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

Participation in the management of other companies: none

Participation in the capital of commercial companies or cooperatives:

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

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

Participation in the management of other companies:

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

Participation in the capital of commercial companies or cooperatives:

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

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

Participation in the management of other companies:

- Capital Investments Fund AD, UIC: 205322014 – member of the Board of Directors – from 5 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – from 22 March 2023;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

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

Participation in the management of other companies:

- BDB Microfinancing EAD, UIC: 201390740 – member of the Board of Directors – from 23 June 2022 and Executive Director from 22 March 2023 to 26 July 2023.

Participation in the capital of commercial companies or cooperatives: none

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

Participation in the management of other companies:

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

- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 to 9 July 2022.

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

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

Participation in the management of other companies:

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

Participation in the capital of commercial companies or cooperatives:

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

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

Participation in the management of commercial companies:

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

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

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

7 MANAGEMENT OF SUBSIDIARY COMPANIES

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

Sole owner of:

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

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

As of 31 December 2022, BDB exercises control over Cohofarm OOD[7], UIC 201807408, by virtue of exercised rights under the pledge of a commercial enterprise. In 2021 the Bank acquired the main production assets of the company at the amount of approximately BGN 2.5 million. As of 31 December 2022, and the date of the present declaration, the company does not hold significant assets.

As of 31 December 2022, BDB exercises control over Roadway Construction AD, UIC 205427809 as well as over its subsidiary Patstroyengineering AD, UIC 108001767 by virtue of exercised rights under the pledge of a commercial enterprise.

7.1 NATIONAL GUARANTEE FUND EAD

NGF EAD has a one-tier management system - Board of Directors, consisting of four members. As at 31 December 2022 and at the date of approval of this declaration the BoD members are:

Board of Directors as of 31.12.2022	**Board of Directors as of the date of approval of this declaration:**
- Krum Georgiev – Chairman of the Board of Directors from 6 July 2022 to 17 March 2023 - Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors since 20 May 2020 - Zaharina Damyanova Todorova – Member of the Board of Directors since 20 May 2020 - Deyan Petrov Kalapchiev – Member of the Board of Directors since 27 September 2021	- Ivan Valentinov Cerovski - Chairman of the Board of Directors since 17 March 2023 - Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors since 20 May 2020 - Zaharina Damyanova Todorova – Member of the Board of Directors since 20 May 2020 - Deyan Petrov Kalapchiev – Member of the Board of Directors since 27 September 2021

The company is represented jointly by any two of the members of the Board of directors.

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

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

[7] Cohofarm OOD, Roadway Construction AD and Ponsstroyengineering AD are not part of the strategic business model of the financial group of BDB.

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

Ivan Valentinov Cerovski - Member of the Board of Directors since 17 March 2023

Participation in the management of trade companies:

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

Participation in the capital of trade companies and cooperatives:

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

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

Participation in the management of trade companies:

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

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

Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors of NGF since 20.05.2020

Participation in the management of trade companies:

- Glenridge Capital EOOD, UIC 205578775, managing director;
- Thracian Invest EAD, UIC 207223310 – Member of the Board of Directors.

Participation in the capital of trade companies:

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

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

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, Executive Director and Member of the Management Board from 14 April 2020 to 23 June 2022
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank – Member of the Board of Directors from 20 May 2020 to 23 August 2021

Participation in the share capital of trade entities or cooperatives, including as general partner- none.

Zaharina Damyanova Todorova – Member of the Board of Directors of NGF since 20 May2020

Participation in the management of trade companies - none.

Participation in the share capital of trade companies - none.

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

Participation in the management of trade companies:

- G&L Properties OOD, UIC: 175172659, managing director until 21 September 2022
- Capital Alliance EOOD, UIC: 175172627, managing director;

Participation in the share capital of trade companies:

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

7.2 BDB MICROFINANCING EAD

BDB Microfinancing has a one-tier management system - Board of Directors, consisting of three to five members. As at 31 December 2022 and at the date of approval of this declaration the BoD members are:

Board of Directors as of 31.12.2022	**Board of Directors as of the date of approval of this declaration:**
- Mariana Dimitrova Petkova – Chairman of the Board of Directors since 23.06.2022	- Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 22.03.2023
- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors since 20.05.2020	- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors since 20.05.2020
- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020	- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020
- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021	- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021

The company is represented jointly by the executive director and one of the members of the Board of Directors, and in the absence of the executive director - jointly by either two of the members of the Board of Directors.

Tsanko Rumenov Arabadzhiev - Member of the Board of Directors since 22 March 2023;

Participation in the management of trade companies:

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

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

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

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

Participation in the management of trade companies:

- IB Advisory OOD, UIC: 207399333, Managing Director;

Participation in the capital of trade companies:

- IB Advisory OOD, UIC: 207399333, partner.

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

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- ImmBera EOOD, UIC: 205983300, Managing Director
- SENMON EOOD, UIC: 202994314, Managing Director;

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- ImmBera EOOD, UIC: 205983300, sole owner of the capital;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

In 2022 and 2023 the following members participated in the Board of Directors:

Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors from 23 August 2021 until 23 June 2022.

Participation in the management of trade companies:

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

Participation in the capital of trade companies or cooperatives:

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

Mariana Dimitrova Petkova – Member of the Board of Directors from (from 23 June 2022 to 22 March 2023) and Member of the Board of Directors and Executive Director from 22 March 2023 to 26 July 2023.

Participation in the management of trade companies:

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

Participation in the capital of trade companies – none.

7.3 CAPITAL INVESTMENTS FUND AD

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

CIF AD has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2022 and as at the date of approval of this declaration the Board of Directors consists of the following members.

Board of Directors:

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors since 05 August 2021;

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

Rusalin Stanchev Dinev – Member of the Board of Directors since 16 September 2022

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

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

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

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

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

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

Participation in the management of trade companies:

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

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

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

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

Participation in the management of trade companies: none.

Participation in the capital of trade companies:

- RM FRUIT OOD, UIC 206485936, partner.

Rusalin Stanchev Dinev – Member of the Board of Directors since 16 September 2022

Participation in the management of trade companies:

- Barin Sports AD, UIC: 204332774 - Member of the Board of Directors;
- Eljoy AD, UIC: 206157003 - Member of the Board of Directors.

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

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

Participation in the management of trade companies:

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

Participation in the capital of trade companies:

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

7.4 BDB LEASING EAD

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

Board of Directors:

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

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

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

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

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

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

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

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

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

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

Participation in the management of other trade companies:

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

Participation in the capital of trade companies or cooperatives:

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

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

Participation in the management of other trade companies:

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

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

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

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

Participation in the management of trade companies

- Optima Asset 21 EOOD – sole owner of the capital.

Participation in the capital of trade companies – none.

Ivaylo Kirilov Popov – procurator since 1 June 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

7.5 BDB FACTORING EAD

BDB Factoring EAD had a one-tier management system - Board of Directors, consisting of three to five members, which until the company's deletion on 9 July 2022 consisted of the following members:

Board of Directors:

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

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

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

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

Participates in the management of other trade companies:

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

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

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

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

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board from 7 July 2021 to 14 February 2023
- BDB Leasing EAD, UIC: 205565411 – Member of the Board of Directors from 23 August 2021 to 17 March 2023
- National Guarantee Fund EAD, UIC: 200321435 – Member of the Board of Directors from 6 July 2022 to 17 March 2023

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

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

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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

8 TRANSACTIONS WITH COMPANIES UNDER THE COMMON CONTROL OF THE STATE

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

9 STRATEGY FOR DEVELOPMENT OF BDB GROUP AND BUSINESS GOALS

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

The strategy of BDB EAD 2021 - 2023 was adopted by a decision of the Council of Ministers on 15 April 2021. In the early spring of 2021, a decision was taken for the Bank to return to its priorities set out in the BDBA and to focus its activities on the main target group - SMEs. The subsequent change in the Bank's management presented new strategic guidelines for operation and development. The current update of the Strategy for the remaining period until 2023 was adopted by a decision of the Council of Ministers on 29 July 2023 and summarizes and introduces the new moments.

With its activities, BDB follows three main **Strategic priorities**:

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

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

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

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

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

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

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

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

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

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

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

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

As a state-owned development bank, BDB will continue to fulfil its countercyclical and anti-crisis role and to support sectors with liquidity problems. A significant part of enterprises and organizations overcame the initial negative effect of the corona crisis, but the accumulation of new crises – Russia's war in Ukraine and the disruption of supply chains and the subsequent rise in fuel and food prices, put new and prolonged pressure on their business. Insufficient reforms in most of the socially significant areas also contribute significantly to their poor condition.

In addition to its main mission as a support bank for SMEs, BDB will seek the opportunity to support with bridge financing socially critical activities such as healthcare, facilities for education (from kindergarten to professional education) and science, housing for vulnerable social groups and others.

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

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

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

10 SOCIAL RESPONSIBILITY AND DIVERSITY POLICY

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

10.1 ENTREPRENEURSHIP

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

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

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

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

10.2 CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

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

10.3 VULNERABLE GROUPS

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

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

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

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

This Corporate Governance Statement is updated as of 29.09.2023 and is signed by:

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

BULGARIAN DEVELOPMENT BANK GROUP

INDEPENDENT AUDITORS' REPORT AND

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2022

Unofficial translation from Bulgarian

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

INDEPENDENT AUDITORS' REPORT

To the sole owner of Bulgarian Development Bank EAD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Bulgarian Development Bank EAD (the "Parent bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Expected credit loss on loans and advances to customers	
The assessment of the expected credit losses from impairment of loans and advances to customers requires Group management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Group applies statistical models and separate analyses with input parameters obtained from internal and external sources. As disclosed in note 18 to the consolidated financial statements, the Group has recorded as at December 31, 2022 loans and advances to customers at the gross amount of BGN 1,698,359 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 248,658 thousand. Key assumptions, estimates and parameters in determining the expected credit losses on collective basis are related to development of quantitative and qualitative indicators for following up a significant increase in credit risk for allocation of the separate customers' credit exposures to phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with significant increase in credit risk, but without objective evidence for impairment and Phase 3: Exposures with existing objective evidence for impairment); for determining "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD), as well as for inclusion of information about future development of macro-economic factors in the context of various scenarios in determination of the estimates for expected credit losses. A high degree of uncertainty is inherent in the assessment of expected credit losses for loans and advances to customers assessed on collective basis and depends on whether the Group has sufficient historical information to test the assumptions used	During our audit, we obtained understanding of the processes for calculation of expected credit losses for loans and advances, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area. We assessed the adequacy of the methodology used by the Group to identify loan impairment and calculate impairment allowances on individual and portfolio basis. We tested the design, implementation and operating effectiveness of key controls management has established over the impairment assessment processes. The testing focused on controls related to: - timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages, - regular client creditworthiness review processes, - creation and regular review of watch-lists, - approval of experts' collateral valuation, - management review and approval of the impairment assessment results. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment based on the risk parameters resulted from the models. We evaluated appropriateness of impairment methodologies and their application. We performed detailed substantive procedures on a risk-based sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses

and calibrate the accuracy of the parameters PD and LGD in the impairment model. The determination of expected credit losses for loans and advances assessed on individual basis is also related to the application of significant estimates and assumptions by management, in particular on the timing and value of expected future cash flows under the exposure, including those from realisation of collateral. The current economic and geopolitical environment has increased the uncertainty regarding the economic outlook and has increased the complexity of assessing and monitoring customers' financial position, which requires an increased level of judgement when calculating the impairment of loans and advances. Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	and compared our assessment to the estimates applied by the Group. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We assessed the adequacy of the Group's assumptions and estimates related to the current economic and geopolitical environment on the assessment of expected credit losses and all aspects of the process of their determination. We involved auditors' experts in the areas which required specific expertise. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the measurement of loans and advances to customers.
Impairment of financial guarantee contracts related to COVID-19 pandemic response programmes	
The Parent bank is an issuer of financial guarantee contracts which require the Group to make certain payments in order to reimburse the holder of the guarantee for the loss he has suffered in the event that a debtor has not made a payment when it was due, in accordance with the initial or modified terms of a debt instrument. As of December 31, 2022 the Group measures financial guarantee contracts at the value of the loss allowance as determined in accordance with IFRS 9. The financial guarantee contracts issued by the Bulgarian Development Bank EAD under the COVID-19 pandemic response programmes are	During our audit, we obtained understanding of the processes for determining the expected credit losses from financial guarantee contracts applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process in order to design our further audit procedures in such way as to be able to address the identified risks of material misstatement related to the recognized expected credit losses from financial guarantee contracts. We assessed the adequacy of the methodology used by the Group to identify impairment losses and calculate expected credit losses from financial guarantee contracts.

credit risk guarantees that are analysed and impaired according to an impairment model developed by the Group, based on the present value of the expected future cash flows under the programs and taking into account their specifics. As disclosed in note 32 to the consolidated financial statements, the calculated provisions as of December 31, 2022 amount to BGN 127,215 thousand in total on loans to companies and on loans to individuals. The assessment of losses from financial guarantees requires the Group's management to apply a significant level of judgement, especially with regard to their quantification. Because of the significance of the assessment of the losses from the financial guarantees for the consolidated financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates, we identified expected credit loss from financial guarantees as a key audit matter.	We tested the design and implementation of key controls management has established over the impairment assessment processes for financial guarantee contracts. We have also reviewed the quality of the data used in the calculation of the expected credit losses and recomputed the impairment based on the parameters resulted from the models. We involved auditors' experts in the areas which required specific expertise. We performed detailed substantive procedures on all financial guarantee contracts in order to verify their proper classification and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the assumptions used in the calculation of impairment losses and compared our assessment to the estimates applied by the Group. We have considered the impact of the current economic conditions and other factors that may affect the expected credit losses. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the expected credit losses from financial guarantee contracts.

Information Other than the consolidated financial statements and Auditors' Report Thereon

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

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

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

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

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

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

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

Auditors' Responsibilities for the Audit of the consolidated financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

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

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

Based on the procedures performed, in our opinion:

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

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

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

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended December 31, 2022 by a decision of the sole owner taken on November 17, 2022 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2022 represents fourth total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and fourth total consecutive statutory audit engagement for the Group carried out by Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory joint audit refers, Deloitte Audit OOD (a company part of Deloitte network) has provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's consolidated report on the activities or consolidated financial statements:
  - Assurance services other than audit or review of historical financial information in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) related to expressing an opinion on the compliance with the requirements of the EU for the following items: internal control system, accounting system, independent statutory audit, public tenders, financial instruments, exclusion from access to financing, publishing information about the recipients, personal data protection, The period within the scope of the assessment is June 1, 2019 – May 30, 2020.

- For the period to which our statutory joint audit refers, Deloitte Audit OOD and Grant Thornton OOD jointly have provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's consolidated report on the activities or consolidated financial statements:
  - Professional services on the application of BNB Ordinance 10 for the period January 1 – December 31, 2022, in accordance with the requirements of the Law on Credit Institutions.

Deloitte Audit OOD

Deloitte Audit OOD

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

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

103, Al. Stambolijski Blvd.
1303 Sofia, Bulgaria

Grant Thornton OOD

Silvia Dinova
Registered Auditor, in charge of the audit

Mariy Apostolov
Statutory Manager

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

26, Cherni Vrah Blvd.
1421 Sofia, Bulgaria

September 29, 2023

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2022
All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	As of 31.12.2022	As of 31.12.2021
Assets			
Cash in hand and balances in current accounts with the Central Banks	16	527,924	243,635
Financial assets at amortized cost - Receivables from banks	17	139,420	385,348
Financial assets at amortized cost – Loans and advances to customers	18	1,449,701	1,695,802
Financial assets at amortized cost - Receivables from the State budget	19	23,537	18,817
Financial assets at amortized cost – Securities	20	11,771	11,980
Financial assets at fair value through other comprehensive income – debt instruments	21	538,535	657,649
Financial assets at fair value through other comprehensive income – equity instruments	21	100,218	70,781
Net investment in finance lease	22	70,866	56,977
Assets held for sale	26	2,569	4,521
Assets, acquired through collateral foreclosure	27	37,434	34,719
Investment property	25	7,759	7,189
Property, plant and equipment, intangible assets	24	70,775	64,409
Right-of-use assets	23	39	177
Current tax receivables	27	827	59
Deferred tax assets	14	12,407	9,710
Goodwill	40	23,745	-
Other assets	27	13,026	7,166
Total assets		**3,030,553**	**3,268,939**
Liabilities			
Borrowings from international institutions	30	779,497	1,110,740
Deposits from customers other than credit institutions	29	857,895	738,030
Deposits from credit institutions	28	3,130	1,742
Lease liabilities	33	90	345
Other borrowings	31	82,938	82,695
Provisions	32	141,256	182,050
Deferred tax liabilities	14	4	15
Other liabilities	34	11,641	7,613
Total liabilities		**1,876,451**	**2,123,230**
Equity			
Share capital	35	1,441,774	1,441,774
Current year profit/(loss)		26,714	(155,255)
Accumulated loss		(222,007)	(233,045)
Revaluation reserve on financial assets at fair value through other comprehensive income	36	(106,953)	(78,471)
Reserves	36	14,574	170,706
Total equity		**1,154,102**	**1,145,709**
Total liabilities and equity		**3,030,553**	**3,268,939**

The accompanying notes from 1 to 41 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 29.09.2023.

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

Auditors' report on the consolidated financial statements issued on 29 September 2023.

Deloitte Audit OOD, auditing company	Grant Thornton OOD, auditing company
Rositsa Boteva Statutory Manager Registered auditor in charge of the audit	**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

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

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	2022	2021
Interest income	6	82,351	80,076
Interest expense	6	(18,869)	(18,723)
Net interest income		**63,482**	**61,353**
Fee and commission income	7	6,715	7,209
Fee and commission expense	7	(3,710)	(4,175)
Net fee and commission income		**3,005**	**3,034**
Net income from foreign exchange transactions	8	524	426
Net (loss)/gain on financial assets at fair value through other comprehensive income	9	(851)	1,101
Other operating income	10	6,228	2,468
Other operating expenses	11	(4,136)	(1,738)
Operating profit before impairment, personnel expenses, administrative expenses, depreciation and amortisation		**68,252**	**66,644**
Net expenses on impairment of non-financial assets	12B	(5,431)	(665)
Net expenses on impairment of financial instruments	12A	(1,634)	(186,558)
Operating profit/(loss) personnel expenses, administrative expenses, depreciation and amortisation		**61,187**	**(120,579)**
Employee benefits	13A	(20,756)	(21,712)
General and administrative expenses	13B	(10,281)	(9,524)
Depreciation and amortisation expenses	23, 24	(3,465)	(3,254)
Profit/(loss) before income tax		**26,685**	**(155,069)**
Income tax benefit/(expense)	14	29	(186)
Net profit/(loss) for the year		**26,714**	**(155,255)**
Share of net profit/(loss) for the shareholders of the Parent bank		26,714	(155,255)
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 financial assets at fair value through other comprehensive income	15	11,062	(11,499)
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value of financial assets at fair value through other comprehensive income	15	(39,544)	(3,014)
Total other comprehensive income for the year, net of tax		**(28,310)**	**(14,502)**
Total comprehensive income for the year		**(1,596)**	**(169,757)**
Share of the total comprehensive income for the shareholder of the Parent bank		(1,596)	(169,757)

The accompanying notes from 1 to 41 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 29.09.2023.

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

Auditors' report on the consolidated financial statements issued on 29 September 2023.

Deloitte Audit OOD, auditing company

Rosítsa 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

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

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts are in thousand Bulgarian Leva, 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**	**87,185**	**82,442**	**(63,958)**	**(231,603)**	**1,315,840**
Comprehensive income for the period						
Loss	-	-	-	-	(155,255)	**(155,255)**
Other comprehensive income	-	-	11	(14,513)	-	(14,502)
Total comprehensive income	**-**	**-**	**11**	**(14,513)**	**(155,255)**	**(169,757)**
Other movements in equity	-	-	1,068	-	(1,442)	(374)
Total transactions with owners	**-**	**-**	**1,068**	**-**	**(1,442)**	**(374)**
As of 31 December 2021	**1,441,774**	**87,185**	**83,521**	**(78,471)**	**(388,300)**	**1,145,709**
Comprehensive income for the period						
Profit	-	-	-	-	26,714	26,714
Other comprehensive income	-	-	172	(28,482)	-	(28,310)
Total comprehensive income	**-**	**-**	**172**	**(28,482)**	**26,714**	**(1,596)**
Other movements in equity	-	(67,753)	(88,551)	-	166,293	9,989
Total transactions with owners	**-**	**(67,753)**	**(88,551)**	**-**	**166,293**	**9,989**
As of 31 December 2022	**1,441,774**	**19,432**	**(4,858)**	**(106,953)**	**(195,293)**	**1,154,102**

In 2022 and 2021 the Group has not distributed dividends to the shareholders.

The accompanying notes from 1 to 41 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 29.09.2023.

Iliya Karamkolov
Executive Director

Ivan Cerovski
Executive Director

Tsanko Arabadzhiev
Executive Director

Dimitar Mitev
Head of Finance Division

Ivan Lichev
Chief Accountant
Preparer

Auditors' report on the consolidated financial statements issued on 29 September 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

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

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	2022	2021
Cash flows from operating activities			
Profit/(loss) for the year before tax		26,685	(155,069)
Adjustments for:			
Dividend income	**10**	(127)	(75)
Impairment loss on loans	**12**	45,708	129,729
(Income from)/Expenses for guarantee provisions and unutilised credit commitments	**12**	(46,330)	54,561
Income from impairment of portfolio guarantees	**12**	(225)	(8)
Income from impairment of receivables from paid guarantees	**12**	(227)	(110)
Impairment losses and changes in the fair value of financial assets – securities at fair value through other comprehensive income	**12**	2,860	1,688
Impairment losses and changes in the fair value of financial assets – securities at amortized cost	**12**	61	42
(Income from)/Expenses for impairment on finance lease	**12, 22**	(203)	676
(Income from)/Expenses for impairment of subsidiaries	**12**	(13)	258
Loss/(Gain) on revaluation of investment properties	**10**	(869)	433
Impairment loss on other assets	**12**	277	-
(Gain)/Loss from sale of properties acquired through collateral foreclosure		(817)	407
Net loss/(gain) on revaluation of foreign currency assets and liabilities	**8**	22	(7)
Depreciation of right-of-use assets	**23**	-	93
Depreciation and amortisation expenses	**24**	3,465	3,161
Carrying amount of written-off assets		310	90
Other changes		21	(71)
		30,598	**35,798**
Changes in:			
Financial assets at amortized cost – Receivables from banks		243,576	57,382
Financial assets at amortized cost – Loans and advances to customers		34,736	3,232
Financial assets at amortized cost – Receivables from the State budget		(4,742)	39,007
Financial assets at fair value through other comprehensive income – debt and equity securities		48,097	(36,454)
Net investment in finance lease		(13,680)	(18,029)
Assets held for sale		(4,333)	(4,533)
Deposits from credit institutions		1,057	(6,436)
Deposits from customers other than credit institutions		112,395	(245,642)
Financial liabilities at amortized cost		(13)	47
Provisions		1,180	(238)
Other assets		(3,880)	13,526
Other liabilities		875	(974)
Income taxes refunded/(paid)		(48)	900
Net cash flows from/(used in) operating activities		**445,818**	**(162,414)**
Cash flows from investing activities			
Cash payments for acquisition of property, plant and equipment and intangible assets		(1,110)	(1,297)
Cash proceeds from sale of property, plant and equipment and intangible assets		3,981	143
Sale/(Purchase) of securities at amortised cost		(11)	981
Changes in securities at fair value through other comprehensive income		13,278	66
Changes in equity instruments at fair value through other comprehensive income		1,528	-
Proceeds from sale of investments in equity instruments		3,764	-
Investments in equity instruments		(13,691)	-
Net cash flows from/(used in) investing activities		**7,739**	**(107)**

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	2022	2021
Cash flows from financing activities			
Cash paid on other borrowings		(570)	(3,652)
Cash received from other borrowings		713	885
Cash paid on borrowings from international institutions		(331,243)	(128,164)
Proceeds from/(Payments for) leases		16	(13)
Other movements in equity and retained earnings		(1)	-
Net cash flows used in financing activities		**(331,085)**	**(130,944)**
Net (decrease)/increase in cash and cash equivalents		122,472	(293,465)
Cash and cash equivalents at the beginning of period	38	485,892	779,357
Acquired through business combination during the year	**40**	**980**	**-**
Cash and cash equivalents at end of period	**38**	**609,344**	**485,892**
Operating interest-related cash flows			
Proceeds from interest		78,215	68,956
Interest paid		(17,355)	(17,740)

The accompanying notes from 1 to 41 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 29.09.2023.

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

Auditors' report on the consolidated financial statements issued on 29 September 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

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

1. ORGANISATION AND OPERATING POLICY

These consolidated financial statements of the Group of Bulgarian Development Bank EAD (the „Group") for the year ended 31 December 2022 were approved for issue by decision of the Management Board of Bulgarian Development Bank EAD ("BDB", the "Bank", the "Parent company") on 29 September 2023.

Bulgarian Development Bank EAD ("BDB", the "Bank", the "Parent company") is a sole owned[1] joint-stock company registered with the Commercial Register under UIC 121856059, with seat in the city of Sofia, Sofia City Region, Bulgaria, and management address: 1, Dyakon Ignatii Street. The financial year of the Bank ends on 31 December.

Bulgarian Development Bank EAD Group

Bulgarian Development Bank EAD Group includes the Parent-company – Bulgarian Development Bank EAD and its subsidiaries – National Guarantee Fund EAD ("NGF", the "Fund"), BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD ("MFI")), Capital Investment Fund AD ("CIF"), BDB Leasing EAD ("BDB Leasing"), BDB Factoring EAD ("BDB Factoring") and TC Maritsa EOOD ("TCM").

As of 31 December 2022, the number of employees of BDB Group is 276 (as of 31 December 2021: 284 employees).

Bulgarian Development Bank EAD

Bulgarian Development Bank EAD 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.

The Bank holds a general banking licence, 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.

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

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

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 Bulgarian Development Bank Act (2008) provides for the establishment of two subsidiaries, joint stock companies, of the Bank - Capital Investment Fund AD and National Guarantee Fund EAD.

The Bank's lending activity includes:

- pre-export and export financing of SME;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SMEs;
- financing SME investments abroad;
- participation in public 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 projects;
- financing of priority sectors of the economy, in line with the government policy for economic development;

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

- 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). The Supervisory Board and the Audit Committee represent those charged with governance.

Supervisory Board

As of 31 December 2022 and as of the date of approval of these consolidated financial statements, the members of the Supervisory Board of BDB (SB) are: Rosen Andreev Karadimov – Chairman of SB and member of the SB, Delyana Valerieva Ivanova – Deputy Chairman and member of the SB, Stamen Stamenov Yanev – member of the SB.

The decision of the sole owner of the capital of BDB under Protocol dated 27.05.2021 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 13.01.2022.

By decision of the sole owner of BDB under Protocol dated 07.11.2022 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 14.11.2022. 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 of the capital of BDB under Protocol dated 30.11.2022 was entered in the Commercial register and register of non-profit legal entities on 07.12.2022.

Management Board

As of 31 December 2022 the members of the Management Board of BDB (MB) are: Mariana Dimitrova Petkova – Chairman of MB, Tsanko Rumenov Arabadzhiev – member of MB and Executive Director and Krum Georgiev Georgiev – member of MB.

By decision of the Supervisory Board under Protocol No 28 of 06.06.2022 Mariana Dimitrova Petkova was elected as a new member of the Management Board. This circumstance was recorded in the Commercial Register on 13.06.2022. 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 Chairman of the Management Board.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

Management Board (continued)

By decision of the Supervisory Board under Protocol No 30 of 09.06.2022 Vladimir Rashkov Gueorguiev was dismissed as member of the Management Board of the Bank. On 16.06.2022 Vladimir Rashkov Gueorguiev was deregistered in the Commercial register as member of the Management Board.

As of the beginning of 2023 until 29 September 2023 the following changes have been made in the membership of the Management Board of Bulgarian Development Bank EAD:

- 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.
- By decision of the Supervisory Board under Protocol No 2 of 12 January 2023 Iliya Zapryanov Karanikolov and Ivan Valentinov Cerovski were elected as new members of the Management Board of BDB. This circumstance was recorded in the Commercial register on 20 January 2023. By decision of the Management Board under Protocol No 5/13.01.2023 Mr. Iliya Zapryanov Karanikolov and Mr. Ivan Valentinov Cerovski are authorized to represent and manage the Bank as Executive Directors. This circumstance was recorded in the Commercial register and register of non-profit legal entities on 20 January 2023. Mr. Iliya Zapryanov Karanikolov was elected as Chairman of the Management Board.
- By decision of the Supervisory Board under Protocol No 9 dated 8 February 2023 Krum Georgiev 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.

As of the date of preparation of these consolidated financial statements the Management Board of BDB has the following structure: Iliya Zapryanov Karanikolov, Chairman of the Management Board and Executive Director, Ivan Valentinov Cerovski, member of the Management Board and Executive Director and Tsanko Rumenov Arabadzhiev, member of the Management Board and Executive Director.

The Bank is represented jointly by either two of the three Executive Directors or at least one executive director and a procurator (if any).

As of 31 December 2022, the Bank had 233 employees (as of 31 December 2021: 227).

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

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

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.

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.

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.

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 capital.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

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

As of 31 December 2022 and as of the date of approval of these consolidated financial statements, 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.

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

Changes in the Supervisory Board of Bulgarian Development Bank EAD 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 Management Board of Bulgarian Development Bank EAD 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.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

<u>Bulgarian Development Bank EAD (continued)</u>

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

Changes in the Management Board of Bulgarian Development Bank EAD in 2022 and 2023 (continued)

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.

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

By decision of the Supervisory Board under Protocol No 9 dated 8 February 2023 Krum Georgiev 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 Audit Committee of Bulgarian Development Bank EAD 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.

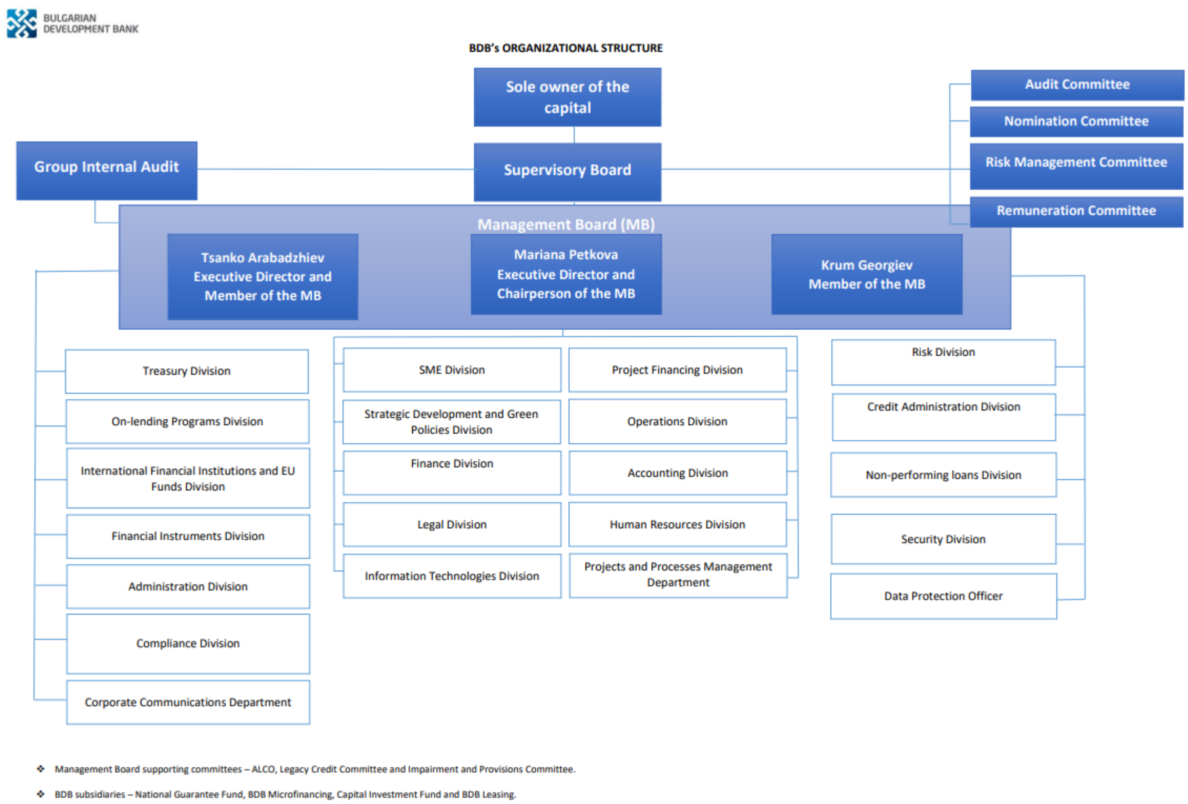
1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

<u>Bulgarian Development Bank EAD (continued)</u>

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-March 2023 described above, the organizational structure of the Bank at the date of issue of these financial statements is presented in the following diagram:

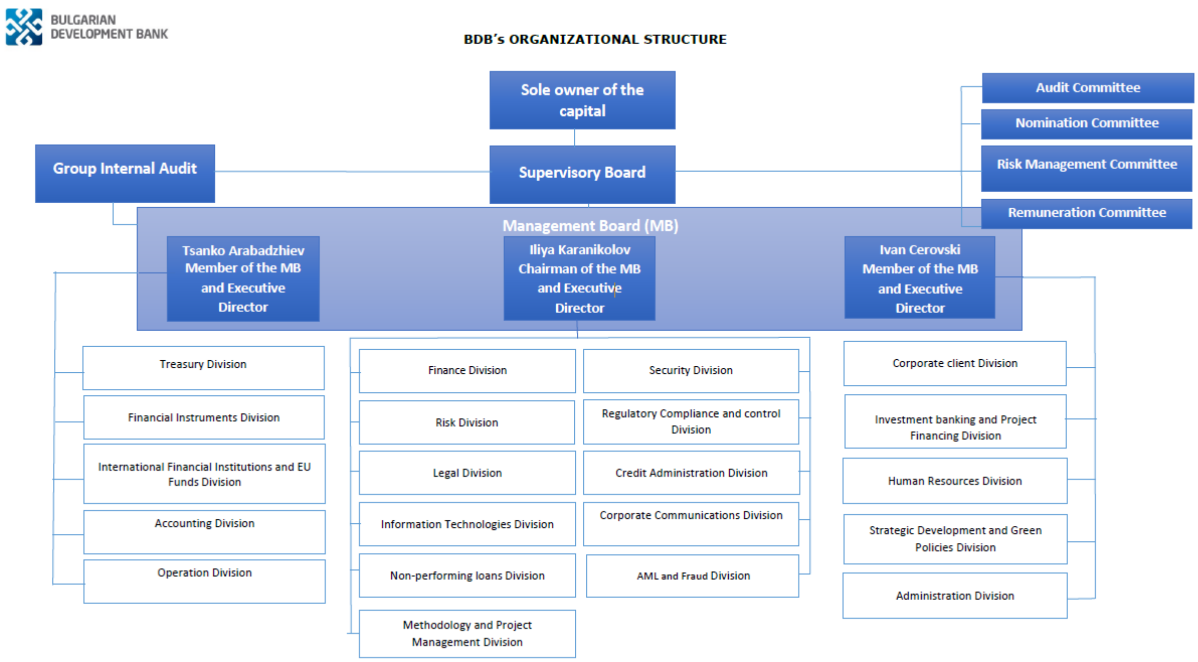
This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

<u>Bulgarian Development Bank EAD (continued)</u>

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

Changes in the Bank's structure (continued)



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

<u>Subsidiaries</u>

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - National Guarantee Fund EAD and Capital Investment Fund AD.

National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investment Fund AD was established in 2018 with share capital of BGN 65,000 thousand out of which 100% paid in as of 31 December 2022. In 2022, to cover losses from revaluations of securities, the capital of Capital Investment Fund AD was reduced from BGN 65,000 thousand to BGN 57,814 thousand through acquisition and invalidation of shares. The share of BDB in Capital Investment Fund AD is 85% and the remaining 15% shares are owned by the National Guarantee Fund EAD.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

BDB also owns 100% of the capital of BDB Microfinancing EAD, registered on 14 January 2011. The total amount of the paid-in capital amounts to BGN 14,643 thousand divided in 146,430 shares of BGN 100 each (as of 31.12.2021: BGN 14,643 thousand divided in 146,430 shares of BGN 100 each).

In addition, BDB owns 100% of the share capital of BDB Leasing EAD established in 2019. The capital of the company is BGN 18,630 thousand as of 31.12.2022 (as of 31.12.2021: BGN 20,000 thousand) following the decision to decrease its capital in 2022, to cover losses from prior periods through, acquisition and invalidation of shares.

In 2019 BDB established a factoring company BDB Factoring EAD with a capital of BGN 2,000 thousand. On 23 March 2021 the MB of BDB took a decision to merge BDB Factoring EAD in BDB as BDB shall assume the activity of BDB Factoring entirely as well as its assets and liabilities. Bulgarian National Bank and Commission for protection of competition provided the necessary regulating approvals for the transformation. The merger was finalized on 7 July 2022.

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.

Changes in the management bodies of subsidiaries in 2022 and 2023

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

National Guarantee Fund EAD

By Decision under Protocol No 55 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 No 60 of 23 June 2022 Krum Georgiev Georgiev was elected as a new member of the Board of Directors. This circumstance was recorded in the Commercial register on 6 July 2022.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

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

National Guarantee Fund EAD (continued)

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 of the sole owner of the capital under Protocol No 27 of 10 March 2023 Mr. Ivan Valentinov Cerovski was elected as a new member of the Board of Directors of National Guarantee Fund EAD. Krum Georgiev Georgiev was dismissed as member of the Board of Directors under the same protocol. These circumstances were recorded in the Commercial register on 17 March 2023.

The Board of Directors members as of the date of these financial statements are:

- Ivan Valentinov Cerovski - Chairman of the Board of Directors;
- 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.

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. These circumstances were recorded in the Commercial register on 23 June 2022.

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

- Mariana Dimitrova Petkova – Executive Director and 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 20.05.2020;
- Iliya Radkov Komitov – Member of the Board of Directors as of 28.08.2020;
- Boyan Stefanov Byanov - Member of the Board of Directors as of 30.08.2021.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

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

BDB Microfinancing EAD (continued)

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.

By Decision of the Management Board of BDB EAD in its capacity of a sole owner of the capital Mrs. Mariana Dimitrova Petkova was released as a member of the Board of Directors and Executive Director of BDB Microfinancing EAD as of 5 July 2023. Mr. Tsanko Rumenov Arabadzhiev was recorded as a member of the Board of Directors. This circumstance was recorded in the Commercial register on 26 July 2023.

By Decision of the Management Board of BDB EAD in its capacity of a sole owner of the capital as of 5 July 2023 the statute of BDB Microfinancing EAD was changed in the part that concerns the way of representing the company. After the change of the statute the company is represented jointly by the Executive Director and one of the members of the Board of Directors, and in case of absence of the Executive Director – jointly by any two members of the Board of Directors. The current Statute is announced under the company's record in the Commercial register on 26 July 2023.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

<u>Subsidiaries (continued)</u>

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

BDB Microfinancing EAD (continued)

The Board of Directors members as of the date of these financial statements are:

- Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors;
- Ivana Borisova Tzaneva – Deputy Chairman of the Board of Directors and Executive Director as of 20.05.2020;
- Iliya Radkov Komitov - Member of the Board of Directors as of 28.08.2020;
- Boyan Stefanov Byanov – Member of the Board of Directors as of 30.08.2021.

BDB Leasing EAD

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

- Krum Georgiev Georgiev – Chairman of the Board of Directors as of 23.08.2021;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Antoniya Hristoforova Dobreva – Member of the Board of Directors as of 20.05.2020.

The company has an authorized procurator - Ivaylo Kirilov Popov as of 01.06.2020.

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 Cerovski 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 Cerovski was elected as Chairman of the company's Board of Directors.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

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

BDB Leasing EAD (continued)

The Board of Directors members as of the date of these financial statements are:

- Ivan Valentinov Cerovski - Chairman of the Board of Directors as of 17.03.2023;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Antoniya Hristoforova Dobreva – Member of the Board of Directors as of 20.05.2020.

The five-year mandate of the members of the Board of Directors of BDB Leasing EAD was confirmed by recording in the Commercial register on 11 April 2023, according to art. 24, para 2 of the statute of the company.

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 05.08.2021;
- Stefan Stefanov Tamnev – Executive Director and Deputy Chairman of the Board of Directors as of 05.08.2021;
- Rusalin Stanchev Dinev – Member of the Board of Directors as of 16.09.2022.

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.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

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

Trade Centre Maritsa EOOD

Trade Center „Maritsa" EOOD (TC Maritsa) became an ownership of Bulgarian Development Bank AD by virtue of decision of the Bank's Management Board in accordance with Minutes No. 29 dated 18 May 2018. The main scope of activity of TC Maritsa includes the operation of concession of the Trade Center, namely a „pedestrian bridge" in Plovdiv City, in accordance with a contract concluded with Plovdiv Municipality, through setting up trade outlets and collecting rents. The concession contract matures in 2036.

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 CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

The Bank prepares separate financial statements in accordance with the Accountancy Act.

These consolidated financial statements shall be read together with the separate financial statements.

Statement of compliance

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

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

Going concern

The Group companies' management assessed their ability to continue their activities as a going concern and is confident about the availability of sufficient resources to continue their normal operations in the foreseeable future.

The Managements do not consider that there is material uncertainty that could cast doubt on the ability of the companies to continue operating as going concerns. Accordingly, these consolidated financial statements are prepared on the going concern basis.

The Bank's total equity is lower than the registered capital due to the realized losses in 2020 and 2021. In 2021, 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 the amount of BGN 155,118 thousand was transferred to partially cover the loss from 2020.

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

Going concern (continued)

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.

On 23 May 2022, the Minister of Innovation and Growth approved the BDB's financial statements for 2020 and took a decision the funds from the Reserve Fund of BGN 74,939 thousand and the funds from additional reserves at the amount of BGN 80,179 thousand to be used for covering the loss of the Bank according to its annual financial statements in the same amount, and a decision the remainder of the loss of BGN 75,737 thousand to be allocated to item "Uncovered losses".

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

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank’s Statute are announced for filing in the Commercial register and 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.

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

In addition, in 2022 the Bank took action to develop its credit activity by creating new business lending programmes. 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.

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

Going concern (continued)

From the beginning of 2023, it is projected the total amount of the BDB's loan portfolio to increase again and the Bank to achieve a positive financial result of its activities.

In 2022 BDB Leasing EAD and Capital Investment Fund AD initiated capital decrease in order 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 without affecting the net assets of the companies.

Order of liquidity and maturity structure

The Group presents its consolidated 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 consolidated financial statements provide comparative information with respect to one previous period.

Presentation currency

The Bulgarian lev is the functional and reporting currency of BDB and its subsidiaries. These consolidated financial statements are presented in thousands of Bulgarian leva (BGN'000).

Methods of consolidation

These consolidated financial statements have been prepared in accordance with IFRS 10 "Consolidated Financial Statements", which scopes in all entities over which Bulgarian Development Bank EAD has control through ownership of:

- rights to manage all important activities of the investee;
- exposure or rights to variable return (to obtain benefits or to suffer losses from the activity) from its participation in the entity;
- possibility to exercise control over the investee in order to influence the amount of the return.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent company obtains control over the subsidiary and ceases when the Parent company loses control over the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

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

Methods of consolidation (continued)

The companies consolidated and the consolidation method adopted as at 31 December 2022 are as follows:

Company	Share	Consolidation method
National Guarantee Fund EAD („NGF")	100%	Full consolidation
BDB Microfinancing EAD	100%	Full consolidation
BDB Leasing EAD	100%	Full consolidation
Capital Investment Fund AD („CIF")	100%[2]	Full consolidation
TC Maritsa EOOD („TC Maritsa")	100%	Full consolidation
Roadway Construction AD	0%[3]	Full consolidation
Patstroyengineering AD (subsidiary of Roadway Construction AD)	0%	Full consolidation
Cohofarm OOD (2021)	0%[4]	Subject to consolidation but its assets, liabilities and results are immaterial for the Group.

Upon consolidation all receivables and liabilities, income and expenses, arising from transactions between the Bank and its subsidiaries, are eliminated.

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[2] Bulgarian Development Bank EAD – 84.62%, National Guarantee Fund EAD – 15.38%

[3] In 2022, BDB acquired control over Roadway Construction AD ("Roadway") as a result of non-performance of a loan agreement and appointed a manging director of the company. The exit strategy provides for management of Roadway and its subsidiary Patstroyengineering AD, and the revenue from the implementation of construction projects from the subsidiary will settle the exposure. In these financial statements, Roadway's assets and liabilities are presented at fair value in the relevant items in the Group's statement of financial position. The net amount of these assets, reflected in the Group's statement of financial position as at 31.12.2022, is BGN 7,031 thousand. Detailed information on the business combination is presented in Note 40.

[4] In 2021 BDB acquired control over Cohofarm OOD („Cohofarm") due to non-performance on a loan agreement and appointed a managing director of the company. The exit strategy provides for the sale of assets, and in the financial statements for 2021 they are presented at fair value as Assets Held for Sale (see Note 26). The company's liabilities are presented as Other Liabilities - Liabilities Related to Assets Held for Sale (see Note 34) in the financial statements for 2021. In 2022 BDB acquired the main production assets of Cohofarm and as of 31 December 2022 no longer consolidates the company due to its immaterial assets comprising mainly awarded receivables on assets sold that will be redirected to BDB. The carrying amount of the BDB's exposure to Cohofarm as of 31.12.2022 is BGN 17 thousand and therefore the company is not consolidated.

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

Methods of consolidation (continued)

Unrealised losses are eliminated in the same way as the unrealised profit in case there are no indications of impairment. The subsidiaries' financial statements have been prepared for the same reporting period as that of the Parent Company and consistent accounting policies have been applied.

Key estimates and assumptions of high uncertainty

The preparation of the consolidated 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 consolidated financial statements and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in the notes below.

a) Expected credit losses on assets carried at amortised cost

Monthly, the Group 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 consolidated statement of comprehensive income, the management of the subsidiaries within the Group 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions of high uncertainty (continued)

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

In determining the future cash flows pattern, the Group'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.

An analogous approach is used for assessment of individual credit exposures, 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 losses incurred (Notes 12 and 18 C).

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

Equity and debt instruments not quoted on the stock market

The Group classifies as financial assets at fair value through other comprehensive income its investments held in the form of shares in non-publicly traded companies/entities (less than 33% of their capital), that have been acquired with the aim to establish and develop business relations of interest to the Group, as well as unquoted bonds. 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, 21).

Equity and debt instruments quoted on organized markets

As of 31 December 2022, the Group 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 CONSOLIDATED 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 trading at organized exchanges, management has carried out research and analyses and concluded that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the relevant market in the last month of the financial year (Level 1).

In addition, the applied prices are analysed for trends observed in the behaviour of exchange prices of the respective securities for at least the last three months of the year and respectively, to the date of issuing of the consolidated financial statements. (Notes 9, 15, 21).

The Group recognizes impairment for expected credit losses for 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 Group has accrued provisions for a portfolio of contingent liabilities in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The Group reviews its contingent liabilities for the purpose of establishing whether any events have occurred, that would confirm, to a large extent, the probability that a commitment will be paid to settle an obligation. If such events occur, the Group accrues a provision for 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, 32).

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

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

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

Key estimates and assumptions of high uncertainty (continued)

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

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

d) Actuarial calculations

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

Assets acquired through collateral foreclosure include assets acquired by the Group, 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 Group, is determined by certified independent appraisers.

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

Key estimates and assumptions of high uncertainty (continued)

g) Fair value of financial instruments

Where the fair values of financial assets and liabilities on the consolidated 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 Group'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 collateral.

2.1 Changes in accounting policies and disclosures

New amendments to the existing standards effective for the current reporting period

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

- **Amendments to 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.

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

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 Group'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);
- **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 IASB except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **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;

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

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

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

- **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).

The Group 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 Group 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 Group’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

Recognition of assets

The Group 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 Group 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 Group for financial assets management
2) the features of the contractual cash flow of the financial asset.

Regardless of the reporting approach chosen, the Group has the option, at initial recognition, to 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 Group 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 Group 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 Group 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)

Recognition of assets (continued)

A financial asset is measured at fair value in 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 Group may make an irrevocable choice to include in fair value in 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 Group changes its business model for financial asset management, it reclassifies all financial assets affected, in line with the asset classification requirements. If the Group 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 Group does not recalculate previously recognised profits, losses (including gains or impairment losses) or interest.

Assessment and reporting

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Determination of a business model

The Group defines the "business model with the objective to collect their contractual cash flows" (Hold to Collect business model) as a business model where the Group's financial assets are managed with the objective to generate cash flows through collection of contractual cash flows over the instrument's lifetime. The Group may use this business model in the event of converting the sale of assets with increased credit risk or in order to reduce the concentration risk. These financial assets are carried at amortised cost if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Group defines the "business model with the objective to collect the contractual cash flows and sell the financial asset" as a business model where the Group'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 Group 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 Group 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 Group becomes a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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 Group recalculates the gross carrying amount of the financial asset and recognises profit or loss from modification in profit or loss. The gross carrying amount of the financial asset shall be restated as the present value of renegotiated or modified contractual cash flows discounted at the initial effective interest rate on the financial asset (or the credit loss-adjusted effective interest rate for purchased or originated credit impaired financial assets) or, where applicable, the revised effective interest rate, calculated in accordance with paragraph 6.5.10 of IFRS 9. The carrying amount of the modified financial asset shall be adjusted for any incurred costs and charges that are depreciated for the remaining duration of the modified financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Group 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 Group, 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. 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 consolidated statement of financial position when, and only when, the Group 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 Group recognizes the following non-derivative financial assets:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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 Group holds such financial assets within a business model with the objective to hold financial assets in order to collect contractual cash flows within the life of the asset. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, these financial assets are measured at their amortised cost using the effective interest rate, less any impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. In calculating the effective interest rate the expected cash flows are estimated taking into account all contractual terms and conditions under the financial instrument (for example early repayment options, extension options, call options and similar), excluding expected credit losses.

The calculation includes all fees and other considerations paid or received by the contract counterparties that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

The Group accrues impairment for expected credit losses on financial assets at amortized cost for each specific asset, or at portfolio basis, when forming homogeneous portfolios with similar characteristics and risk profiles.

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, lease receivables 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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

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

1) the financial asset is held within a business model whose objective is both collecting contractual cash flows and selling the financial assets; and
2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

On initial recognition, the Group may make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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

The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

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

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

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

Upon initial acquisition, the Group'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 Group 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
- the effect of investments in foreign subsidiaries (net investment hedge).

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 Group has no financial assets measured at fair value through profit or loss.

Assets under trust management

The Group 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 Group's financial statements since they are not assets of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Assets under trust management (continued)

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 Group 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 Group 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 Group 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 Group has implemented a system of in-house internal control rules and procedures aiming at ensuring its full compliance with the bodies of legislation mentioned above.

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial liabilities (continued)

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 Group has transferred substantially all the risks and rewards of the financial asset, or
   - the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the asset.

When the Group has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all of 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 Group's continuing involvement in the asset. In this case, the Group recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations, which the Group 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 Group could be required to repay.

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 Group company for their uncollectability, 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;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments (continued)

2. All collateral has been realized in the course of the court actions;
3. There are no additional discovered properties or other assets owned by the debtor and/or the guarantors and severally liable debtors;
4. Additionally discovered properties or other assets owned by the debtor and/or the guarantors and severally liable debtors are non-sequestrable, i.e. the Bank cannot undertake executive actions towards them, or they are of insignificant value compared to the residual debt;
5. The Bank is not expected to collect amounts from foreclosures of shares of the main debtor and/or of the guarantors and severally liable debtors (if any) in companies and subsequent liquidation of these companies (in case it makes economic sense to initiate such liquidation);
6. There are no reasonable expectations for receiving cash flow from the initiation/ continuation of legal actions in respect of the remaining collateral established in favour of the Bank, as it is determined on the basis of relevant legal opinion as unrealizable or difficult to implement due to insurmountable problems of legal nature, or there are real encumbrances in favour of another creditor in sequence prior to the established collateral in favour of the Bank;
7. The costs for compulsory sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) of the debtor's property and/or of the guarantors and severally liable debtors (if any) would exceed the Bank's expected proceeds from the sale or the reduced value acceptable for the Bank;
8. As a result of an analysis of the security and the possibilities for repayment of the exposure, it has been established that it is not expected to be collected in full;
9. An order has been issued to initiate insolvency proceedings and their suspension, following a court finding that their assets are insufficient to cover the insolvency costs and, at the same time, no severally debtors are available.

In accordance with its Procedure on Writing Off Receivables, the Group also writes off receivables on the basis of a final assessment of uncollectability, regardless of the delay in the usual procedural period, which assessment is caused by the presence 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments (continued)

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.

A financial liability is derecognised from the consolidated statement of financial position when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the consolidated statement of comprehensive income – in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Historical analysis (10 years) shows that these indicators have statistically significant correlations – positive or negative – with the level of expected credit losses, but, except for any change in GDP they do not affect significantly the calculation and therefore as of 31 December 2022 the Group uses only GDP growth (Bulgaria) as a macroeconomic component of the expected credit loss calculation. As part of the annual analysis and calibrations of the ECL models, the Group will also assess the influence of other factors within the multifactor model and, if they are statistically significant and material, they will be included in the calculations.

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 Group 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;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

- 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 Group 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 Group has set specific criteria that determine when a debtor is in default. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, and this loss event has affected the expected future cash flows of that asset, which can be measured reliably. The expected credit losses for these instruments are also calculated for the entire lifetime of the instrument.

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Bank of the borrower concerned. The Group 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 Group 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 Group on terms that the Group 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 classified in Stage 3.

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the Group 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 these assets is reported as revaluation gain.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at amortised cost

The Group 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 Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment, the understanding of the Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at amortised cost (continued)

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

Currently, the Group has designated as portfolios for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Program (EEMFRBNP), receivables under lease agreements as well as all receivables below BGN 5 million which are not subject to individual measurement.

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

1. When the exposure is in Stage 3, an individual model is applied to the expected future cash flows from collateral realisation.

2. When the exposure is in Stage 1 or 2:

   a) a tool is used to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameters, sector specifics, etc. or

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets measured at amortised cost (continued)

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 loss allowance is recognised in the statement of financial position. As the carrying amount is equal to the fair value, 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 the final sale or derecognition of the security.

The absolute threshold for transferring exposures between levels is related to the internal credit rating set by the Group to the respective borrower. The Group 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 Group 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. Exposures over BGN 5,000 thousand are reviewed on individual basis and amounts below this threshold - on 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial assets (continued)

Financial guarantees contracts and credit risk guarantees (continued)

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programs are analysed and impaired in accordance with a separate model developed by the Bank, taking into account the specifics of both the programs (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 31.12.2021 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 Group discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

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

The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Group determines the fair values by using of an evaluation method based on the net present value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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

Definitions (continued)

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 determined by direct market participants. The Group 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 Group.

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 it has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

- The market approach - 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 approach - 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 approach - 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 approach used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction. Upon subsequent measurement, the Group takes into account the approach used in the initial / previous fair value measurement and analyzes the differences in values between the periods. When changing approaches and / or weights, the Group provides justification as to why it is necessary and how the new approach reflects as much as possible the fair value, as well as its change over time.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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

Definitions (continued)

The Group 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 34% of their capital), which have been acquired with the aim to develop their business and non-publicly traded companies' bonds. The Group measures these financial assets at fair value using eligible measurement methods under IFRS 13, except where it has been considered that the cost of acquisition (cost) best reflects fair value.

Fair Value Hierarchy

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Hedge accounting (IFRS 9)

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

The Group 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 Group has no foreign subsidiaries to be consolidated.

The Group 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 Group'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 central banks (BNB). The Group maintains minimum statutory reserves 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 consolidated statement of financial position at amortised cost.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

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").

The Group as a lessor

Leases where a company from the Group is a lessor are classified as a finance or operating lease. In cases when under the lease contract all the risks and rewards of using the asset are transferred to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

On the inception date of the lease, the Group recognises the assets held under a finance lease agreement in its statement of financial position and presents them as a receivable at an amount which is equal to the net investment in the lease.

The Group uses the interest rate set in the lease to determine the amount of the net investment. The interest rate set in the lease is fixed so that the initial direct costs are automatically included in the net investment.

Finance lease income is allocated during accounting periods to reflect a constant recurring rate of return on the Group's net investment.

Any modification to a lease is assessed and reflected in accordance with the requirements of IFRS 16 Leases.

The starting date of including a lease contract in the portfolio of a company of the Group is the date of providing the asset for use by the lessee by signing the acceptance – transfer protocol for the asset. In the assets of the statement of financial position the finance lease receivable is reported based on effective principal. Interest is recognised as income per month by the effective interest method.

The Group applies the derecognition and impairment requirements of financial assets under IFRS 9 Financial Instruments.

A seized asset under a terminated contract is reported as an asset for sale and is subject to subsequent disposal – direct sale or new lease. It is not reported as a fixed tangible asset unless it is offered under an operating lease agreement. Assets held for operating lease purposes are recognized as property, plant, equipment in the statement of financial position of the company /lessor/.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets

Taxes (IAS 12)

Current income taxes are determined by the Group 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 consolidated financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses. The Group recognises a fixed asset when its value is equal to, or exceeds, BGN 700.

Initial recognition

Upon their initial acquisition, items of property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition. Directly attributable costs include: costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, etc.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

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

Subsequent measurement

The approach chosen by the Group 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 Group 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 reconstruction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Intangible assets (IAS 38)

Intangible assets are presented on the consolidated financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software products and software licences.

The Group 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 consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets are derecognised from the consolidated financial statement 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 (determined as the difference between the net sales proceeds and the carrying amount of the asset at the date of the sale) are recognized net in Other operating income/(expenses) in the statement of comprehensive income.

Investment property (IAS 40)

The Group's management uses this category upon lease of assets acquired through 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

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 Group's operations or through renting or lease. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement. Usually, these assets have been initially accepted by the Group 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 consolidated 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 24 months in case the requirements of IFRS 5 for term extension are met, they are transferred to Assets, acquired through collateral foreclosure.

Assets acquired through collateral foreclosure (IAS 2)

Assets acquired through 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 through collateral foreclosure. 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 through 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Assets acquired through collateral foreclosure (IAS 2) (continued)

The impairment of these assets is calculated in accordance with the Group's accounting policy based on the expected realisation of the assets acquired through collateral foreclosure. The impairment of the assets acquired through collateral foreclosure is recognised in the statement of comprehensive income. The Group's management is of the opinion that the carrying amount of the assets acquired through 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 Note 27.

Impairment of non-financial assets (IAS 36)

The carrying amounts of the Group'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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities

Financial liabilities

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

Leases (IFRS 16)

The Group as a lessee

The companies from the Group assess whether a contract is or contains a lease, at inception of the contract.

The companies from the Group recognise a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which they are the lessees, 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 companies from the Group use their 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 in a separate item in the statement of financial position under Lease Liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Group as a lessee (continued)

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 Group reviews the value of 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.
- 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 Group 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Group as a lessee (continued)

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 a company from the Group 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 separate item in the statement of financial position.

The Group 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.

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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

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

According to the Bulgarian legislation, the Group is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Group, 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 Group in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the consolidated 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 Group'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 Group assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee's remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

Long-term retirement benefits

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

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the consolidated 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.

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 (continued)

At the end of each reporting period, the Group 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 consolidated statement of comprehensive income.

Termination benefits

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

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

The Group 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 consolidated statement of financial position at present value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Provisions and contingent liabilities (IAS 37)

Provisions are recognised when the Group 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 Group, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the consolidated 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 Group'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 B Group'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 Group under such contracts is estimated based on historical experience with similar instruments.

3.4 Capital

Share capital

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Capital (continued)

Share capital (continued)

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 Group. The corresponding amount is written off directly from equity.

3.5 Income and expenses

Interest income and interest 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 measured at fair value through profit or loss, using the effective interest rate 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 the effective interest rate method accrued on their gross carrying. For exposures classified in Stage 3, the Bank recognizes interest income based on the effective interest rate method accrued on their amortised cost, less impairment for expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

Interest income and interest expenses (IFRS 9) (continued)

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

Revenue from contracts with customers (IFRS 15)

Under IFRS 15 a five-step model is applied to account for revenue arising from contracts with customers, regardless of the type if transaction or industry, requiring the Group (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 Group 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 recognized when the service is provided. The fees for these services are based on the Group’s tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Group 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

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

- Deposit maintenance – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Group'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 Group receives agent's commissions - revenue is recognised at a point in time upon the provision of the brokerage service as the Group operates as a broker. Considering the above circumstances, the Group 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 Group after paying the portion due to the third party to which / whom the Group has mediated to perform the services of that third party.

Fees for servicing bond issues 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 Group – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted as at 31 December 2022 is BGN 6,754 thousand (31 December 2021: BGN 7,720 thousand). The Group has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Group'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 consolidated 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.

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 consolidated statement of comprehensive income in the period in which they have occurred.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Group'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 risk management processes are essential for the Group's profitability and stability.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

Risk management structure

The main units that are directly responsible for risk management are as follows:

For Bulgarian Development Bank EAD (the Parent company, the Bank):

Risk management is performed by:

- *Supervisory Board* – performs overall supervision of risk management;
- *Management Board* – responsible for the overall risk management approach and for approving risk management strategies, principles and specific methods, techniques and procedures;
- *Risk Committee* – responsible for exercising control over the implementation of the risk management policies by various types of risk, as well as the adequacy of the Bank's risk profile to the tasks assigned to it.
- *Committee on Assets and Liability Management (ALCO)* – responsible for the strategic management of assets and liabilities and for market risk management, including liquidity risk management, related to the assets and liabilities.
- *Provisions and Impairment Committee* – analyses credit transactions from the perspective of credit risk management for the loan portfolio in general, as well as of the level of credit deals and borrowers;
- *Executive Directors and members of the Management Board* – exercise current operating control of the maintenance and monitoring of the limits set for a particular types of risk and the application of the established procedures.
- The Central Bank exercises supplementary supervision of risk management by requiring periodically regulatory reports and exercising subsequent control on the compliance with the statutory maximum levels of exposure to certain risks.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure (continued)

For the subsidiary National Guarantee Fund EAD (the Fund)

The main units responsible for the management of risks are:

- *Supervisory Board and Management Board of BDB EAD (the Parent company)* – perform overall supervision of risk management; take decisions for total exposure to group of related parties to National Guarantee Fund EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- *Board of Directors* – responsible for the overall approach towards risk and approves risk management strategies, principles and specific methods, risk management techniques and procedures;
- *Provisions Committee* – analyses the guaranteed portfolio in terms of overall credit risk management of the whole portfolio, as well as of each guarantee deal and each beneficiary of the guarantee itself.
- *Risk and Monitoring Department* – performs monitoring of the guaranteed portfolios and the collateral provided. At least annually an inspection over the fulfilment of the economic and social requirements for the SME using a guarantee from National Guarantee Fund EAD is carried out.

For the subsidiary BDB Micro Financing EAD:

The main units responsible for the risk management are:

- *Supervisory Board and Management Board of BDB EAD (the Parent company)* – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Micro Financing EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- *Board of Directors* – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions exceeding BGN 100 thousand in view of credit risk management upon their approval;
- *Credit committee* – monitors and analyses on an ongoing basis the loan and lease portfolio of the Company in terms of credit risk, including by individual transactions;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure (continued)

For the subsidiary BDB Micro Financing EAD (continued):

- *Credit Council* – analyses credit and leasing transactions in terms of credit risk management upon their approval and/or renegotiation;
- *Operational Management (Executive Director and Deputy Executive Directors)* – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- *Risk Management Department* – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing validation of the risk assessment methods; examines the inputs needed for the risk assessment in accordance with applicable principles of reliability and sufficiency.

For the subsidiary BDB Leasing EAD:

Risk management is performed by:

- *Supervisory Board and Management Board of BDB EAD (the Parent company)* – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Leasing EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- *Board of Directors* – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors and making decisions for exposures over BGN 5 million;
- Procurator and member of the Board of Directors jointly – make decisions for exposures up to BGN 200 thousand;
- *Management Board of BDB EAD* – takes decisions for total exposure to group of related parties to BDB Leasing EAD over BGN 5 million (in case of absence of other exposure to BDB Group), and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure (continued)

For the subsidiary BDB Factoring EAD:

The main units responsible for the risk management are:

- *Supervisory Board and Management Board of BDB EAD (the Parent company)* – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Factoring EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- *Board of Directors* – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions in view of credit risk management upon their approval;
- *Operational Management (Executive Director)* – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- *Risk Management Department* – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing reviews of risk management methods.

For the subsidiary Capital Investment Fund AD:

Risk management is performed by:

- *Supervisory Board and Management Board of BDB EAD (the Parent company)* – perform overall supervision of risk management; take decisions for total exposure to group of related parties to Capital Investment Fund AD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- *Board of Directors* – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors and making decisions for all exposures;
- *Management Board of BDB EAD* – takes decisions for total exposure to group of related parties to Capital Investment Fund AD over BGN 5 million (in case of absence of other exposure to BDB Group), and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure (continued)

For the subsidiary TC Maritsa EOOD:

The risk management functions are exercised by the operational units – General Manager and Finance Manager. The activity of TC Maritsa does not include financial assets acquisition and management.

Measurement and management of major risks

Management of the Group companies has adopted a set of internal rules and procedures for measuring various risks, which are based on statistical models and best international banking practices, as well as on the historical experience of the Group itself.

Risk monitoring and management are primarily based on limits. Those limits reflect on the Group's strategy and its market position, as well as on the level of risk that can be borne. Reports on the specific types of risks are periodically prepared for the purpose of subsequent analysis and possible adjustments of already set limits.

4.1. Credit risk

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

Credit risk is the main risk for the Group and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the Bulgarian Development Bank Act 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 Group 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 Group are based on an analysis of historical and current financial data for the respective counterparties and their related parties; 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 Group, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within the Group.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. There is an „Early Warning Procedure for Corporate Credit Clients" which includes an early warning system of signals and actions.

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

There is a specialized unit functioning within the Group, 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 Group 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 Group'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 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 Group 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 every 6 months and those classified as „problematic/non-performing" every three months.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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 Group 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, Credit activity rules of BDB and Methodology for individual credit rating in Bulgarian Development Bank EAD, ensuring full compliance of the policy and procedures for determining internal credit ratings with the above EU regulations. The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Group and its recoverable amount.

The Group accrues impairment on a portfolio basis for its receivables on the EEMFBNP and exposures to individuals.

Aiming at minimizing and reducing the credit risk, the Group accepts collateral in accordance with its in-house rules. It is a common practice of the Group to require collateral from the borrowers that is equal to at least 100% 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% 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

In November 2016, the parent company (the Bank) signed a counter-guarantee agreement with the European Investment Fund (EIF) under the COSME program for small and medium-sized enterprises. The COSME program is implemented with the support of EFSI (the European Fund for Strategic Investment), known as the "Juncker Plan". The parent company (the Bank) is able to cover up to 60% 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 program, the banks-partners to the parent company (the Bank) 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 Bank 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 Group to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Group and bear the same credit risk as the balance sheet loan exposures.

The Parent company (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 National Program for Energy Efficiency of Multi-Family Residential Buildings in compliance with CMD 18 of the CoM;

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

- portfolio of financial instruments, other than loans, formed in connection with the Group'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;

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

- to banks in connection with money market transactions, placed term deposits and available balances in Nostro accounts;
- receivables relating to the State budget.

The Group 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 Group’s direct credit portfolio, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

Maximum exposure to credit risk

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

	2022		2021	
Financial asset	**maximum**	**net**	**maximum**	**net**
Cash in hand and balances in current accounts with the Central Banks	527,924	527,924	243,635	243,635
Financial assets at amortized cost – Receivables from banks	140,804	139,420	387,438	385,348
Financial assets at amortized cost – Loans and advances to customers	1,698,359	1,449,701	2,042,171	1,695,802
Financial assets at amortized cost - Receivables from the State budget	23,598	23,537	18,866	18,817
Financial assets at amortized cost - Net investment in finance lease	71,537	70,866	58,424	56,977
Financial assets at amortized cost – Securities	11,975	11,771	12,170	11,980
Financial assets at fair value through other comprehensive income – Debt instruments	538,535	538,535	657,649	657,649
Financial assets at fair value through other comprehensive income – Equity instruments	100,710	100,218	70,781	70,781
Other financial assets	7,178	7,178	5,364	4,888
	3,120,620	**2,869,150**	**3,496,498**	**3,145,877**

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

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Maximum exposure to credit risk (continued)

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

	2022		2021	
	maximum	**net**	**maximum**	**net**
Loan guarantees under anti-COVID programs	403,208	275,993	680,938	504,568
Bank guarantees and letters of credit	267,334	252,407	377,346	361,043
Unutilised amount of authorized loans	178,510	178,463	209,829	209,777
Uncalled part of shares of Three Seas Initiative	17,970	17,970	25,031	25,031
Participation in the SIA investment program	652	652	861	861
	867,674	**725,485**	**1,294,005**	**1,101,280**
Maximum exposure to credit risk	**3,988,294**	**3,594,635**	**4,790,503**	**4,247,157**

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

Credit risk - concentration

The largest credit exposure of the Bank to a group of related parties /other than bank institutions/ amounts to BGN 172,448 thousand (including BGN 135,530 thousand balance sheet debt, BGN 34,589 thousand for utilization and BGN 2,329 thousand guarantees) at amortised cost (31.12.2021: BGN 179,362 thousand), which represents 16.40% of Group's equity/eligible capital ratio according to Regulation 575/2013/EU (31.12.2021: 16.57%). The concentration of client's portfolio (other than bank institutions) is presented in the following table:

	2022*	**% of equity**	**2021***	**% of equity**
The largest total exposure to a customer group	172,448	16.62%	179,362	16.57%
Total amount of the ten largest exposures	1,012,789	97.61%	1,072,890	99.10%
Total amount of the twenty largest exposures	1,290,160	124.34%	1,440,658	133.08%

* The amount of the exposure net of impairment and highly liquid collateral.

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

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit risk - concentration (continued)

The financial assets of the Group, classified by industry sectors, are presented in the table below. Loans to customers, as also finance leases and securities at amortized cost, are stated at amortised cost before impairment:

Sectors	**2022**	**%**	**2021**	**%**
Government	665,144	21.31	787,192	22.51
Industry, total	399,117	12.79	388,468	11.11
Industry – energy generation and distribution	68,063	2.18	*105,404*	*3.01*
Industry – other industries	191,491	6.14	*145,513*	*4.16*
Industry – manufacture of food products	46,965	1.50	*46,465*	*1.33*
Industry – manufacture of plant and equipment	92,598	2,97	*91,086*	*2.61*
Financial services	882,688	28.28	839,582	24.01
Trade	461,703	14.80	651,018	18.62
Transport	154,328	4.95	215,128	6.15
Tourist services	267,018	8.56	275,154	7.87
Construction	167,942	5.38	180,018	5.15
Real estate transactions	56,484	1.81	57,903	1.66
Agriculture	28,385	0.91	35,644	1.02
Collection and disposal of waste	357	0.01	612	0.02
Other industries	37,454	1.20	65,779	1.88
	3,120,620	**100**	**3,496,498**	**100**

The total amount of exposures includes those to Central Banks, as well as cash in hand which are considered as no credit bearing risk.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets

The structure of the financial assets of the Group by risk classification groups is as follows:

As of 31 December 2022	**Standard (Stage 1)**	**Watch (Stage 2)**	**Non-performing (Stage 3)**	**Total**
Cash in hand and balances in current accounts with the Central Banks	527,924	-	-	527,924
Financial assets at amortized cost:				
Receivables from banks	140,804	-	-	140,804
Loans for commercial property and construction	374,848	185,635	125,595	686,078
Trade loans	402,799	235,499	202,885	841,183
Net investment in finance lease	66,474	2,290	2,773	71,537
Consumer loans	1,948	75	-	2,023
Residential and mortgage loans to individuals	1,990	-	-	1,990
Loans to other financial institutions	53,170	-	6,849	60,019
Other loans and receivables	25,590	63,760	17,716	107,066
Receivables from the State budget	23,598	-	-	23,598
Financial assets at amortized cost – Debt securities	11,975	-	-	11,975
Financial assets at fair value through other comprehensive income – Debt instruments	523,850	-	14,685	538,535
Other financial assets	7,178	-	-	7,178
Total financial assets	**2,162,148**	**487,259**	**370,503**	**3,019,910**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (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	243,635	-	-	243,635
Financial assets at amortized cost:				
Receivables from banks	387,438	-	-	387,438
Loans for commercial property and construction	396,453	190,902	139,394	726,749
Trade loans	532,497	457,696	132,177	1,122,370
Net investment in finance lease	53,354	4,160	910	58,424
Consumer loans	1,918	6	7	1,931
Residential and mortgage loans to individuals	2,032	-	-	2,032
Loans to other financial institutions	49,820	-	6,965	56,785
Other loans and receivables	36,964	66,920	28,420	132,304
Receivables from the State budget	18,866	-	-	18,866
Financial assets at amortized cost – Debt securities	12,170	-	-	12,170
Financial assets at fair value through other comprehensive income – Debt instruments	657,649	-	-	657,649
Other financial assets	4,888	-	476	5,364
Total financial assets	**2,397,684**	**719,684**	**308,349**	**3,425,717**

The table below presents the types of collaterals, received by the Group in relation to loans granted, at fair value determined by accredited independent valuers and confirmed by a Group’s employee holding the necessary licence.

	2022		**2021**	
Type of collateral	**Fair value**	**%**	**Fair value**	**%**
Mortgages	738,639	66.2	543,788	57.9
Pledges of plant, machinery, equipment, and inventories	294,599	26.4	288,241	30.7
Mortgages on ships	-	0.0	46,432	4.9
Credit risk insurance	36,999	3.3	23,612	2.5
Restricted deposits	44,613	4.0	36,653	3.9
Bank guarantees	960	0.1	635	0.1
Total collateral	**1,115,810**	**100**	**939,361**	**100**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (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%, as more than one collateral could be provided to secure one loan.

At the request of the contractors, a Group company may 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 as whether this discount significantly modifies the cash flows and their current net amount and, respectively, the exposure should be accepted as 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 Group entities monitor the exposures for indicators, which may lead to impairment in a future period. These indicators may be market indicators – change in interest rates, spreads and other market movements, or changes in regulatory environment, as well as specific indicators – change in the value of collaterals, change in the forecast for company' development, expenses not foreseen in the business plan, occurrence of incidents leading to significant decrease of borrower's creditworthiness.

The analysis should also determine whether the modification is material to an extent that justifies the derecognition of the asset or recognition of a new one.

In 2022 and 2021 the Bank carried out an analysis of the effect of the modifications on the exposures in its portfolio, including those made within a private moratorium in relation to the Covid-19 pandemic, with the objective of determining whether some of them may indicate a necessity for derecognition and recognition of a new asset. As a result of the analysis, it was estimated that the effect of the modifications is insignificant.

The analysis of the changes in the values of the main group of financial assets and their impairment are presented in sub-section ECL Reporting in this section.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

Regarding the loans extended under the National Programme for Energy Efficiency of Multi-Family Buildings (NPEEMFB), 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 signing 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 Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

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

	Financial assets measured at amortized cost								FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current accounts with the Central Banks**	**Securities**	**Net investment in finance lease**	**Other financial assets**	**Debt instruments**
At 31 December 2022									
Impaired on an individual basis									
-standard (Stage 1)	513,661	-	115	-	88	11,975	143	7,178	523,850
-watch (Stage 2)	464,226	-	-	-	-	-	8	-	-
-non-performing (Stage 3)	328,923	-	-	-	-	-	2,773	-	14,685
Gross amount	**1,306,810**	**-**	**115**	**-**	**88**	**11,975**	**2,924**	**7,178**	**538,535**
Incl. renegotiated	1,288,648	-	-	-	-	-	-	-	-
Past due but not impaired									
-standard (Stage 1)	-	-	-	-	-	-	28	-	-
-watch (Stage 2)	1,177	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	24,122	-	-	-	-	-	-	-	-
Gross amount	**25,299**	**-**	**-**	**-**	**-**	**-**	**28**	**-**	**-**

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

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

	Financial assets measured at amortized cost								FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current accounts with the Central Banks**	**Securities**	**Net investment in finance lease**	**Other financial assets**	**Debt instruments**
At 31 December 2022									
Incl. renegotiated	25,299	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Within 30 days	4,955	-	-	-	-	-	-	-	-
From 30- 90 days	-	-	-	-	-	-	-	-	-
Over 90 days	20,344	-	-	-	-	-	-	-	-
Impaired on a portfolio basis									
-standard (Stage 1)	193,661	23,598	52,387	3,937	-	-	66,303	-	-
-watch (Stage 2)	6,817	-	-	75	-	-	2,282	-	-
-non-performing (Stage 3)	-	-	-	-	-	-	-	-	-
Gross amount	**200,478**	**23,598**	**52,387**	**4,012**	**-**	**-**	**68,585**	**-**	**-**
Incl. renegotiated	121,596	23,598	31,939	225	-	-	-	**-**	**-**
Not past due and not impaired									
Stage 1	149,086	-	88,302	-	527,836	-	-	-	-
Stage 2	12,674	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Gross amount	**161,760**	**-**	**88,302**	**-**	**527,836**	**-**	**-**	**-**	**-**
Incl. renegotiated	160,702	-	-	-	-	-	-	-	-
Gross amount	**1,694,347**	**23,598**	**140,804**	**4,012**	**527,924**	**11,975**	**71,537**	**7,178**	**538,535**
Incl. renegotiated	1,596,245	-	31,939	225	-	-	-	-	-

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

	Financial assets measured at amortized cost								FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current account with the Central Bank**	**Securities**	**Net investment in finance lease**	**Other financial assets**	**Debt instruments**
At 31 December 2021									
Impaired on an individual basis									
-standard (Stage 1)	625,622	-	1	-	10	12,170	267	4,888	657,649
-watch (Stage 2)	696,551	-	-	-	-	-	20	-	-
-non-performing (Stage 3)	206,306	-	-	-	-	-	910	476	-
Gross amount	**1,528,479**	**-**	**1**	**-**	**10**	**12,170**	**1,197**	**5,364**	**657,649**
Incl. renegotiated	1,438,103	-	-	-	-	-	-	-	-
Past due but not impaired									
-standard (Stage 1)	-	-	-	-	-	-	-	-	-
-watch (Stage 2)	-	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	46,180	-	-	-	-	-	-	-	-
Gross amount	**46,180**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

	Financial assets measured at amortized cost								FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current account with the Central Bank**	**Securities**	**Net investment in finance lease**	**Other financial assets**	**Debt instruments**
At 31 December 2021									
Incl. renegotiated	***46,180***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Within 30 days	-	-	-	-	-	-	-	-	-
From 30- 90 days	2,722	-	-	-	-	-	-	-	-
Over 90 days	43,458	-	-	-	-	-	-	-	-
Impaired on a portfolio basis									
-standard (Stage 1)	184,559	18,866	73,990	3,949	-	-	53,087	-	-
-watch (Stage 2)	3,436	-	-	6	-	-	4,140	-	-
-non-performing (Stage 3)	51,314	-	-	8	-	-	-	-	-
Gross amount	**239,309**	**18,866**	**73,990**	**3,963**	**-**	**-**	**57,227**	**-**	**-**
Incl. renegotiated	***164,540***	**-**	***50,271***	***247***	**-**	**-**	**-**	**-**	**-**
Not past due and not impaired									
Stage 1	204,612	-	313,447	-	243,625	-	-	-	-
Stage 2	15,483	-	-	-	-	-	-	-	-
Stage 3	4,145	-	-	-	-	-	-	-	-
Gross amount	**224,240**	**-**	**313,447**	**-**	**243,625**	**-**	**-**	**-**	**-**
Incl. renegotiated	220,767	-	-	-	-	-	-	-	-
Gross amount	**2,038,208**	**18,866**	**387,438**	**3,963**	**243,635**	**12,170**	**58,424**	**5,364**	**657,649**
Incl. renegotiated	1,869,590	-	50,271	247	-	-	-	-	-

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

The Group 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 financial assets at amortized cost and finance lease receivables (Stage 2), presented at amortised cost before impairment, are as follows:

	2022	**2021**
Loans for commercial property and construction	185,635	190,902
Trade loans	235,499	457,696
Consumer loans	75	6
Other loans and receivables	63,760	66,920
	484,969	**715,524**
Finance lease receivables	2,290	4,160
	487,259	**719,684**

When the initial terms of the agreement have been modified by the Parent-company 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, in accordance with Policy and rules for determining expected credit losses and impairment of exposure of BDB).

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

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

	2022	2021
Loans for commercial property and construction	**251,901**	**269,061**
incl. Performing – Stage 1	-	-
Watch – Stage 2	*164,108*	*169,444*
Non-performing – Stage 3	*87,793*	*99,617*
Trade loans	**340,966**	**356,076**
incl. Performing – Stage 1	-	*445*
Watch – Stage 2	*179,921*	*268,863*
Non-performing – Stage 3	*161,045*	*86,768*
Other loans	**70,482**	**79,269**
incl. Performing – Stage 1	*1,238*	-
Watch – Stage 2	*63,760*	*64,307*
Non-performing – Stage 3	*5,484*	*14,962*
	663,349	**704,406**

Contingent commitments

Bank guarantees, letters of credit and unutilized loan commitments

The Bank assesses the credit quality of provided contingent commitments by applying a methodology, which estimates whether events indicating with a high probability that outflow of Bank's resources might take place have occurred. These costs (losses) are determined on the basis of the Policy and Methodology for assessment of expected credit losses, and a Calculation Procedure of BDB based on a Conversion Factor (CCF) that is applied in the case of off-balance sheet exposures that are likely to turn into balance sheet exposures (payments on guarantees, utilisation of part of the allowed amount of the loan, etc.).

As of 31 December 2022, the Group identified commitments amounting to BGN 436,763 thousand (2021: BGN 576,487 thousand), which are impaired at the amount of BGN 5,893 thousand (2021: BGN 5,615 thousand) (Note 32).

Credit guarantees anti-COVID-19

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Contracts for financial guarantees

These contingent liabilities are carriers of off-balance sheet credit risk, as only fees are recognized in the financial statements until the fulfilment or expiration of the commitments. Many of the contingent liabilities will expire without being partially or fully advanced. The collateral with the partner banks for issuing the usual guarantees is over 100% and represents mainly mortgaged real estate and insurance policies issued in favor of the partner bank.

Expected credit losses (ECL) reporting

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.

Contracts for financial guarantees are contingent liabilities and are bearers of off-balance sheet credit risk, as only fees are recognized in the financial statements until the fulfilment or expiration of the commitments. Many of the contingent liabilities will expire without being partially or fully advanced. The collateral with the partner banks for issuing the usual guarantees is over 100% and represents mainly mortgaged real estate and insurance policies issued in favour of the partner bank. For the guarantees under the anti-COVID programs, the collaterals are in accordance with the program approved by the Council of Ministers. In case of activation of a component of a guarantee issued by a company of the Group, 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 on the problem loan and repay the respective amount to the company.

Risk parameters affecting ECL

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 Group maintains historical information on the migration of exposures between different stages.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Risk parameters affecting ECL (continued)

Probability of default (PD) (continued)

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 Group adjusts the values of 12M PD to reflect the current or expected economic conditions that may differ from those during the historical periods analysed.

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 Group 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 Group 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 Group has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency).

Expected credit losses on issued credit guarantees anti-COVID

For these programmes the BDB adopted a special methodology for provisioning in view of the specifics of the programmes, profile of the customers and structure of commitments related to the products for cash inflows and outflows as follows:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for companies

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

- The obligation to pay under the guarantees is practically unconditional (for loans admitted in the program).
- The guarantees are 100% of the principal on the loan. A maximum ceiling of payments was established – initially of 30%, and by decision of the Council of Ministers at the end of 2020 the ceiling was raised to 50%.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 intermediate enterprises were also included by the amendments made.
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral exposures is required). It is also possible to include a certain percentage of exposures already formed, and the self-participation of banks is set at 20%. The terms prejudge a significantly higher risk than under normal business guarantee programmes.

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 213.6 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 2,894 guaranteed loans in the amount of BGN 630.3 million.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for companies (continued)

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB 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 programme 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);
- The reimbursement of the amounts paid under the guarantees shall amount to 35% of the amounts paid. This estimate shall take into account the recovery costs;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 3.33% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.51% for every 1% change.

Programme for individuals

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

- Payments under guarantees are virtually unconditional (for loans admitted to the programme);
- The guarantees are for 100% of the principal amount of the loan;
- The selection of borrowers is based on the criterion “affected by the pandemic” and not on the usual criteria for providing funding to individuals. These are persons on unpaid leave or self-employed persons with reduced income. Borrowers' incomes are stressed and significantly lower than usual;
- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guarantee commitment;
- The loans have a grace period of up to two years and a term of up to 5 years.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for individuals (continued)

By Decision of the Council of Ministers 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier").

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB will amount to 40% of the guarantee commitment and the remaining 60% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 25% of the amounts paid. This estimate shall take into account the recovery costs;
- The payment of 1.5% to commercial banks is an irrevocable commitment of the BDB, which is included in the calculation;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

As of 31 December 2022 BDB has guaranteed 46,863 active loans under the program, for which a guarantee at the amount of BGN 189.6 million has been provided.

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

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

As of 31 December 2022, the Bank has active guarantees under both anti-COVID programs at the amount of BGN 403,208 thousand, has guaranteed exposures under the two programmes totalling BGN 715,979 thousand, recognizing provisions at the amount of BGN 127,215 thousand.

Expected credit losses on portfolio guarantees issued

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 third parties.

In order to properly assess the portfolios under guarantee schemes in terms of own risk, namely “Guarantee scheme 2009-2011”, “Guarantee scheme 2015-2017”, “Guarantee scheme 2017-2018” and COSME Guarantee scheme, the NGF applies a Policy on the Classification and Evaluation of Instruments covered by IFRS 9, a Credit Portfolios Rating Procedure and the Methodology for determining the expected credit losses, as also a Procedure for their calculation. A calculation of expected losses on financial instruments in the NGF portfolio is carried out by applying a calculation model for expected losses.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movements in the main groups of assets subject to impairment

The tables below show the movements of the main groups of assets subject to impairment, between the different stages for the period 01.01-31.12.2022 and 01.01-31.12.2021.

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions as well as securities at amortized cost are included in the table presented below.

Assets measured at amortised cost (except for Government and Receivables from Banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2021	**1,296,255**	**539,755**	**264,049**	**2,100,059**
Transfers:				**-**
Transfer from Stage 1 to Stage 2	(231,968)	231,968	-	**-**
Transfer from Stage 1 to Stage 3	(4,519)	-	4,519	**-**
Transfer from Stage 2 to Stage 3	-	(51,493)	51,493	**-**
Transfer from Stage 2 to Stage 1	7,905	(7,905)	-	**-**
Transfer from Stage 3 to Stage 2	-	2,672	(2,672)	**-**
Newly occurred and newly acquired exposures	88,947	16,022	38,170	143,139
Paid or transferred	(209,968)	(21,248)	(57,698)	(288,914)
Increased	85,202	5,753	9,102	100,057
Balance as of 31.12.2021	**1,031,854**	**715,524**	**306,963**	**2,054,341**
Transfers:				
Transfer from Stage 1 to Stage 2	(38,000)	38,000	-	**-**
Transfer from Stage 1 to Stage 3	(10,861)	-	10,861	**-**
Transfer from Stage 2 to Stage 3	-	(84,031)	84,031	**-**
Transfer from Stage 2 to Stage 1	5,478	(5,478)	-	**-**
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Newly occurred and newly acquired exposures	62,027	4,043	6,963	**73,033**
Paid or transferred	(222,392)	(187,421)	(57,328)	**(467,141)**
Increased	44,214	4,332	1,555	**50,101**
Balance as of 31.12.2022	**872,320**	**484,969**	**353,045**	**1,710,334**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movements in the main groups of assets subject to impairment (continued)

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2021	**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 of 31.12.2021	**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 of 31.12.2022	**23,598**	**-**	**-**	**23,598**

The Group presents under the heading Government assets measured at amortised cost relating mainly to the National Programme for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB).

Assets measured at amortised cost – Net investment in finance lease	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2021	**39,697**	**73**	**612**	**40,382**
Transfers:				
Transfer from Stage 1 to Stage 2	(4,369)	4,369	-	**-**
Transfer from Stage 1 to Stage 3	(160)	-	160	**-**
Transfer from Stage 2 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	18	(18)	-	**-**
Newly occurred and newly acquired exposures	124,943	-	-	**124,943**
Paid or transferred	(106,775)	(264)	138	**(106,901)**
Increased	-	-	-	**-**
Balance as of 31.12.2021	**53,354**	**4,160**	**910**	**58,424**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,610)	1,610	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(2,429)	2,429	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Newly occurred and newly acquired exposures	109,559	672	-	**110,231**
Paid or transferred	(94,829)	(1,723)	(566)	**(97,118)**
Increased	-	-	-	**-**
Balance as of 31.12.2022	**66,474**	**2,290**	**2,773**	**71,537**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movements in the main groups of assets subject to impairment (continued)

Assets measured at amortised cost - Banks and financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2021	**480,688**	**-**	**-**	**480,688**
Newly occurred and newly acquired exposures	230,931	**-**	**-**	**230,931**
Paid or transferred	(341,246)	**-**	**-**	**(341,246)**
Increased	17,065	**-**	**-**	**17,065**
Balance as of 31.12.2021	**387,438**	**-**	**-**	**387,438**
Newly occurred and newly acquired exposures	77,335	-	-	**77,335**
Paid or transferred	(325,864)	-	-	**(325,864)**
Increased	1,895	-	-	**1,895**
Balance as of 31.12.2022	**140,804**	**-**	**-**	**140,804**

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 01.01.2021	**649,573**	**-**	**-**	**649,573**
Newly occurred and newly acquired exposures	138,749	-	-	**138,749**
Paid or transferred	(167,961)	-	-	**(167,961)**
Increased	37,288	-	-	**37,288**
Balance as of 31.12.2021	**657,649**	**-**	**-**	**657,649**
Transfers:				
Transfer from Stage 1 to Stage 3	(14,685)	-	14,685	**-**
Newly occurred and newly acquired exposures	52,545	-	-	**52,545**
Paid or transferred	(208,482)	-	-	**(208,482)**
Increased	36,823	-	-	**36,823**
Balance as of 31.12.2022	**523,850**	**-**	**14,685**	**538,535**

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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 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.

Movement in the impairment in 2022 and 2021 is presented in the following tables.

Assets measured at amortised cost (except for Receivables from the State Budget)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2021	**72,273**	**72,783**	**113,697**	**258,753**
Transfers:				
Transfer from Stage 1 to Stage 2	(51,987)	51,987	-	**-**
Transfer from Stage 1 to Stage 3	66	-	(66)	**-**
Transfer from Stage 2 to Stage 3	-	(1,073)	1,073	**-**
Transfer from Stage 2 to Stage 1	25	(243)	218	**-**
Newly occurred and newly acquired exposures	1,582	225	5,270	**7,077**
Paid or transferred	(2,923)	(252)	(55,713)	**(58,888)**
Increased	1,366	97,203	41,048	**139,617**
Balance of impairment as of 31.12.2021	**20,402**	**220,630**	**105,527**	**346,559**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,354)	1,354	-	**-**
Transfer from Stage 1 to Stage 3	(98)	-	98	**-**
Transfer from Stage 2 to Stage 3	-	(15,732)	15,732	**-**
Transfer from Stage 2 to Stage 1	15	(15)	-	**-**
Newly occurred and newly acquired exposures	2,244	5,054	92,571	**99,869**
Paid or transferred	(3,134)	(149,349)	(55,653)	**(208,136)**
Increased	2,118	4,800	3,652	**10,570**
Balance of impairment as of 31.12.2022	**20,193**	**66,742**	**161,927**	**248,862**

Impairment of financial assets at amortized cost – Securities is included in the movement in the impairment above.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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

Assets measured at amortised cost – Receivables from the State Budget	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2021	**151**	**-**	**-**	**151**
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	(102)	-	-	**(102)**
Balance of impairment as of 31.12.2021	**49**	**-**	**-**	**49**
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	12	-	-	**12**
Balance of impairment as of 31.12.2022	**61**	**-**	**-**	**61**

Assets measured at amortised cost - Finance lease	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2021	**265**	**-**	**506**	**771**
Transfers:				
Transfer from Stage 1 to Stage 2	(191)	191	-	**-**
Transfer from Stage 2 to Stage 1	(2)	2	-	**-**
Newly occurred and newly acquired exposures	737	-	-	**737**
Paid or transferred	(114)	-	-	**(114)**
Increased	-	-	53	**53**
Balance as of 31.12.2021	**695**	**193**	**559**	**1,447**
Transfers:				
Transfer from Stage 1 to Stage 2	(28)	28	-	**-**
Transfer from Stage 2 to Stage 3	-	(166)	166	**-**
Newly occurred and newly acquired exposures	560	3	-	**563**
Paid or transferred	(920)	(29)	(390)	**(1,339)**
Balance as of 31.12.2022	**307**	**29**	**335**	**671**

Assets measured at amortised cost - Banks and financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2021	**1,988**	**-**	**-**	**1,988**
Increased	102	-	-	**102**
Balance of impairment as of 31.12.2021	**2,090**	**-**	**-**	**2,090**
Increased	(706)	-	-	**(706)**
Balance of impairment as of 31.12.2022	**1,384**	**-**	**-**	**1,384**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (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	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2021	**2,618**	**-**	**-**	**2,618**
Newly occurred and newly acquired exposures	1,544	-	-	**1,544**
Paid or transferred	(322)	-	-	**(322)**
Other movements	591	-	-	**591**
Balance of impairment as of 31.12.2021	**4,431**	**-**	**-**	**4,431**
Transfers:				
Transfer from Stage 1 to Stage 3	(1,243)	-	1,243	**-**
Paid or transferred	(377)	-	-	**(377)**
Increased	293	-	-	**293**
Balance of impairment as of 31.12.2022	**3,104**	**-**	**1,243**	**4,347**

Value of collaterals as of 31.12.2022 and 31.12.2021

The value of collaterals under loans and lease is presented in the following table:

Loans by type of collateral	Carrying amount of the loan	Value of the collateral
Mortgages	581,394	738,639
Pledge of machinery, plant, equipment and inventories	188,459	294,599
Restricted deposits	501,169	44,613
Mortgage on a ship	-	-
Credit risk insurance	41,975	36,999
Bank guarantees	634	960
Other collateral	209,574	3,101,695
Unsecured	8,064	-
Total loans as of 31.12.2022	**1,531,269**	**4,217,505**

Leases by type of collateral	Carrying amount of the lease	Value of the collateral
Other collaterals	70,866	-
	70,866	**-**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Value of collaterals as of 31.12.2022 and 31.12.2021 (continued)

Loans by type of collateral	Carrying amount of the loan	Value of the collateral
Mortgages	401,448	543,788
Pledge of machinery, plant, equipment and inventories	182,525	288,241
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 collateral	408,696	3,030,395
Unsecured	18,300	-
Total loans as of 31.12.2021	**1,695,802**	**3,969,756**

Leases by type of collateral	Carrying amount of the lease	Value of the collateral
Other collaterals	56,977	-
	56,977	**-**

Country (sovereign) risk

The Group has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising mainly government securities issued by the Republic of Bulgaria and other EU countries and the USA. The Group’s exposure to sovereign is BGN 495,551 thousand as of 31.12.2022 and BGN 610,011 thousand as of 31.12.2021.

Standard & Poor's credit rating for the Republic of Bulgaria stands at BBB/A-2 with stable outlook (28.05.2022), BBB with positive from Fitch Ratings (18.11.2022) and Baa1 with stable outlook from Moody’s (03.02.2023). The securities held issued by governments of other countries have a rating which is not lower than BBB- according to Fitch Ratings/Standard & Poor’s, or equivalent Baa3 according to 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 Group'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.

Interest rate risk is considered in view of the overall activity of the Group. 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 Group's net income;
- Analysis of the interest rate sensitivity of economic capital (Duration GAP Analysis) – measuring the interest rate sensitivity of the Group's economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Group's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual interest income after 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. In case of Group's statement of financial position items classified as such and measured at fair value, the fair value risk analysis is limited to placing the relevant item with the applicable maturity structure within the interest rate imbalance analysis. The Group maintains designated interest-free assets and liabilities in relation to the execution of payment operations.

In addition to interest rate sensitivity analyses, the main drivers of the movement in the net interest spread of the Group are identified for the purposes of interest rate risk management. This assists decision making on the interest rate policies of the Group, in particular, for the development of specific products and providing sources of financing having matching characteristics.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

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

The table below summarises the interest exposure and interest risk of the Group. It includes information on the Group'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.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

31 December 2022	**With floating interest rate %**	**With fixed interest rate %**	**Interest-free**	**Total**
Financial assets				
Cash in hand and balances in current accounts with the Central Banks	527,836	-	88	**527,924**
Financial assets at amortised cost - Receivables from banks	56,454	75,969	6,997	**139,420**
Financial assets at amortised cost - Loans and advances to customers	1,437,257	11,223	1,203	**1,449,701**
Financial assets at amortised cost – Receivables from the State budget	23,537	-	-	**23,537**
Financial assets at amortised cost – Securities	1,745	10,026	-	**11,771**
Financial assets at amortised cost – Net investment in finance leases	70,380	-	486	**70,866**
Financial assets at fair value through other comprehensive income – Debt instruments	30,497	508,038	-	**538,535**
Other financial assets	51	15	7,112	**7,178**
	2,147,775	**605,271**	**15,886**	**2,768,932**
Financial liabilities				
Deposits from credit institutions	3,130	-	-	**3,130**
Deposits from customers other than credit institutions	799,541	42,194	16,160	**857,895**
Borrowings from international institutions	779,497	-	-	**779,497**
Lease liabilities	90	-		**90**
Other borrowings and liabilities	11,286	5,322	70,407	**87,015**
	1,593,544	**47,516**	**86,567**	**1,727,627**
Total interest rate exposure	**554,231**	**557,755**	**(70,681)**	**1,041,305**
Contingencies and commitments	159,592	18,918	547,022	**725,532**

The Group’s assets and liabilities with floating interest rate are based mainly on 3-month and 6-month EURIBOR.

All amounts are in thousand Bulgarian Leva, 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				
Cash in hand and balances in current account with the Central Bank	243,635	-	-	**243,635**
Financial assets at amortised cost - Receivables from banks	21,747	351,327	12,274	**385,348**
Financial assets at amortised cost - Loans and advances to customers	1,679,547	12,380	3,875	**1,695,802**
Financial assets at amortised cost – Receivables from the State budget	18,817	-	-	**18,817**
Financial assets at amortised cost – Securities	-	11,980	-	**11,980**
Financial assets at amortised cost – Net investment in finance leases	56,501	-	476	**56,977**
Financial assets at fair value through other comprehensive income – Debt instruments	-	657,649	-	**657,649**
Other financial assets	476	5	4,407	**4,888**
	2,020,723	**1,033,341**	**21,032**	**3,075,096**
Financial liabilities				
Deposits from credit institutions	1,731	11	-	**1,742**
Deposits from customers other than credit institutions	654,674	60,732	22,624	**738,030**
Borrowings from international institutions	1,063,786	46,954	-	**1,110,740**
Lease liabilities	168	-	177	**345**
Other borrowings and liabilities	11,314	5,510	70,549	**87,373**
	1,731,673	**113,207**	**93,350**	**1,938,230**
Total interest rate exposure	**289,050**	**920,134**	**(72,318)**	**1,136,866**
Contingencies and commitments	182,247	27,562	891,503	**1,101,312**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

Analysis of interest rate sensitivity and risk

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

As of 31.12.2022	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	over 5 years	With fixed interest rate	Interest-free	Total
Financial assets									
Financial assets at amortised cost – Receivables from banks	5,528	50,926	-	-	-	-	75,969	6,997	**139,420**
Financial assets at amortised cost – Loans and advances to customers	92,123	1,344,398	-	-	-	754	11,223	1,203	**1,449,701**
Financial assets at amortised cost – Net investment in finance lease	216	69,931	-	-	233	-	-	486	**70,866**
Financial assets at amortised cost – Receivables from the State budget	23,537	-	-	-	-	-	-	-	**23,537**
Financial assets at amortised cost – Securities	-	-	1,745	-	-	10,026	-	-	**11,771**
Financial assets at fair value through other comprehensive income – Debt instruments	22,864	31,107	10,939	86,233	337,495	49,897	-	-	**538,535**
Other financial assets	-	386	1	-	51	-	-	6,740	**7,178**
Total financial assets	**144,268**	**1,496,748**	**12,685**	**86,233**	**337,779**	**60,677**	**87,192**	**15,426**	**2,241,008**
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	814,282	10,237	248	7,743	11,840	-	-	13,545	**857,895**
Deposits from credit institutions	2,641	-	-	-	489	-	-	-	**3,130**
Other borrowings and liabilities	3,415	11,298	-	-	56,174	15,574	-	554	**87,015**
Lease liabilities	-	90	-	-	-	-	-		**90**
Total financial liabilities	**845,305**	**54,572**	**2,336**	**49,097**	**621,737**	**140,481**	**-**	**14,099**	**1,727,627**
Total interest rate sensitivity exposure	**(701,037)**	**1,442,176**	**10,349**	**37,136**	**(283,958)**	**(79,804)**	**87,192**	**1,327**	**513,381**
Contingencies and commitments	134,639	150,881	7,743	7,173	-	-	18,918	406,178	**725,532**

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

As of 31.12.2021	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	over 5 years	With fixed interest rate	Interest-free	Total
Financial assets									
Financial assets at amortised cost – Receivables from banks	21,667	80	-	-	-	-	351,327	12,274	**385,348**
Financial assets at amortised cost – Loans and advances to customers	134,516	1,541,913	1,200	513	1,405	12,380	-	3,875	**1,695,802**
Financial assets at amortised cost – Net investment in finance lease	374	55,884	24	45	174	-	-	476	**56,977**
Financial assets at amortised cost – Receivables from the State budget	18,817	-	-	-	-	-	-	-	**18,817**
Financial assets at amortised cost – Securities	-	-	-	-	-	10,060	1,920	-	**11,980**
Financial assets at fair value through other comprehensive income – Debt instruments	-	57,212	439,645	18,097	73,839	68,856	-	-	**657,649**
Other financial assets	-	473	3	-	-	-	5	4,407	**4,888**
Total financial assets	**175,374**	**1,655,562**	**440,872**	**18,655**	**75,418**	**91,296**	**353,252**	**21,032**	**2,831,461**
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	669,030	566	25,118	678	20,014	-	-	22,624	**738,030**
Deposits from credit institutions	1,719	12	-	-	-	11	-	-	**1,742**
Other borrowings and liabilities	3,256	11,236	168	-	60	5,510	-	67,143	**87,373**
Lease liabilities	-	277	-	-	-	-	-	68	**345**
Total financial liabilities	**674,005**	**69,731**	**46,760**	**62,553**	**676,380**	**272,012**	**46,954**	**89,835**	**1,938,230**
Total interest rate sensitivity exposure	**(498,631)**	**1,585,831**	**394,112**	**(43,898)**	**(600,962)**	**(180,716)**	**306,298**	**(68,803)**	**893,231**
Contingencies and commitments	400,054	30,173	-	-	-	-	27,562	643,523	**1,101,312**

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

Sensitivity of the floating interest rate assets and liabilities

The table below represents the sensitivity of the Group to possible changes in interest rates based on the structure of floating rate assets and liabilities as of 31 December, 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 limited downwards by interest rate "floor" based on a variable portion determined by the Group, which in turn is influenced by numerous factors.

	2022			2021		
Currency	**Increase/ Decrease %**	**Sensitivity of the financial result**	**Sensitivity of equity**	**Increase/ Decrease %**	**Sensitivity of the financial result**	**Sensitivity of equity**
BGN	0.50%	341	(2,237)	0.50%	1,799	(4,074)
EUR	0.50%	(265)	(2,747)	0.50%	(1,538)	(4,362)
USD	0.50%	(230)	(25)	0.50%	(386)	(213)
BGN	-0.50%	(341)	2,237	-0.50%	(1,799)	4,074
EUR	-0.50%	265	2,747	-0.50%	1,538	4,362
USD	-0.50%	230	25	-0.50%	386	213

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

	31.12.2022	**31.12.2021**
Financial assets	3.21%	2.31%
Financial liabilities	1.89%	0.92%

Currency risk

The currency risk is the risk that the financial position and cash flows of the Group might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Group 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 Group.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

The policy of the Group is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Group 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 Banks's cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Group. 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 Group's income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Group'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 Group's assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Group'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) monitors currently the currency risk to which the Group is exposed and develops measures for its management and maintenance within the limits acceptable to the Group.

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

All amounts are in thousand Bulgarian Leva, 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 accounts with the Central Banks	61	327,009	-	200,854	**527,924**
Financial assets at amortised cost – Receivables from banks	75,632	37,788	62	25,938	**139,420**
Financial assets at amortised cost – Loans and advances to customers	-	903,048	-	546,653	**1,449,701**
Financial assets at amortised cost – Receivables from the State budget	-	-	-	23,537	**23,537**
Net investment in finance leases	-	70,140	-	726	**70,866**
Financial assets at amortised cost – Securities	-	10,026	-	1,745	**11,771**
Financial assets at fair value through other comprehensive income – Debt Instruments	18,344	341,191	-	179,000	**538,535**
Financial assets at fair value through other comprehensive income – Equity Instruments	-	29,271	-	70,947	**100,218**
Other financial assets	232	3	-	6,943	**7,178**
Total financial assets	**94,269**	**1,718,476**	**62**	**1,056,343**	**2,869,150**
Financial liabilities					
Borrowings from international institutions	-	779,497	-	-	**779,497**
Deposits from customers other than credit institutions	94,172	491,061	-	272,662	**857,895**
Deposits from credit institutions	-	2,663	-	467	**3,130**
Guarantee provisions	1	883	-	132,177	**133,061**
Lease liabilities	-	51	-	39	**90**
Other borrowings	-	17,354	-	69,661	**87,015**
Total financial liabilities	**94,173**	**1,291,509**	**-**	**475,006**	**1,860,688**
Net balance sheet currency position	**96**	**426,967**	**62**	**581,337**	**1,008,462**
Contingencies and commitments	4,705	141,279	-	721,690	**867,674**

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

All amounts are in thousand Bulgarian Leva, 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	-	222,581	**243,635**
Financial assets at amortised cost – Receivables from banks	40,588	304,058	121	40,581	**385,348**
Financial assets at amortised cost – Loans and advances to customers	-	1,076,156	-	619,646	**1,695,802**
Financial assets at amortised cost – Receivables from the State budget	-	-	-	18,817	**18,817**
Net investment in finance leases	-	55,978	-	999	**56,977**
Financial assets at amortised cost – Securities	-	-	-	11,980	**11,980**
Financial assets at fair value through other comprehensive income – Debt Instruments	66,476	377,108	-	214,065	**657,649**
Financial assets at fair value through other comprehensive income – Equity Instruments	-	20,719	-	50,062	**70,781**
Other financial assets	-	-	-	4,888	**4,888**
Total financial assets	**107,092**	**1,855,045**	**121**	**1,183,619**	**3,145,877**
Financial liabilities					
Borrowings from international institutions	-	1,110,740	-	-	**1,110,740**
Deposits from customers other than credit institutions	114,166	330,185	-	293,679	**738,030**
Deposits from credit institutions	-	696	-	1,046	**1,742**
Guarantee provisions	-	785	-	181,200	**181,985**
Lease liabilities	-	168	-	177	**345**
Other borrowings	1	17,483	-	69,889	**87,373**
Total financial liabilities	**114,167**	**1,460,057**	**-**	**545,991**	**2,120,215**
Net balance sheet currency position	**(7,075)**	**394,988**	**121**	**637,628**	**1,025,662**
Contingencies and commitments	6,291	159,193	-	1,128,521	**1,294,005**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

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

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	(1,552)	1,243	(4)	4	-
Total effect				**(9)**	**9**	

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 on the basis of 3-month change in fluctuation of exchange rate (historical period of 3 years) with degree of confidence 99%.

As of 31 December 2022 and 2021, the open positions on currency and market volatility for the respective currencies would have an immaterial effect on the financial result of the Bank, measured at an amount minus BGN 9 thousand (2021: minus BGN 163 thousand) in a hypothesis of adverse change in the exchange rates against the open positions by separate currencies of the Bank by 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 a securities exchange

The Group 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 parent company monitors and analyses all changes in the security market, and engages the advisory services of renowned local investment intermediaries. In addition, at this stage management of the parent company 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 Group will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Group'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 parent company'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 Group's liquidity. In order to manage this risk, the Group maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by 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 having an impact on the Group's liquid position and certain ratios enacted by Bulgarian National Bank. Additionally, a number of correlations are monitored to indicate the liquidity position by period.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Liquidity risk is also measured through application of three additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the parent company 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 in compliance with the Guidelines on liquidity buffers and survival periods of Bulgarian National Bank.

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

	2022	**2021**
As of 31 December	283.55%	473.88%
Average for the period	619.42%	559.37%
Highest for the period	820.79%	704.33%
Lowest for the period	283.55%	462.40%

	2022	**2021**
Cash and cash balances with BNB	527,924	243,635
Balances in current accounts with other banks and international deposits of up to 90 days	81,420	242,257
Government debt securities	495,551	610,011
Liquid assets	**1,104,895**	**1,095,903**
Financial liabilities measured at amortised cost	1,723,550	1,938,230
Provisions	133,061	181,985
Liabilities	**1,856,611**	**2,120,215**
Liquid assets ratio (LAR)	59.50%	51.69%

The table on the next page provides an analysis of the financial assets and liabilities of the Group grouped by remaining maturity (assets with indefinite maturity have a period of realisation of up to 1 month).

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2022	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash in hand and balances in current accounts with the Central Banks	527,924	-	-	-	-	**527,924**
Financial assets at amortised cost – Receivables from banks	56,122	26,719	5,450	36,915	14,214	**139,420**
Financial assets at amortised cost – Loans and advances to customers	167,409	35,733	210,647	442,251	593,661	**1,449,701**
Financial assets at amortised cost - Receivables from the State budget	1,145	1,506	20,886	-	-	**23,537**
Financial assets at amortised cost - Receivables under finance lease	2,254	3,139	12,816	49,186	3,471	**70,866**
Financial assets at amortised cost - Securities	-	-	11	-	11,760	**11,771**
Financial assets at fair value through other comprehensive income – Debt instruments	23,764	32,233	98,661	334,394	49,483	**538,535**
Financial assets at fair value through other comprehensive income – Equity instruments	100,218	-	-	-	-	**100,218**
Other financial assets	3,216	386	2,521	1,055	-	**7,178**
Total financial assets	**882,052**	**99,716**	**350,992**	**863,801**	**672,589**	**2,869,150**
Financial liabilities						
Borrowings from international institutions	546	39,766	2,281	611,997	124,907	**779,497**
Deposits from customers other than credit institutions	808,010	15,532	14,272	20,081	-	**857,895**
Deposits from credit institutions	2,664	46	189	231	-	**3,130**
Other borrowings	3,564	42	341	68,461	14,607	**87,015**
Lease liabilities	-	-	49	41	-	**90**
Total financial liabilities	**814,784**	**55,386**	**17,132**	**700,811**	**139,514**	**1,727,627**
Gap in maturity thresholds of assets and liabilities	**67,268**	**44,330**	**333,860**	**162,990**	**533,075**	**1,141,523**
Contingencies and commitments	184,399	7,249	80,958	446,394	6,485	**725,485**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2021	Within 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	243,635	-	-	-	-	**243,635**
Financial assets at amortised cost – Receivables from banks	216,939	39,505	56,614	40,790	31,500	**385,348**
Financial assets at amortised cost – Loans and advances to customers	182,881	34,194	195,500	559,828	723,399	**1,695,802**
Financial assets at amortised cost - Receivables from the State budget	-	9,000	9,817	-	-	**18,817**
Financial assets at amortised cost - Receivables under finance lease	1,682	2,275	10,586	33,434	9,000	**56,977**
Financial assets at amortised cost - Securities	-	-	11	-	11,969	**11,980**
Financial assets at fair value through other comprehensive income – Debt instruments	752	59,443	51,654	477,391	68,409	**657,649**
Financial assets at fair value through other comprehensive income – Equity instruments	70,781	-	-	-	-	**70,781**
Other financial assets	1,109	699	3,080	-	-	**4,888**
Total financial assets	**717,779**	**145,116**	**327,262**	**1,111,443**	**844,277**	**3,145,877**
Financial liabilities						
Borrowings from international institutions	-	57,640	126,392	660,218	266,490	**1,110,740**
Deposits from customers other than credit institutions	669,998	4,872	34,440	28,720	-	**738,030**
Deposits from credit institutions	1,719	-	-	-	23	**1,742**
Other borrowings	4,311	11,238	899	985	69,940	**87,373**
Guarantee provisions	4,570	600	2,700	174,115	-	**181,985**
Lease liabilities	107	34	80	124	-	**345**
Total financial liabilities	**680,705**	**74,384**	**164,511**	**864,162**	**336,453**	**2,120,215**
Gap in maturity thresholds of assets and liabilities	**37,074**	**70,732**	**162,751**	**247,281**	**507,824**	**1,025,662**
Contingencies and commitments	303,435	12,949	83,948	699,059	6,583	**1,105,974**

All amounts are in thousand Bulgarian Leva, 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 Group's liabilities as of 31 December:

As of 31 December 2022	**Carrying amount**	**Gross flow**	**Less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 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	857,895	91907,668	808,045	30,622	55,169	25,832	-
Deposits from credit institutions	3,130	3,130	2,664	46	189	231	-
Lease liabilities	90	100	1	1	52	46	-
Other borrowings	87,015	89,385	3,564	42	345	69,695	15,739
	1,727,627	**1,897,720**	**814,819**	**70,971**	**118,297**	**721,400**	**172,233**
Credit guarantee and bank guarantee provisions	133,061	133,061	4,401	600	2,700	125,360	-
Unutilised credit commitments	178,463	178,510	18,701	5,028	56,632	94,649	3,500

As of 31 December 2021	**Carrying amount**	**Gross flow**	**Less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 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	738,030	738,190	669,998	4,873	34,448	28,871	-
Deposits from credit institutions	1,742	1,778	1,719	-	-	-	59
Lease liabilities	345	345	107	34	152	52	-
Other borrowings	88,126	89,950	5,305	11,292	953	1,652	70,748
	1,938,983	**1,997,508**	**677,129**	**74,455**	**162,642**	**721,860**	**361,422**
Credit guarantee and bank guarantee provisions	181,985	181,985	4,570	600	2,700	174,115	-
Unutilised credit commitments	209,829	209,829	28,053	9,946	68,187	100,143	3,500

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Considering the specific activity of the Group, the funds attracted from the biggest 20 non-bank depositors as of 31 December 2022 represent 72.58% of the total amount of Deposits from customers other than credit institutions (31 December 2021: 85.76%). The share of the biggest non-bank depositor of the total amount of Deposits from customers other than credit institutions is 29.90% (31 December 2021: 16.22%).

The Group's financial assets available to be pledged 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 accounts with Central Banks	-	390,876	137,048	**527,924**
Financial assets at amortised cost - Receivables from banks	6,997	132,423	-	**139,420**
Financial assets at amortised cost – Loans and advances to customers	-	870,770	578,931	**1,449,701**
Financial assets at amortised cost – Receivables from the State budget	-	23,537	-	**23,537**
Financial assets at amortised cost - Net investment in finance leases	-	70,866	-	**70,866**
Financial assets at amortised cost – Securities	-	11,771	-	**11,771**
Financial assets at fair value through other comprehensive income – Debt instruments	6,038	532,497	-	**538,535**
Financial assets at fair value through other comprehensive income – Equity instruments	-	(492)	100,710	**100,218**
Other financial assets	-	4,050	3,128	**7,178**
Total financial assets	**13,035**	**2,036,298**	**819,817**	**2,869,150**

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

All amounts are in thousand Bulgarian Leva, 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 Central Bank	-	108,019	135,616	**243,635**
Financial assets at amortised cost - Receivables from banks	12,274	373,074	-	**385,348**
Financial assets at amortised cost – Loans and advances to customers	-	970,013	725,789	**1,695,802**
Financial assets at amortised cost – Receivables from the State budget	-	18,817	-	**18,817**
Financial assets at amortised cost - Net investment in finance leases	-	56,977	-	**56,977**
Financial assets at amortised cost – Securities	-	11,980	-	**11,980**
Financial assets at fair value through other comprehensive income – Debt instruments	6,482	651,167	-	**657,649**
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	70,781	**70,781**
Other financial assets	-	2,772	2,116	**4,888**
Total financial assets	**18,756**	**2,192,819**	**934,302**	**3,145,877**

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

Receivables from banks pledged as collateral as per maturity interval	**2022**	**2021**
On demand	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**

At 31 December 2022, securities on a legal requirement to provide for funds of the State budget amounting to BGN 6,038 thousand (2021: BGN 6,482 thousand) were blocked.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Operational risk

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

The main sources of operational risk within the Group are its personnel, processes, systems and external events. The Group 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 Group 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. In addition, control procedures for reducing the operational risk are added to all internal rules and procedures of the Group.

In operational risk management all operational events, which occur in the activity of various units and processes of the Group, 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 Group. For the purposes of measuring its operational risk, the Group has decided to apply the "Basic indicator method".

4.5 Equity management

The main objectives of the Group'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 Group should observe the regulatory requirements for capital adequacy (Notes 35 and 36), as well as to continue operating as a going concern.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.5 Equity management (continued)

The table below presents the main equity components following the regulatory requirements and ratios achieved on a consolidated group (as a Bank group) level:

	2022	**2021**
OWN FUNDS	1,037,604	1,082,587
TIER I CAPITAL	1,037,604	1,082,587
COMMON EQUITY TIER I CAPITAL	1,037,604	1,082,587
Share capital	1,441,774	1,441,774
Loss	(229,534)	(386,149)
Statutory reserves	14,481	87,185
Additional reserves	-	83,752
Accumulated other comprehensive income	(106,953)	(78,502)
Intangible assets	(7,670)	(8,074)
Investments in subsidiaries	(3,023)	(3,200)
(-) Common Equity Tier 1 instruments of financial sector entities when the institution has significant investments	(54,268)	(43,760)
Value adjustments due to prudential assessment requirements	(639)	(728)
Transitional adjustments to CET1 Capital	-	-
Deductible deferred tax assets that are based on future profit and arise from temporary differences	(12,327)	(9,711)
Components of or deductions from CET 1 Capital - other	(4,237)	-
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-
TOTAL RISK EXPOSURES	2,373,485	3,003,470
Credit risk - Standardised approach	2,245,360	2,871,845
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	1,088,057	1,511,403
Retail	282,034	452,175
Secured by mortgages on immovable property	346,793	293,812
Exposures in default	250,900	285,183
Items associated with particular high risk	88,404	71,130
Equity exposures	190	190
Other items	109,769	106,500
Currency and commodity risk	-	-
Operational risk - Basic indicator approach	128,125	131,625

All amounts are in thousand Bulgarian Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.5 Equity management (continued)

	2022	2021
CET 1 Capital Ratio	**43,72%**	**36.04%**
Total Capital Ratio	**43,72%**	**36.04%**
Capital conservation buffer	59,337	75,087
Systemic risk buffer	71,205	90,104
Institution-specific countercyclical capital buffer	23,735	15,017
Buffer of other institutions of systemic importance	11,867	15,017
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 No 93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%. By decision of BNB No 84 of 8 March 2022 this requirement has been increased to 2.25% for risk-weighted assets, or a minimum overall capital adequacy of 10.25%.

By decision of BNB No 188 of 26 April 2023 the requirement for capital exceeding the requirements of Art. 91, para 1 of Regulation (EU) No 575/2013 was reduced to 2.10% to risk-weighted assets or a minimum total capital adequacy of 10.10%. By the same decision, based on Art. 79c, para 1, item 3 and Art. 79d, item 1 and 3, BNB makes a recommendation to BDB to maintain additional equity of 0.30%.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.6 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 Group'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 Group 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 consolidated 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)

4.6 External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Bank (continued)

- Clients in the **Construction and Real Estate** sector expect the high prices of materials to persist in the medium term, as the main suppliers of these raw materials - iron, cement, etc. - are Russia and Ukraine. 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 Leva, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.6 External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Bank (continued)

As of 31 August 2023, the Bank has the following significant exposures[5] to the potentially affected sectors:

	As of 31.08.2023
Construction and real estate	366,049
Industry	414,084
Trade and services	315,289
Transport	197,205
Production, transmission, distribution and supply of natural gas and thermal energy	128,525
Tourism and hospitality	251,327
	1,672,479

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.

[5] Top 50 clients on consolidated base, including balance sheet debt, off-balance sheet exposures and unutilized credit lines.

All amounts are in thousand Bulgarian Leva, 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:

As of 31.12.2022		**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									
Financial assets at fair value through other comprehensive income – Debt instruments	21	-	538,535	-	538,535	523,850	-	14,685	538,535
Financial assets at fair value through other comprehensive income – Equity instruments*	21	-	100,218	-	100,218	81,749	-	16,982	98,731
Assets acquired through collateral foreclosure	27	-	-	37,434	37,434	-	-	37,434	37,434
Investment property	25	-	-	7,759	7,759	-	-	7,759	7,759
		-	**638,753**	**45,193**	**683,946**	**605,599**	**-**	**76,860**	**682,459**
Financial assets not measured at fair value									
Cash in hand and balances in current accounts with the Central Banks	16	527,924	-	-	527,924	-	527,924	-	527,924
Loans to banks	17	51,002	-	-	51,002	-	52,536	-	52,536
Current accounts and term deposits of banks	17	88,418	-	-	88,418	-	88,418	-	88,418
Financial assets at amortized cost - Loans and advances to customers	18	1,449,701	-	-	1,449,701	-	1,485,217	-	1,485,217
Financial assets at amortized cost - Receivables from the State budget	19	23,537	-	-	23,537	-	26,846	-	26,846
Financial assets at amortized cost - Securities	20	11,771	-	-	11,771	10,863	1,659	-	12,522
Financial assets at amortized cost – Finance lease receivables	22	70,866	-	-	70,866	-	70,866	-	70,866
Other financial assets		7,178			7,178		7,178		7,178
		2,230,397	**-**	**-**	**2,230,397**	**10,863**	**2,260,644**	**-**	**2,271,507**
Financial liabilities not measured at fair value									
Deposits from credit institutions - Current accounts and term deposits of banks	30	-	-	3,130	3,130	-	3,130	-	3,130
Deposits from other customers other than credit institutions	29	-	-	857,895	857,895	-	857,823	-	857,823
Borrowings from international institutions	28	-	-	779,497	779,497	-	824,130	-	824,130
Other borrowings and liabilities	31	-	-	82,938	82,938	-	83,903	-	83,903
		-	**-**	**1,723,460**	**1,723,460**	**-**	**1,768,986**	**-**	**1,768,986**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

As of 31.12.2021		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									
Financial assets at fair value through other comprehensive income – Debt instruments	21	-	657,649	-	**657,649**	657,649	-	-	**657,649**
Financial assets at fair value through other comprehensive income – Equity instruments*	21	-	70,781	-	**70,781**	63,391	-	6,112	**69,503**
Assets acquired through collateral foreclosure	27	-	-	34,719	**34,719**	-	-	34,719	**34,719**
Investment property	25	-	-	7,189	**7,189**	-	-	7,189	**7,189**
		-	**728,430**	**41,908**	**770,338**	**721,040**	**-**	**48,020**	**769,060**
Financial assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	16	243,635	-	-	**243,635**	-	243,635	-	**243,635**
Loans to banks	17	71,900	-	-	**71,900**	-	76,104	-	**76,104**
Current accounts and term deposits of banks	17	313,448	-	-	**313,448**	-	313,448	-	**313,448**
Financial assets at amortized cost - Loans and advances to customers	18	1,695,802	-	-	**1,695,802**	-	1,733,482	-	**1,733,482**
Financial assets at amortized cost - Receivables from the State budget	19	18,817	-	-	**18,817**	-	24,661	-	**24,661**
Financial assets at amortized cost - Securities	20	11,980	-	-	**11,980**	12,836	1,659	-	**14,495**
Financial assets at amortized cost – Finance lease receivables	22	56,977	-	-	**56,977**	-	56,977	-	**56,977**
Other financial assets		4,888	-	-	**4,888**	-	4,888	-	**4,888**
		2,417,447	**-**	**-**	**2,417,447**	**12,836**	**2,454,854**	**-**	**2,467,690**
Financial liabilities not measured at fair value									
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	1,742	**1,742**	-	1,742	-	**1,742**
Deposits from other customers other than credit institutions	29	-	-	738,030	**738,030**	-	738,638	-	**738,638**
Borrowings from international institutions	30	-	-	1,110,740	**1,110,740**	-	1,142,764	-	**1,142,764**
Other borrowings and liabilities	31	-	-	87,373	**87,373**	-	88,470	-	**88,470**
		-	**-**	**1,937,885**	**1,937,885**	**-**	**1,971,614**	**-**	**1,971,614**

* The fair value of securities classified as investments available for sale with carrying amount BGN 1,487 thousand as of 31 December 2022 (2021: BGN 1,278 thousand), which are held at cost is not disclosed, as it cannot be reliably measured.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair value of assets measured at fair value is presented in the following table by types of assets at the reporting date. The Group has voluntarily disclosed the fair value of the assets acquired through collateral foreclosure as of 31 December 2022 and 31 December 2021.

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)	523,850	657,649	Level 1	Quoted market price	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	81,749	63,391	Level 1	Quoted market price	N/A	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	16,982	6,112	Level 3	Discounted future cash flows The revenue method for valuation of equity participation is an analysis of the value of the share in the valued enterprise, based on its ability to generate income through the distribution of dividends, as well as an estimate of the terminal value when selling shares. Determining the value of the assessed share is based on the permanently realized net annual income of the enterprise, which is distributed among the shareholders on the basis of estimated income, expenses, investment and financial cash flows. For the terminal value are taken similar transactions and / or sales at similar ratios - Price /profit, price / income, multiplier of (EBITDA) or others.	Sector analyzes, evaluation of the company's business plan, coefficients and multipliers for private transactions.	The fair value will increase/decrease at: - Favorable/unfavorable development in the sector - Favorable/unfavorable positioning of the enterprise in the sector - Favorable/unfavorable development of the coefficient and multipliers of the assessed company compared to similar companies

All amounts are in thousand Bulgarian Leva, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

<table>
<tr><th>Financial instrument</th><th>Fair value as of</th><th>Fair value as of</th><th>Fair value hierarchy</th><th>Valuation techniques</th><th>Significant unobservable inputs</th><th>Relationship of unobservable inputs to fair value</th></tr>
<tr><td></td><td>31.12.2022</td><td>31.12.2021</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Investment property</td><td>7,759</td><td>7,189</td><td>Level 3</td><td rowspan="2">Market analogues method

Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of a range of prices of similar property or prices per sq. m. previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough. Currently, investment property is assessed between BGN 109 and BGN 1,523 /sq. m.

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.</td><td rowspan="2">Market analogues method:
1. Market realisation coefficient (0.8-0.95)
2. Location coefficient (0.81-1.0)
3. Coefficient of specific features (status) (0.8-1.1)
4. Offer market adequacy adjustment coefficient (from -10% to +5%)

Income capitalisation method (revenue method):

1. rent per sq. m. – BGN 1-14/ sq. m.
2. price growth assumptions – 0-10%

3. levels of vacant unoccupied space – 3-25%

4. discount rate – 5-9%</td><td rowspan="2">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)</td></tr>
<tr><td>Assets, acquired through collateral foreclosure</td><td>37,434</td><td>34,719</td><td>Level 3</td></tr>
</table>

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5. FAIR VALUE DISCLOSURE (CONTINUED)

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

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2022	31.12.2021				
Loans to banks	52,536	76,104	Level 2	Discounted cash flows Future cash flows are discounted by EURIBOR for 12 months but not 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	1,485,217	1,733,482	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 of the respective year.	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 of the respective year.	N/A	N/A
Financial assets at amortized cost - Securities	10,863	12,836	Level 1	Quoted market price	N/A	N/A

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5. FAIR VALUE DISCLOSURE (CONTINUED)

Financial instrument	**Fair value as of**	**Fair value as of**	**Fair value hierarchy**	**Valuation techniques**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
	31.12.2022	**31.12.2021**				
Financial assets at amortized cost - Securities	1,659	1,659	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December of the respective year.	N/A	N/A
Financial assets at amortized cost – lease receivables	70,866	56,977	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December of the respective year.	N/A	N/A
Other financial assets	7,178	4,888	Level 2	Discounted cash flows The revenue method for valuation of equity participation is an analysis of the value of the share in the valued enterprise, based on its ability to generate income through the distribution of dividends, as well as an estimate of the terminal value when selling shares. Determining the value of the assessed share is based on the permanently realized net annual income of the enterprise, which is distributed among the shareholders on the basis of estimated income, expenses, investment and financial cash flows. For the terminal value are taken similar transactions and / or sales at similar ratios - Price / profit, price / income, multiplier of (EBITDA) or others.	Sector analyzes, evaluation of the company's business plan, coefficients and multipliers for private transactions.	The fair value will increase/decrease at: - Favorable/unfavorable development in the sector - Favorable/unfavorable positioning of the enterprise in the sector - Favorable/unfavorable development of the coefficient and multipliers of the assessed company compared to similar companies
Other borrowings	83,903	88,470	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December of the respective year.	N/A	N/A
Borrowings from international institutions	824,130	1,142,764	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December of the respective year.	N/A	N/A

For the assets and liabilities from the statement of financial position not disclosed in the table the Group’s management is of the opinion that their fair value approximates their carrying amount.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

6. NET INTEREST INCOME

	2022	**2021**
Interest income		
Loans and advances to customers	67,932	70,944
Loans to banks	1,120	1,131
Deposits placed with other banks	3,010	188
Receivables from the State budget	355	320
Securities at amortized cost	303	3,921
Financial assets at fair value through other comprehensive income	4,421	259
Other income, incl. effect of negative interest	2,362	1,244
	79,503	**78,007**
Interest income on finance lease	2,848	2,069
	82,351	**80,076**
Incl. Interest income on financial assets at amortized cost classified in Stage 3	*20,778*	*23,395*
Interest expenses		
Borrowings from international institutions	(15,996)	(15,267)
Deposits from customers	(1,263)	(203)
Other borrowings	(188)	(113)
Deposits from other banks	(146)	(69)
Other expenses, incl. expenses for negative interest	(1,268)	(3,053)
	(18,861)	**(18,705)**
Interest expenses on finance lease	(8)	(18)
	(18,869)	**(18,723)**
Net interest income	**63,482**	**61,353**

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.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

7. NET FEE AND COMMISSION INCOME

	2022	2021
Fee and commission income		
Issuance of guarantees and letters of credit	4,934	5,009
Transaction-related services*	652	569
Account maintenance	211	165
Total fee and commission income from contract with customers	**5,797**	**5,743**
Other charges	918	1,466
Total fee and commission income	**6,715**	**7,209**
Fee and commission expenses		
Co-management fee COVID guarantees	(3,504)	(3,970)
Servicing of accounts with other banks	(22)	(11)
Agent's commissions	(24)	(22)
Transfers and treasury operations in other banks	(8)	(6)
Other charges	(152)	(166)
Total fee and commission expenses	**(3,710)**	**(4,175)**
Net fee and commission income	**3,005**	**3,034**

***** Transaction-related services include the trust management of special-purpose funds of the Ministry of Agriculture and Food and the Executive Agency Fisheries and Aquacultures amounting to BGN 55 thousand (2021: BGN 57 thousand). See note 31 for more information regarding the programmes.

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 INCOME FROM FOREIGN EXCHANGE TRANSACTIONS

	2022	2021
Net gain on dealing in foreign currencies	546	419
Net gain/(loss) on foreign currency translation of assets and liabilities	(22)	7
	524	**426**

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

	2022	2021
Net (loss)/gain from transactions with securities measured at fair value through other comprehensive income	(851)	1,101
	(851)	**1,101**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

10. OTHER OPERATING INCOME

	2022	2021
Income from rent of investment property	571	890
Refunded litigation expenses	130	192
Dividends received	127	76
Proceeds from disposal of FTA (fixed tangible assets)	818	103
Income from revaluation of investment properties	869	29
Other income	3,713	1,178
	6,228	**2,468**

11. OTHER OPERATING EXPENSES

	2022	2021
Expenses on assets held for sale	(540)	(445)
Direct operating expenses relating to investment property	(306)	(244)
Litigation expenses	(19)	(37)
Expenses on disposal of FTA	(13)	(90)
Loss from revaluation of investment properties	-	(462)
Other expenses	(3,258)	(460)
	(4,136)	**(1,738)**

12A. NET EXPENSES ON IMPAIRMENT OF FINANCIAL INSTRUMENTS

	2022	2021
(Expense for)/Income from reversed impairment of loans, net	(45,481)	(129,619)
(Expense for)/Income from impairment of unutilized loans	18	28
Income from reversed/(expense for) impairment of finance lease	203	(676)
(Expense for)/Income from reversed guarantee provisions, net	46,555	(54,561)
(Expense for)/Income from reversed provision on securities at fair value through other comprehensive income, net	(2,860)	(1,688)
(Expense for)/Income from reversed provisions on securities at amortized cost, net	(61)	(42)
(Expense for)/Income from reversed impairment on other assets	(8)	-
Net expenses for impairment of financial instruments	**(1,634)**	**(186,558)**

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

	2022	2021
Provisions for lawsuits	(4,017)	-
Expenses for impairment of assets acquired through collateral foreclosure	(149)	(407)
Impairment of subsidiaries	13	(258)
Impairment of other assets	(1,278)	-
Net expenses for impairment of non-financial assets	**(5,431)**	**(665)**

13A. EMPLOYEE BENEFITS

	2022	2021
Staff remuneration and social security	(18,352)	(18,636)
Remuneration to members of the Management and Supervisory Boards	(2,404)	(3,076)
	(20,756)	**(21,712)**

	2022	2021
Staff remuneration and social security include:		
Salaries	(15,852)	(16,190)
Social security	(2,329)	(2,063)
Social benefits	(68)	(232)
Amounts accrued on retirement benefits	(103)	(151)
	(18,352)	**(18,636)**

13B. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Hired services	(1,013)	(1,844)
Communications and IT services	(1,835)	(1,677)
Legal and consulting services	(1,851)	(1,527)
Office and office equipment maintenance	(1,620)	(1,395)
Advertising and entertainment expenses	(681)	(1,355)
Audit services by the registered auditors	(757)	(1,086)
Taxes and government charges	(444)	(410)
Advisory services provided by the registered auditors	(118)	(103)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(91)	(65)
Business trips	(66)	(42)
Rents	(56)	(8)
Contribution to the Bank Resolution Fund (BRF)	(1,749)	-
Materials	-	(12)
	(10,281)	**(9,524)**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

13B. GENERAL AND ADMINISTRATIVE EXPENSES (CONTINUED)

The amounts charged for the year for services provided by the registered audit firms of the Group include: independent financial audit: BGN 757 thousand (2021: BGN 1,086 thousand), including agreed-upon procedures for BGN 43 thousand (2021: BGN 52 thousand), other services not related to audit - BGN 118 thousand (2021: BGN 103 thousand).

14. TAXATION

	2022	**2021**
Current tax expense	82	(290)
Deferred tax expense due to temporary differences	305	104
Tax loss asset not recognized	(358)	-
Total (expense for)/benefit from income tax	**29**	**(186)**

	2022	**2021**
Accounting profit/(loss)	26,685	(155,069)
Income tax calculated at the effective tax rate (10% for 2022 and 2021)	(2,267)	15,507
Expense on non-deductible expenses	(1,212)	(175)
Non-deductible income	3,866	995
Tax loss asset not recognized	(358)	(16,513)
Total (expense)/benefit	**29**	**(186)**
Effective tax rate	Not applicable	Not applicable

The deadline by which the Group companies could deduct the loss from future profits is 31.12.2026.

Outstanding balances of deferred taxes relate to the following items of the consolidated statement of financial position and changes in the consolidated statement of comprehensive income:

	Assets		**Liabilities**		**Changes in the consolidated statement of comprehensive income**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Property and equipment	(3)	(6)	-	-	3	-
Other assets	(647)	(79)	79	-	(410)	18
Other liabilities	(7)	(12)	4	15	(8)	-
Securities at fair value through other comprehensive income	(11,959)	(9,642)	-	-	(2,317)	(760)
Investment properties	-	-	130	29	101	(124)
	(12,616)	**(9,739)**	**213**	**44**	**(2,631)**	**(866)**

The changes in the temporary differences during the year are recognised in the consolidated statement of comprehensive income.

The probability that the individual differences might reverse in the future and the Group's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

15. NET CHANGE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET OF TAXES

	2022	**2021**
Loss on impairment of financial assets measured at fair value through other comprehensive income – debt instruments, arising during the year	(43,938)	(3,350)
Gain /(Loss) on revaluation of equity instruments arising during the year	12,346	(12,055)
10% tax	3,110	1,541
Unrecoverable and not recognized in revaluation reserve	-	(649)
Other comprehensive income for the year, net of tax	**(28,482)**	**(14,513)**

16. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANK

	2022	**2021**
Cash in hand	530	849
Current account with the Central Bank	527,394	242,786
Incl. Minimum statutory reserves	137,048	135,616
Total cash with the Central Bank	527,394	242,786
Total cash in hand and in accounts with the Central Bank	**527,924**	**243,635**

The Parent bank maintains amounts depending on risk-weighted assets such as Minimum Reserve Requirements with the BNB. In 2022, the current account maintained with the BNB has an interest rate between minus 0.70% and 0% for the excess over 105% of the minimum reserve requirements (in 2021: minus 0.70%). Funds maintained at Deutsche Bundesbank have a yield determined periodically according to the bank's methodology.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

17. RECEIVABLES FROM BANKS

	2022	**2021**
Current accounts and demand deposits with local banks	233	201
Current accounts and demand deposits with foreign banks	12,292	33,739
Total current accounts and demand deposits	**12,525**	**33,940**
incl. Current accounts with an original maturity of less than 90 days	*5,528*	*21,667*
Term deposits with local banks (incl. repo deals)	33,048	-
Term deposits with foreign banks	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)
	139,420	**385,348**

As of 31 December 2022, special-purpose loans, denominated in 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 6,997 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 loan in four instalments. These are special-purpose loans extended to banks for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

Disclosure of exposures to banks that would be adversely affected by EU sanctions following the Russian invasion of Ukraine.

Following the Russian invasion of Ukraine on 24 February 2022, the EU imposed sanctions on Russian companies and individuals. These sanctions included the freezing of assets, exclusion from payment systems and others aimed at restricting the activities of Russian or Russian-controlled companies.

As of 31 December 2022, the Group has no exposures to Russian and Belarusian banks as well as banks controlled by Russia or Belarus.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

18. LOANS AND ADVANCES TO CUSTOMERS

	2022	**2021**
Loans (gross amount)	1,698,359	2,042,171
Allowance for impairment and uncollectability of loans	(248,658)	(346,369)
	1,449,701	**1,695,802**

	2022	**2021**
A. Analysis by types of customers		
Private enterprises and sole traders	1,694,009	2,037,781
Municipalities	338	427
Individuals	4,012	3,963
	1,698,359	**2,042,171**

The table provides an analysis of the customers by sectors.

	2022	**2021**
B. Analysis by industry sector		
Industry, total	339,808	329,114
Industry – manufacture of plant and equipment	92,598	91,086
Industry – energy generation and distribution	68,063	80,116
Industry – manufacture of foodstuffs	46,965	46,465
Industry – other industries	132,182	111,447
Trade	458,642	648,245
Tourist services	266,894	275,077
Transport	131,502	208,761
Financial services	119,108	132,649
Construction	129,128	143,635
Government sector	135,871	148,154
Real estate transactions	56,430	57,903
Agriculture	36,289	35,561
Waste collection and disposal	357	612
Other industries	24,330	62,460
	1,698,359	**2,042,171**

The Group finances mainly the activities of small and medium-sized enterprises, as well as investment projects to achieve return from 5 to 10 years.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

C. Movement in the allowance for loan impairment and uncollectability

	2022	**2021**
As of 1 January	**346,369**	**258,605**
Impairment costs	108,277	227,794
Reversed impairment	(62,796)	(98,175)
Written-off against impairment	(143,192)	(41,855)
As of 31 December	**248,658**	**346,369**

19. RECEIVABLES FROM THE STATE BUDGET

	2022	**2021**
Energy Efficiency of Multi-Family Buildings National Programme	23,598	18,866
Adjustment for impairment and uncollectability of loans	(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.

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

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

All amounts are in thousand Bulgarian Leva, unless otherwise stated

20. SECURITIES MEASURED AT AMORTIZED COST

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

2022	**Amortized cost**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	11,975	(204)	11,771
	11,975	**(204)**	**11,771**

2021	**Amortized cost**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	12,170	(190)	11,980
	12,170	**(190)**	**11,980**

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

	2022	**2021**
Government securities	495,551	610,011
Corporate bonds	42,984	47,638
Total debt instruments	**538,535**	**657,649**
Public companies' shares	54,274	43,767
Incl. shares of First Investment Bank AD	*54,268*	*43,760*
Non-public companies' shares	44,640	25,919
Participation in investment program SIA (Note 37)	1,304	1,095
Total equity instruments	**100,218**	**70,781**

Movement in financial assets measured at fair value through other comprehensive income:

Debt instruments	**2022**	**2021**
As of 1 January	**657,649**	**649,573**
Additions (purchases)	159,712	329,832
Disposals (sale and/or maturity)	(234,750)	(316,049)
Net increase/(decrease) due to revaluation of securities at fair value through OCI	(44,076)	(5,707)
As of 31 December	**538,535**	**657,649**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

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

Equity instruments	2022	2021
As of 1 January	**70,781**	**57,709**
Additions (purchases)	19,846	30,199
Disposals (sale)	(2,650)	(5,071)
Net increase/(decrease) due to revaluation of securities at fair value through OCI	12,241	(12,056)
As of 31 December	**100,218**	**70,781**

Debt instruments

Financial assets measured at fair value through other comprehensive income – debt instruments comprise mainly government securities with the issuer being the Republic of Bulgaria or other European countries, and corporate bonds.

Equity instruments

Public companies' shares

Financial assets measured at fair value through other comprehensive income – equity instruments, consist of the following securities:

First Investment Bank AD

Bulgarian Development Bank EAD holds 27,350,000 shares, representing 18.35% of the capital of First Investment Bank AD, with a single nominal value of BGN 1.

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 (31 December 2021: BGN 1.6000) per share.

Chimimport AD

The Bank holds 9,632 shares of the Chimimport conglomerate. As of 31.12.2022 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).

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

Equity instruments (continued)

Non-public companies' shares

Three Seas Initiative

By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the Investment Fund of the "Three Seas" Initiative. The 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 these reports.

As of 31 December 2022, the Bulgarian Development Bank EAD has two representatives in the management of the Three Seas Investment Fund:

- Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director - is member of the Supervisory Board of the Investment Fund
- Mrs. Sofia Kassidova – head of the "Strategic Development and Green Policies" department at BDB - is a member of the Management Board of the Investment Fund. The Fund will provide part of the necessary financing to strengthen the cooperation between the member countries in the Black, Adriatic and Baltic Seas' area.

As of 31 December 2022, BDB's investment in the Three Seas Fund amounts to BGN 22,030 thousand (as of 31 December 2021: BGN 14,321 thousand), and in 2022 the Bank registered additional shares amounting to EUR 3,616 thousand (BGN 7,072 thousand). The commitment for contribution to equity, which is not yet due is disclosed in Note 37 Contingencies and Commitments.

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

Equity instruments (continued)

Non-public companies’ shares (continued)

Other non-public companies’ shares

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.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

22. NET INVESTMENT IN FINANCE LEASE

The net investment in finance lease is the difference between the gross investment in the finance lease, less any unearned finance income, and the accumulated impairment losses.

	2022	2021
Gross investment in finance leases	81,730	63,184
Unearned finance income	(10,193)	(4,760)
Net minimum lease payments	**71,537**	**58,424**
Impairment loss	(671)	(1,447)
Net investment in finance lease	**70,866**	**56,977**

Disclosure required by IFRS 16

During the year the receivables under finance lease contracts increased due to the conclusion of new lease contracts. As of 31 December 2022, a total of 251 lease contracts have been signed, 227 of which are in active portfolio (2021: 210 contracts, 172 in active portfolio).

The Group has entered into finance lease contracts as a lessor for specific equipment. The average term of a finance lease is 10 years for equipment and 3-8 years for other assets. In general, these leases do not include options for extension or early termination.

The Group is not exposed to currency risk as a result of lease arrangements, as all leases are denominated in EUR or BGN. The residual value risk for rental equipment is insignificant due to the existence of a secondary market for the equipment.

Allocation of net finance lease investment:

	2022	2021
Repayment not later than one year	18,477	15,235
Repayment later than one year and no later than two years	12,011	12,862
Repayment later than two years and no later than three years	11,660	7,366
Repayment later than three years and no later than four years	11,194	6,883
Repayment later than four years and no later than five years	9,667	6,230
Repayment after five years	8,528	9,848
Net minimum lease payments	**71,537**	**58,424**
Impairment loss	(671)	(1,447)
Net investment in finance lease	**70,866**	**56,977**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

22. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

Disclosure required by IFRS 16 (continued)

Movement in the allowance for impairment:

	2022	2021
Balance as of 1 January	**(1,447)**	**(771)**
Impairment over the year:		
Charge for the year	(756)	(676)
Reversed for the year	959	-
Written off	569	-
Balance as of 31 December	**(671)**	**(1,447)**

23. RIGHT-OF-USE ASSETS

Right-of-use assets are related to rent agreements recognized according to IFRS 16 Lease.

	Properties	Total as of 31 December 2022
Cost	74	74
Accumulated depreciation	(65)	(35)
Net book value	**39**	**39**

	Properties	Total as of 31 December 2021
Cost	242	242
Accumulated depreciation	(65)	(65)
Net book value	**177**	**177**

All amounts are in thousand Bulgarian Leva, 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	**60,581**	**3,840**	**813**	**1,339**	**10,651**	**77,224**
Additions	(16)	100	27	23	2,229	**2,363**
Disposals	-	(4)	-	(252)	(1,150)	**(1,406)**
As of 31 December 2021	**60,565**	**3,936**	**840**	**1,110**	**11,730**	**78,181**
Acquired as part of a business combination (30 September 2022)	943	3,164	23	1,415	3,182	8,727
Additions	-	204	(7)	(4)	882	1,075
Disposals	(3)	(9)	-	-	(1,641)	(1,653)
As of 31 December 2022	**61,505**	**7,295**	**856**	**2,521**	**14,153**	**86,330**
Accumulated depreciation/amortization						
As of 1 January 2021	**4,999**	**2,222**	**493**	**474**	**2,391**	**10,579**
Charge for the year	1,128	593	96	223	1,112	3,152
Written off	-	(3)	-	(167)	-	(170)
Impairment on consolidated basis	200	-	11	-	-	211
As of 31 December 2021	**6,327**	**2,812**	**600**	**530**	**3,503**	**13,772**
Charge for the year	1,144	544	105	263	1,409	3,465
Written off	-	(39)	-	-	(1,630)	(1,669)
Impairment on consolidated basis	(13)	-	-	-	-	(13)
As of 31 December 2022	**7,458**	**3,317**	**705**	**793**	**3,282**	**15,555**
Net book value						
As of 1 January 2021	**55,582**	**1,618**	**320**	**865**	**8,260**	**66,645**
As of 31 December 2021	**54,238**	**1,124**	**240**	**580**	**8,227**	**64,409**
As of 31 December 2022	**54,047**	**3,978**	**151**	**1,728**	**10,871**	**70,775**

The fully depreciated/amortized property, plant and equipment still in use at 31 December 2022 amount to BGN 5,536 thousand at cost (2021: BGN 1,906 thousand) of which BGN 3,458 thousand due to the consolidation of the Roadway Group. The intangible assets amount to BGN 1,405 thousand (2021: BGN 1,226 thousand), respectively. Roadway Group has no fully amortized intangible fixed assets.

25. INVESTMENT PROPERTY

	2022	2021
Carrying amount at the beginning of period	**6,890**	**7,608**
Improvements	-	14
Profit/(Loss) on change in the fair value included in profit and loss for the period	869	(433)
	7,759	**7,189**

The Group 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 571 thousand (2021: BGN 890 thousand) (Note 10).

All amounts are in thousand Bulgarian Leva, unless otherwise stated

25. INVESTMENT PROPERTY (CONTINUED)

The fair value at 31 December 2022 has been determined by an independent certified appraiser.

The Group 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 by employing valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

26. ASSETS HELD FOR SALE

Land, buildings and fixtures and fittings amounting to BGN 2,561 thousand (2021: BGN 1,962 thousand – land and buildings) were acquired by the Group in 2022 against payment of liabilities under problem loans of borrowers. The assets have not been used and it is not planned to be used in the Group's activity. The movement of assets held for sale in 2022 and 2021 is presented in the following table:

	2022	2021
Carrying amount at the beginning of period	**4,521**	**3,210**
Acquired through collateral foreclosure	2,561	1,962
Reclassified to other assets	(4,107)	(608)
Sold	(406)	-
Impairment	-	(43)
Carrying amount at the end of the period	**2,569**	**4,521**

27. OTHER ASSETS AND ASSETS ACQUIRED THROUGH COLLATERAL FORECLOSURE

	2022	2021
Assets acquired through collateral foreclosure	37,434	34,719
Prepayments and advances	3,225	2,297
Receivables	6,618	2,200
Income tax overpaid	827	59
Assets in process of delivery	-	1,983
VAT refundable	46	70
Other	3,137	616
	51,287	**41,944**

Assets acquired through collateral foreclosure include assets acquired by the Group as a result of non-performing loans. These assets are measured at the lower of cost and net realisable value. The net realisable value is determined based on evaluations made by licensed independent valuers; management considers these evaluations reasonable and adequate for the Group.

Prepayments and advances also include the unamortised portion of the fee for the anti-COVID guarantees (see Note 37), amounting to BGN 1,186 thousand (2021: BGN 1,074 thousand).

All amounts are in thousand Bulgarian Leva, unless otherwise stated

27. OTHER ASSETS AND ASSETS ACQUIRED THROUGH COLLATERAL FORECLOSURE (CONTINUED)

The movement in Assets acquired through collateral foreclosure in 2022 and 2021 is presented in the following table:

	2022	2021
Carrying amount at the beginning of period	**34,719**	**33,938**
Reclassified from held for sale	4,107	608
Capitalised costs	1,921	632
Sold	(3,164)	(52)
Impairment	(149)	(407)
Carrying amount at the end of the period	**37,434**	**34,719**

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2022	2021
Deposits from local banks	974	1,057
Deposits from foreign banks	2,156	685
	3,130	**1,742**

There is no interest payable on deposits from credit institutions as at 31 December 2022 and 2021. All deposits from credit institutions are demand deposits.

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2022	2021
Companies and sole traders	787,991	730,288
Special purpose deposits	63,128	-
Individuals	6,776	7,742
	857,895	**738,030**

The amounts due to individuals represent deposits of employees of the Group.

Interest payable on deposits from other customers, other than credit institutions, at 31 December 2022 amounts to BGN 198 thousand (2021: BGN 96 thousand).

	2022	2021
Term deposits	27,439	28,990
Demand deposits	830,456	709,040
	857,895	**738,030**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

30A. FUNDING ACTIVITY

Funding activity forms the following cash flows and non-cash changes in 2022 and 2021.

	01.01.2022		**Non-cash changes**		**31.12.2022**
		Cash flow	**Changes in accrued interests and prepaid commissions**	**Transition from long-term to short-term**	
Long-term loans (Notes 30 and 31)	1,010,524	(148,319)	230	(101,614)	679,368
Short-term loans (Notes 30 and 31)	182,911	(182,798)	(113)	101,614	183,067
Lease liabilities (Note 33)	345	(255)	-	-	90
Total liabilities from funding activity	**1,193,780**	**(331,101)**	**(154)**	**-**	**862,525**

	01.01.2021		**Non-cash changes**		**31.12.2021**
		Cash flow	**Changes in accrued interests and prepaid commissions**	**Transition from long-term to short-term**	
Long-term loans (Notes 30 and 31)	1,194,306	-	194	(183,976)	1,010,524
Short-term loans (Notes 30 and 31)	129,613	(130,931)	(206)	184,435	182,911
Lease liabilities (Note 33)	279	66		-	345
Total liabilities from funding activity	**1,324,198**	**(130,865)**	**(12)**	**459**	**1,193,780**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

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
Long-term framework loan agreement with the Council of Europe Development Bank	17,628	82,159
The Export – Import Bank of China	49,415	98,395
Long-term loans from the Kreditanstalt für Wiederaufbau	-	35,678
Long-term loans from the European Investment Bank	36,850	40,901
Long-term loans from the Nordic Investment bank	-	753
	779,497	**1,110,740**

To fulfil its mission BDB attracts funds from various sources and the focus is on attracting borrowings from international lending agencies (ILA's). The effective interest rates on borrowings from international institutions as of 31 December 2022 range from 2.03% to 4.15% (31.12.2021: from 0% to 1.70%).

Accrued interest payables on borrowings from international institutions as of 31 December 2022 amount to BGN 1,721 thousand (2020: BGN 1,299 thousand).

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

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 paid (31 December 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. 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 paid (as of 31 December 2021 the outstanding principal amounted EUR 18,182 thousand equivalent to BGN 35,561 thousand). The interest rate is floating, based on the 6M EURIBOR plus margin.

European Investment Bank

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

As of 31 December 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 40,896 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Nordic Investment Bank

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

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

China Development Bank

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

As of 31 December 2022, the loan is fully paid (as of 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 between the two banks 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 utilised.

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 31.12.2021: EUR 292,500 thousand equivalent to BGN 572,080 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

The Export – Import Bank of China

On 28 September 2017, BDB signed an agreement with the Export – Import Bank of China for the amount of EUR 50,000 thousand. This was the first loan agreement between BDB and the Export – import Bank of China, following the financial cooperation agreement, signed in 2014 between the two institutions and setting their interest in joint financing of key projects or areas. The funds can be used to finance the overall lending activity of 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 utilised.

As of the 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.

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 utilised.

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

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
Special-purpose deposits	65,776	65,496
Other	554	453
	82,938	**82,695**

The interest liabilities accrued on other borrowings as of 31 December 2022 amount to BGN 12 thousand (2021: BGN 0 thousand).

31. OTHER BORROWINGS (CONTINUED)

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period.

On 28 April 2017 BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

As of 31 December 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 (31.12.2021: 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).

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

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Executive Agency on Fisheries and Aquaculture

On 7 December 2010, a financing agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 (OPFSD) was signed between the National Guarantee Fund (NGF) and the Executive Agency on Fisheries and Aquaculture (NAFA, the Agency) of the Ministry of Agriculture and Food of the Republic of Bulgaria. The aim of the program is to provide easier access to financing by the sector, with lower interest rates, lower collateral requirements and lower own financing.

The guarantee program is fulfilled within the Measure 2.7 of the Rural Development (RDP) Programme. Following consultations, the EAFA and NGF EAD have chosen the financial engineering instrument, provided for under Commission Regulation (EC) No.498/2007 (OB, 10.05.2007, L 120) laying down detailed rules for the implementation of Council Regulation (EC) No.1198/2006, to be realised through a fund (accounts) in an account and under the governance of NGF.

In accordance with Commission Regulation (EC) No.498/2007 (Article 35), the financial engineering instrument is established in the form of a separate financial pool within NGF EAD.

In 2010, NAFA provided to NGF the amount of BGN 6,000 thousand under Article 1 of the Financing Agreement. On 28 December 2011 pursuant to Annex 2 an additional contribution of BGN 9,168 thousand was made. On 19 December 2012 Annex 4 of the Financing Agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 was signed between NGF and NAFA. Pursuant to Annex 4, NAFA shall transfer to NGF additional contribution amounting to BGN 15,050 thousand for the realisation of the guarantee scheme. In accordance with Annex 5 signed between NGF EAD and NAFA on 16 January 2014, the Agency has withdrawn the last contribution of BGN 15,050 thousand. By Annex No. 7 dated 06 October 2015 between the parties, the Fund refunded to the Agency the amount of BGN 3,000 thousand from the additionally transferred financial resources.

By Annex 8 dated 03 November 2017, the parties expressed their intention to reuse the resources. NAFA assigned NGF EAD with the task to carry out guarantee activity in favour of micro-, small-, and medium-sized enterprises operating in the Fisheries sector in accordance with article 34, paragraph 4 of Regulation (EC) 498/2007.

By Annex 9 dated 19 June 2018, the parties agreed that the funds provided under the Financial Agreement would be reused by the National Guarantee Fund in activities aiming to facilitate the access to financing of Fisheries sector enterprises and enterprises approved to receive grant under the Maritime and Fisheries Programme 2014 -2020. The funds have been granted to finance guarantee activities for a ten-year term.

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Executive Agency on Fisheries and Aquaculture (continued)

In 2015, aiming at achieving a better yield, the program funds were invested in a current account bearing a preference interest rate with Bulgarian Development Bank EAD. In 2016, the funds were deposited in a two-year deposit with the same bank. In 2017, the despot agreement was annexed for three more years. At the end of 2020, a new three-year deposit agreement was signed between NGF EAD and BDB EAD.

The guarantee program is free of charge for businesses that benefit from it, while the cost for NGF EAD for its realisation are determined and paid under Article 35 of Commission Regulation (EC) No.498/2007.

As of 31 December 2022, within the OPRDP, NGF EAD has signed agreements with the following banks: KBC (Bulgaria) EAD, First Investment Bank AD, UBB EAD, UniCredit Bulbank AD, Central Cooperative Bank AD, DSK Bank AD, TBI Bank EAD, International Asset Bank AD, Bulgarian American Credit Bank AD, Bulgarian Development Bank EAD and Municipal Bank AD.

The term for inclusion of new loans and bank guarantees (which are scheduled within the Program) matures on 31 December 2022.

Expiry term of the guarantees – 30 September 2025.

Long-term agreement with the Ministry of Agriculture and Food

On 20 December 2011, the National Guarantee Fund EAD and the Ministry of Agriculture and Food (MAF) signed a financial agreement to provide funds for the implementation of guarantees on guarantee schemes under the Rural Development Programme 2007 – 2013 (RDP). The Guarantee Scheme was established on the grounds of Articles 51 – 52 of Commission Regulation (EC) No. 1974/2006 dated 15 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No. 1698/2005 dated 20 September 2005 regarding the support for rural development under EAFRD to facilitate access to financing of beneficiaries and the realisation of the projects under RDP.

MAF provides funding to NGF in BGN amount equivalent to EUR 121,100 thousand (BGN 236,851 thousand), in order to enhance the access to financing, support competitiveness, accelerate the completion of investments, which will be co-finance with funds under the Rural Development Programme (2007-2013) and which are used by the Fund for the issuance of guarantees and counter-guarantees. By Annex No. 2 dated 14 October 2015 signed between the parties, the Fund refunded to the Ministry the amount of BGN 154,586 thousand from the financial resources provided. By Annex No. 3 dated 01 December 2015, signed between the parties, the term of the Agreement was extended until 1 April 2016.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Ministry of Agriculture and Food (continued)

Pursuant to Annex No. 4 dated 29 March 2016 the parties declared that the funds provided under the Financial Agreement should be re-used by the Fund for guarantee activity with the aim to facilitate access to financing for entities approved for aid under the Rural DEVELOPMENT Programme of the Republic of Bulgaria (2014-2020), as also for entities from Livestock breeding sector and Plant production sector. The funds are provided for carrying out Guarantee activity for a term of ten years.

The Fund reimbursed to the Ministry BGN 21,881 thousand of the funds provided under Annex from 3 September 2020 signed between the parties.

In 2016 the funds were placed in a two-year deposit with the Bulgarian Development Bank EAD. In 2017, the deposit agreement was annexed for three more years. At the end of 2020, a new three-year deposit agreement was signed between NGF EAD and BDB EAD.

As of 31 December 2022, within the Guarantee Scheme under MAF 2016-2018, annexes to agreements were signed with 8 of the leading commercial banks: Bulgarian Development Bank EAD, UniCredit Bulbank AD, First Investment Bank AD, DSK Bank AD, BBR Microfinance EAD, Eurobank Bulgaria AD, Bulgarian-American Credit Bank AD, Allianz Bank Bulgaria AD. The guarantee scheme is joint with MAF and is implemented with released funds under the RDP 2007-2013 guarantee scheme at the amount of BGN 50,000 thousand.

The deadline for new loans and bank guarantees (as provided for in the Program) is 30 June 2023.

Expiry term of the guarantees – 30 September 2025.

32. PROVISIONS

	2022	**2021**
Provisions for anti-COVID credit guarantees	127,215	176,370
Provisions for bank guarantees and letters of credit	5,846	5,615
Total provisions for guarantees	**133,061**	**181,985**
Litigation provisions	4,017	-
Provisions for concession contracts	3,917	-
Provisions for unutilized loans and expenses	261	65
	141,256	**182,050**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

32. PROVISIONS (CONTINUED)

The following table presents the movement in provisions for guarantees:

	2022	2021
Balance as at 1 January	**181,985**	**127,368**
Accrued provisions for anti-COVID credit guarantees	14,029	62,745
Accrued provisions for bank guarantees and letters of credit	3,688	3,991
Utilised during the year	(2,470)	56
Reintegrated during the year	(64,171)	(12,175)
Balance as at 31 December	**133,061**	**181,985**

Provisions for anti-COVID credit guarantees represent the expected payments on the guarantees issued by BDB to commercial partner banks under the programme. They are calculated according to a methodology designed in BDB especially for this purpose. The programme is described in Note 37.

Provisions for bank guarantees represent amounts expected to be paid under guarantees issued by the Group. They are determined using established methodology for ECL calculation in accordance with IFRS 9.

Litigation provisions relate to future payments under lawsuits related to commercial litigations – BGN 3,945 thousand and to labor disputes – BGN 72 thousand.

Provisions for unutilized loans are provisions on irrevocable commitments of the Group for the utilisation of funding.

Provisions for expenses represent probable but uncertain payments that may arise for the Group.

33. LEASE LIABILITIES

	2022	2021
Finance lease	90	168
Operating lease	-	177
	90	**345**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

34. OTHER LIABILITIES

	2022	2021
Accruals for expenses	2,318	1,059
Payables to suppliers and customers	4,369	338
Liabilities related to assets held for sale	-	2,182
Payables to personnel and for social security	1,298	1,099
Retirement benefit liabilities	610	754
Tax liabilities	194	361
Charges on debenture loans and portfolio guarantees	635	168
Other creditors	2,217	1,652
	11,641	**7,613**

Accruals for expenses represent amounts related to the reporting period that have been or will be invoiced after finalizing the reporting process.

Payables to suppliers and customers represent mainly payables under deliveries of assets that will be leased as well as payables under other Group's operating deliveries.

Liabilities related to assets held for sale represent the net amount of the liabilities Cohofarm OOD controlled by BDB after elimination of the company's liabilities to BDB.

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

Tax liabilities represent VAT payables, taxes on employee benefits, corporate tax and withholding tax liabilities.

Charges on debenture loans and portfolio guarantees represent prepaid fees for guarantees.

Employee retirement benefits are due by the Group 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 parent company – to six gross monthly salaries at the time of retirement. The parent company estimated the amount of these liabilities by using mathematical models and the services of a certified actuary.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

Employee retirement benefits (continued)

On the basis of the calculations made, the amount of BGN 610 thousand was included in the consolidated statement of financial position at 31 December 2022 (31 December 2021: BGN 754 thousand).

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

	Amounts upon retirement by age and length of service		**Amounts upon disability retirement**		**Total**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Actuarial loss as at 1 January	(31)	(42)	-	-	(31)	(42)
Actuarial gain on the liability recognised as other comprehensive income for the period	172	11	-	-	172	11
Actuarial gain/(loss) as at 1 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 % to 10 % 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 growth of the Bank's salaries are in accordance with the Bank's development plan: for 2022 - 2% compared to the level in 2021 and for 2024 and the following years - 2% compared to the level of the previous year.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

34. OTHER LIABILITIES (CONTINUEDE)

Employee retirement benefits (continued)

The effect for 2022 of a 1% increase and decrease in wage growth and interest rates on the total amount of current service and interest expenses and on the present value of the defined benefit obligation, are as follows:

	1% increase in wage growth	***1% decrease in wage growth***
Change in interest expense and current service ("+" - increase, "-" - decrease)	12	(11)
Change in the present value of the liability as of 31 December 2022 ("+" - increase, "-" - decrease)	54	(48)

	1% increase in interest rates	***1% decrease in interest rates***
Change in interest expense and current service ("+" - increase, "-" - decrease)	(8)	8
Change in the present value of the liability as of 31 December 2022 ("+" - increase, "-" - decrease)	(46)	53

	1% increase in turnover	***1% decrease in turnover***
Change in interest expense and current service ("+" - increase, "-" - decrease)	(15)	17
Change in the present value of the liability as of 31 December 2022 ("+" - increase, "-" - decrease)	(52)	59

All amounts are in thousand Bulgarian Leva, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

Employee retirement benefits (continued)

The effect for 2021 of a 1% increase and decrease in wage growth and interest rates on the total amount of current service and interest expenses and on the present value of the defined benefit obligation, are as follows:

	1% increase in wage growth	***1% decrease in wage growth***
Change in interest expense and current service ("+" - increase, "-" - decrease)	19	(16)
Change in the present value of the liability as of 31 December 2021 ("+" - increase, "-" - decrease)	80	(70)
	1% increase in interest rates	***1% decrease in interest rates***
Change in interest expense and current service ("+" - increase, "-" - decrease)	(8)	10
Change in the present value of the liability as of 31 December 2021 ("+" - increase, "-" - decrease)	(70)	82
	1% increase in turnover	***1% decrease in turnover***
Change in interest expense and current service ("+" - increase, "-" - decrease)	(17)	20
Change in the present value of the liability as of 31 December 2021 ("+" - increase, "-" - decrease)	(74)	86

35. SHARE CAPITAL

	2022	**2021**
Ordinary shares issued, paid in cash	1,427,964	1,427,964
Ordinary shares issued – in-kind contribution (land for a Bank's building)	12,200	12,200
Ordinary shares issued - in-kind contribution (building of the Bank)	1,610	1,610
	1,441,774	**1,441,774**

The capital of the parent company (the Bank) consists of 14,417,735 ordinary registered voting shares with par value of BGN 100 each.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

35. SHARE CAPITAL (CONTINUED)

	2022	**2021**
As of 1 January	1,441,774	1,441,774
As of 31 December	**1,441,774**	**1,441,774**

On 18 March 2022 by decision of the Council of Ministers the shares of the Bank were transferred from Ministry of Economy to the Ministry of Innovation and growth.

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

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

35. SHARE CAPITAL (CONTINUED)

Capital decrease of Bulgarian Development Bank EAD

By decision of 21.07.2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD, decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease.

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022.

The decisions for capital decrease and change of Bank’s Statute were entered into the Commercial Register and the register of non-profit legal entities on 30 May 2023. The change affects neither the value of Group’s net assets as of 31 December 2022 or as of subsequent periods nor the amount of regulatory equity.

36. RESERVES

In accordance with the general provisions of the Commercial Act, the parent company (the Bank) shall allocate to Reserve Fund at least 1/10 of its profit after- tax for the year until the reserves reach 10 percent 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 percent of its share capital.

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

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

As of 31 December 2022, the Reserve Fund of the Group amounts to BGN 14,574 thousand (31 December 2021: BGN 170,706 thousand) and the difference is due to decision of the Minister of innovation and growth dated 23.05.2022 for partial covering of the losses from prior periods with accumulated reserves.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

36. RESERVES (CONTINUED)

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.

The Bank has formed a special component titled "Reserve for financial assets measured at fair value through other comprehensive income" in equity, in which are accumulated all unrealized gains and losses from revaluation to fair value of the financial assets held at fair value through other comprehensive income available at the end of each reporting period. These gains and losses are transferred to current profit or losses when they are sold/or at maturity of the respective securities and/or at permanent impairment.

	2022	2021
Revaluation reserve as of 01.01	**(78,471)**	**(63,958)**
Impairment	3,170	(3,350)
Revaluation	(34,762)	(12,055)
Tax	3,110	892
Revaluation reserve as of 31.12	**(106,953)**	**(78,471)**

37. CONTINGENCIES AND COMMITMENTS

	2022	2021
Contingent liabilities		
Anti-COVID guarantees	403,208	680,938
Bank guarantees and letters of credit	267,334	377,159
Bank guarantees and letters of credit with cash collateral	(9,081)	(10,688)
Letters of credit, incl. borrowings – reported as loan commitment	-	187
Guarantee provisions, recognized in the statement of financial position (Note 32)	(133,061)	(181,985)
Incl. provisions under guarantees for Anti-Covid programmes (Note 32)	(127,215)	(176,370)
	528,400	**865,611**
Irrevocable commitments		
Unutilised amount of approved loans	178,510	209,829
Provisions for expenses	(47)	(52)
Unpaid portion of shares of Three Seas Initiative	17,970	25,031
Unclaimed portion of par value of EIF shares	-	4,694
Participation in the SIA investment program	652	861
	197,085	**240,363**
	725,485	**1,105,974**

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK

Anti-COVID programmes

In its role as national development bank BDB received mandates from the government for the implementation of financial instruments in support of Bulgarian citizens and businesses affected by the COVID-19 pandemic. They were secured with an increase in the Bank's capital of BGN 700 million and included the following measures:

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

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

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

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

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

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

Measures for individuals and households (continued)

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. BDB 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 BDB 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.

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).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

<u>*Measures for individuals and households (continued)*</u>

- 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 its 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.

As the funding covered by the guarantee under the programme qualifies as state aid:

- Borrowers are prohibited from financing one and the same expenditure with a loan under the programme and other state/minimum aid. (The same expense means, for example, payment on a specific invoice from 30 November 2020 or payment of rent for a specific office for the month of December 2020, or payment of salaries of specific employees for a specific month.) If the client uses for these specific expenses state/minimum (de minimis) aid, the client cannot use the loan to cover the same costs (prohibition of double financing).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

Measures for individuals and households (continued)

- The borrower must not have infringed the State aid rules and be entered in the specially created "Degendorf Register" https://stateaid.minfin.bg/bg/page/483;
- If the borrower or a related person has benefited from/uses other state /minimum aid for the same type of expenses, as the expenses that he or she wants to be financed by the loan under the programme (e.g., total costs for salaries, total rental costs, total costs for maintenance of facilities), he or she is obliged to declare this to the commercial bank by a declaration according to a model of the programme and should not to allow double financing as mentioned above.

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

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

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

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

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

<u>*Measures for individuals and households (continued)*</u>

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 BDB in the amount of 80 % or for BGN 504,279 thousand.

The portfolio status is updated on a quarterly basis. As of 31 December 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 BDB 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 21).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Guarantee programmes for small and medium-sized businesses

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

As of 31 December 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+ 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 Programme 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).

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).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Pan-European Guarantee Fund

The Pan-European Guarantee Fund was established as part of the overall package of measures of the EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises in the EU and public enterprises, providing important services such as healthcare, medical research and others. The total financing is expected to reach EUR 200 billion. **The Bulgarian Development Bank Group applied and was approved as financial intermediary under the guarantee programme** of the Pan-European Guarantee Fund, on which its new product was created. 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.

Bank guarantees and letters of credit

In addition, the Bank issues bank guarantees and letters of credit to third parties for the performance of their activity.

NATIONAL GUARANTEE FUND

Guarantee scheme 2009-2013

In 2022 there are active agreements for portfolio guarantees with 6 banks. The maximum term of guarantees is up to 10 years. The guarantee limit granted to banks for the period of implementation of the guarantee scheme amounts to BGN 146,500 thousand. The total amount of guarantees issued under the program is BGN 168,000 thousand and the guarantees on loans amount to BGN 391,000 thousand. Over 2,471 SMEs were supported.

As at 31 December 2022, the approved amount of the guarantees included in the partner-banks' portfolio amounts to BGN 614 thousand (2021: BGN 1,269 thousand), and the amount of the guaranteed debt is BGN 213 thousand (2021: BGN 290 thousand). The guarantee expiration date is 16.11.2027.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme 2017-2018

In the beginning of 2017, NGF EAD initiated a procedure to extend the guarantee scheme NGF 2015-2017 for a new period. All banks applied to participate and signed new agreements for the amount of BGN 328,000 thousand. Same as under the previous scheme, eligible for inclusion are only new loans for investment and working capital purposes. Under the scheme NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1 million in case of related parties. The deadline for inclusion of loans in the guaranteed loan portfolio was 30 September 2018. The guarantee scheme was introduced a maximum limit on payments for each guaranteed portfolio in the amount of up to 25%, where the NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the scheme requirements. Banks pay a guarantee fee based on volumes achieved, whereas the borrowers are exempt from fees for the NGF EAD guarantees.

After subsequent annexes, the total funds made available to banks to include loans in the portfolio amount to BGN 416,131 thousand.

As at 31 December 2022, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 526 thousand (2021: BGN 157,131 thousand) and the amount of the guaranteed debt is BGN 501 thousand (2021: BGN 88,662 thousand). 3,000 SMEs have been supported. The guarantee expiration date is 31.01.2023.

Guarantee scheme 2019-2020

In early 2019, NGF EAD launched a procedure for selecting partner banks under the new guarantee scheme NGF 2019-2020. Only newly granted loans for investment and working capital purposes are eligible for inclusion. Under the scheme NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1.5 million for group of related parties. The term for inclusion of loans in the guaranteed portfolio is 30 September 2020. The guarantee is portfolio-based and amounts of BGN 500 thousand require prior written consent by NGF EAD. Under the new guarantee scheme a limit of payments of up to 25% was introduced for each guaranteed portfolio, where the NGF EAD retains the right to exclude loans from the guaranteed portfolio if they do not meet the requirements of the scheme. The banks will pay a guarantee fee based on volumes reached, and the borrowers are exempt from fees under the NGF EAD guarantees.

As at 31.12.2021 agreements were signed with 6 banks with a maximum guaranteed portfolio amount of BGN 244,000 thousand.

As at 31 December 2022, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 138,764 thousand (2021: BGN 159,524 thousand) and the amount of the guaranteed debt is BGN 108,796 thousand (2021: BGN 140,289 thousand). 1,341 SMEs have been supported. The guarantee expiration date is 31.12.2024.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme 2022

At the beginning of 2022, NGF EAD launched a procedure for the selection of partner - banks under the new guarantee scheme NGF 2022. Only newly granted loans for investment and working capital needs are eligible for inclusion. Under the scheme, NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1.5 million at the level of related parties. The deadline for including loans in the guaranteed portfolio is 30 June 2025. The guarantee is portfolio based and for amounts over BGN 500 thousand prior written consent from NGF EAD is also required. The guarantee scheme also introduces a maximum limit of payments for each guaranteed portfolio of up to 25%, and NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the terms of the scheme. Banks pay a guarantee fee based on the volumes achieved, and borrowers are exempt from fees under the guarantees of NGF EAD.

As of 31.12.2022, guarantee agreements have been signed with Allianz Bank Bulgaria AD, Bulgarian-American Credit Bank AD, DSK Bank AD, First Investment Bank AD, United Bulgarian Bank AD, Municipal Bank AD, ProCredit Bank (Bulgaria) EAD. At the beginning of next year, agreements were signed with Eurobank Bulgaria AD – 10.01.2023, UniCredit Bulbank AD – 08.02.2023. Maximum amount of the guaranteed portfolio in the amount of BGN 629,000 thousand.

As of 31.12.2022, the approved amount of guarantees included in the portfolios of partner-banks is BGN 9,041 thousand and the amount of the guaranteed debt is BGN 8,949 thousand. 77 SMEs were supported. SMEs. The guarantee expiration date is 30.06.2028.

Guarantee scheme 2022 – Leasing

At the beginning of 2022, NGF EAD launched a procedure for selecting partner- banks under the new guarantee scheme NGF 2022 - Leasing. Only newly granted loans for investment and working capital needs are eligible for inclusion. The deadline for including loans in the guaranteed portfolio is December 31, 2023. Under the guarantee scheme, a maximum limit of payments for each guaranteed portfolio of up to 25% has been introduced and NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the terms of the scheme. Banks pay a guarantee fee based on the volumes achieved, and borrowers are exempt from fees under the guarantees of NGF EAD. Under this scheme, portfolio guarantee agreements are in force with Eurobank Bulgaria AD, OTP Leasing EOOD, UniCredit Leasing EAD.

As of 31.12.2022, the approved amount of guarantees included in the portfolios of partner-banks is BGN 6,585 thousand and the amount of the guaranteed debt is BGN 5,995 thousand. 116 SMEs were supported. The guarantee expiration date is 31.12.2028.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme under COSME Programme of the European Commission

In December 2016, an agreement was signed between the European Investment Fund (EIF) and the National Guarantee Fund EAD providing an additional EUR 40 million for funding small and medium-sized enterprises in Bulgaria under the COSME Programme of the European Commission. The funds are provided with the support of the European Fund for Strategic Investments (EFSI), which is the fundament of the Investment Plan for Europe (Juncker Plan). EIF provides a guarantee line of EUR 20 million, based on which NGF EAD will support funding of EUR 40 million to SMEs in Bulgaria struggling to secure the required collateral. Agreements for portfolio guarantees are concluded under this scheme with 5 commercial banks - Bulgarian-American Credit Bank AD, T.B.I. Bank EAD, BDB Microfinancing EAD, First Investment Bank AD, Eurobank Bulgaria AD. The maximum limit is BGN 43,338 thousand.

As at 31 December 2022, guarantees amounting to BGN 87,315 thousand (2021: BGN 82,308 thousand) are issued on 484 loans. The current guaranteed debt as at 31 December 2022 is BGN 20,772 thousand (2021: BGN 23,323 thousand). 444 SMEs have been supported. The guarantee expiration date is 31.12.2032.

Guarantee programme to support beneficiaries under Operational Programme Fisheries Sector Development 2007 – 2013 (OPFSD)

Based on a financial agreement with EAFA from 2011, NGF EAD implements a guarantee scheme in the Fishing sector. The guarantees issued by NGF EAD under this programme are risk-free for the Company as the claims are paid at the expense of the funds provided under OPFSD. NGF EAD has signed agreements with 16 commercial banks under this program. Under the scheme, projects amounting to BGN 46,000 thousand have been implemented, including BGN 33,000 thousand under measure 2.1 (79% of the measure's budget); under measure 2.6, the projects supported amount to BGN 12,000 thousand (77% of the measure's budget). The projects supported under measure 4.1 amount to BGN 500 thousand. 25 beneficiaries were supported.

The carrying amount of guaranteed debt as at 31 December 2022 is BGN 137 thousand (2021: BGN 207 thousand).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme to support beneficiaries under the Rural Development Programme 2007 – 2013 (RDP)

On the basis of a signed Financial Agreement with the Ministry of Agriculture and Food from 2012, NGF EAD performs guarantee activities in support of beneficiaries of the 2007-2013 RDP. The guarantees issued by NGF EAD under the program are risk-free for the Company, since the claims are paid out of the funds provided under the RDP. The scheme supported 544 beneficiaries under the project implementation program, with 84% of enterprises classified as micro, 14% small and 3% medium-sized enterprises.

As of 31.12.2022, applying a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees on loans issued to partner banks for financing approved projects under the Rural Development Program of the Republic of Bulgaria 2007-2013 in the amount of BGN 185,606 thousand (2021: BGN 185,606 thousand) with a total value of loans – BGN 238,112 thousand (2021: BGN 238,112 thousand).

The amount of the guaranteed debt at book value as of 31.12.2022 is BGN 1,365 thousand. (2021: BGN 2,282 thousand).

Guarantee scheme supporting beneficiaries under Rural Development Programme 2007-2013, 2014 – 2020 and enterprises in sector crop and animal production – Guarantee scheme - MAF 2016-2018.

The guarantee scheme is carried out jointly with the MAF and is implemented with a resource of released funds under the guarantee scheme under the RDP 2007-2013 in the amount of BGN 50 million for financing approved projects under the Rural Development Programme of the Republic of Bulgaria 2014 - 2020. The guarantees issued by NGF EAD under the programme are risk-free for the Company, since the claims are paid out of the funds provided under the RDP.

As at 31 December 2022, at a maximum amount of guarantee coverage of 50%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2014 - 2020 at the amount of BGN 122,736 thousand (2021: BGN 106,957 thousand) with a total amount of loans amounting to BGN 247,209 thousand (2021: BGN 215,752 thousand). 357 SMEs (2021: 241 SMEs). have been supported under the programme. The maximum guarantee limit under the program is BGN 50,000 thousand. As at 31 December 2022, the number of guarantee loans is 136 for a total amount of BGN 34,420 thousand (2021: BGN 9,542 thousand).

The carrying amount of the guaranteed debt as of 31.12.2022 is BGN 17,416 thousand. (2021: BGN 4,772 thousand).

All amounts are in thousand Bulgarian Leva, unless otherwise stated

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Nature of the instruments and credit risk

These contingent commitments bear off-balance sheet credit risk, because only the fees are recognized in the consolidated financial statements up to the performance or expiration of the term of the commitments. The amounts shown in the table above as guarantees represent the maximum accounting loss that would be recognized at the end of the reporting period, if the counterparties did not fully meet their contractual obligations. The term of many of the contingent liabilities will have expired without being partially or fully advanced.

Therefore, the amounts do not represent expected future cash flows. Collateral for the issuance of ordinary bank guarantees is over 100% and represents mainly blocked deposits with the Bank, mortgaged real estate and insurance policies issued in favour of the Bank. Upon occurrence of conditions for activation of an issued guarantee, the Bank assesses the possibility for recourse receivable from the counterparty and possible realization of the provided collateral.

The guarantees issued by the Parent company (Bank) under the MLSP Guarantee Fund for Microfinancing Project and the issued guarantees under own risk of NGF (subsidiary of BDB) are unsecured. In case of activation of a component of a guarantee issued by the Group, 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 the Group.

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 16)	530	849
Current accounts with the central bank (Note 16)	527,394	242,786
Receivables from banks with original maturity up to 3 months (Note 17)	81,420	242,257
	609,344	**485,892**

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

Related parties

The following table discloses the companies with which the Group carried out transactions in the reporting period. All transactions with related parties are at agreed prices.

Entity/party	**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
Ministry of Agriculture	State Ministry, issuer of securities, depositor
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
Napoitelni sistemi EAD	Company under joint control with the State

All amounts are in thousand Bulgarian Leva, unless otherwise stated

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

Related party balances in the consolidated statement of financial position as at the end of the reporting period are:

Assets

Entity/party	**Type of balance**	**2022**	**2021**
Ministry of Finance	Financial assets at fair value through other comprehensive income	316,849	453,833
Ministry of Finance	FA at amortized cost – debt securities	10,026	10,060
Companies under joint control with the State	Loans and advances to customers	261,411	317,252
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	19,875	23,113
		608,161	**804,258**

Liabilities

Entity/party	**Type of balance**	**2022**	**2021**
Ministry of Finance	Other borrowings	16,608	16,746
Ministry of Agriculture	Other borrowings	65,776	65,496
Companies under joint control with the State	Liabilities to customers on deposits and other borrowings	191,872	273,750
		274,256	**355,992**

Transactions with related parties:

Entity/party	**Type of relation**	**2022**	**2021**
	Fee and commission income	55	57
Ministry of Finance	Interest income	2,218	2,767
	Interest expenses	(159)	(113)
		2,114	**2,711**
	Interest income	13,967	8,512
Companies under joint control with the State	Fee and commission income	180	202
	Interest expenses	(27)	(12)
		14,120	**8,702**

All amounts are in thousand Bulgarian Leva, unless otherwise stated

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

COMMITMENTS AND CONTINGENCIES WITH RELATED PARTIES:

Entity/party	Type	2022	2021
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
		37,892	**25,971**

Relations with key management personnel:

Balances with key management personnel	**2022**	**2021**
Payables to customers on deposits	183	289
Remuneration payable	26	23

Transactions with key management personnel	**2022**	**2021**
Remuneration and social security contributions	(2,404)	(3,076)

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3

In 2022, exercising its rights as a secured creditor under two loan agreements with Roadway Construction AD ("Roadway") and Patstroyengineering AD ("Patstroyengineering", "PSI"), totalling as of 30.09.2022 BGN 160,026 thousand, the parent company Bulgarian Development Bank EAD acquired control of Roadway, which in turn owns 99.62% of the shares of Patstroyengineering. The acquisition of control has an effective date of 30.09.2022, and it is carried out through BDB-appointed managers of the commercial enterprises of both companies under the Special Pledges Act. BDB does not own the capital of Roadway Construction AD or Patstroyengineering AD.

Patstroyengineering AD participates in the following companies established under the Obligations and Contracts Act (DZZD):

DZZD Blagoustroyavane, Infrastruktura I Sistemi Kardzhali

DZZD Akvaprovodi 2015

DZZD Kardzhali-Podkova

DZZD Evropeiski Patishta

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

DZZD Minstroy-Patstroyengineering

DZZD Infra Krumovgrad 2017

DZZD PK Next

DZZD Iztochni Rodopi 3

DZZD Infra Construct Group

DZZD Next Engineering

DZZD III Most-2018

DZZD PK Lait

PSI has a controlling share in DZZD Next Engineering (60%), DZZD III Most-2018 (65%) and DZZD PK Lait (70%), which are within the scope of the consolidation of the Roadway Group.

For the purpose of preparing these financial statements, the Group has not applied a purchase price allocation in accordance with paragraph 18 of IFRS 3 Business Combinations that permits the identification and measurement of assets and liabilities in the manner required by this Standard. This allocation will be prepared prior to the issuance of the Group's 2023 financial statements, as permitted by IFRS 3. For the purposes of preparing the consolidated financial statements as of 31.12.2022, the Group has adopted provisional amounts for the values of assets and liabilities reflected in the audited consolidated financial statements of Roadway Construction AD Group.

Assets and liabilities

As of the acquisition date, the net assets of the consolidated company Roadway Construction AD were negative amounting to BGN 19,404 thousand. The value at which the net assets of Roadway Construction AD are reflected in the Group's financial statements is 7,031 thousand. BGN formed on the basis of an assessment of the company's assets as of 30.09.2022, carried out by an independent external valuer, as well as an assessment of the future business that the company can potentially realize.

The assumption of control took place without the BDB Group receiving a share of the capital of Roadway and without a transfer of remuneration. The value of the shares of the shareholders of Roadway – Kamenni Frakcii EOOD and a group of individuals – representing in this case a minority interest is estimated at BGN zero for the purposes of the business combination. This assessment was made on the basis of the company's present capacity and development prospects, from which it appears that Roadway would be unable to conduct business sufficient to pay in full the amounts due under loan agreements to the parent company, and the other liabilities on its balance sheet. The auditor of Roadway's annual financial statements expressed reservations about the company's status as a going concern.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Assets and liabilities (continued)

For the purposes of the business combination, the Group has adopted the values of assets and liabilities as reflected in Roadway's statement of financial position as at 30.09.2022, presented below:

	30.9.2022
Assets	
Cash in a cash desk	10
Receivables from banks	970
Property, plant and equipment, intangible assets	8,833
Deferred tax assets	79
Goodwill	151,006
Other assets	2,506
Total assets	**163,404**
Liabilities	
Deposits from customers other than credit institutions	11,818
Deposits by credit institutions	160,400
Provisions	4,026
Other liabilities	1,573
Liabilities to suppliers and customers	4,991
Total liabilities	**182,808**
Equity	
Share capital	18,050
Current profit	(12,138)
Retained earnings	(25,306)
Minority participation	(10)
Total equity	(19,404)
Total liabilities and equity	**163,404**

The acquisition of control took place without any transfer of consideration. The group has not negotiated and does not consider that it owes contingent payments to the owners of Roadway's capital.

Tangible fixed assets are land, buildings, construction equipment and facilities for carrying out the main activity of PSI.

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Assets and liabilities (continued)

Tangible fixed assets are valued at cost less depreciation accumulated over the period of use. Depreciation rates follow the usual levels for each type of assets.

PSI is a party to three concession contracts for the extraction of quarry materials:

- Quarry for rock extraction "Jebel"
- Quarry for extraction of underground natural resources – building materials: marbles from Kolibar fountain deposit
- Quarry for extraction of underground resources – rock facing materials: gneisses from the Vodenitsata-4 deposit

The value of the concessions reflects the value of the commitments made to pay concession fees to the concessionaires – the Ministry of Regional Development and Public Works and the Ministry of Economy, Energy and Tourism (currently the Ministry of Economy and Industry). These values are also reported as provisions for future payments on the company's liability.

Inventories are valued at the lower of acquisition cost and realisable value.

Receivables from customers and suppliers are reported at cost. Where the management of the company has considered that conditions exist that a specific receivable cannot be collected in its entirety, it is impaired to the extent of its collection.

Loans from financial institutions represent:

- a loan from the Bulgarian Development Bank EAD with a repayment term until 2029 amounting to BGN 158,764 thousand.
- a loan from the Bulgarian Development Bank EAD with a repayment term of up to 2029 amounting to BGN 1,147 thousand.
- financing for equipment from a financial institution, with a repayment term until 10.09.2024 – BGN 489 thousand.

Other loans received are a subordinated loan from a commercial company with a repayment period of 24.06.2024.

The provisions are amounts due under concession contracts described above, as well as provisions for payments in connection with the appointment of a special manager under the Special Pledges Act by BDB.

As a result of the consolidation, BDB Group formed a goodwill from the business combination as of 31.12.2022 amounting to BGN 23,745 thousand. The Group does not foresee goodwill or a change in its value having tax effects.

All amounts are in thousand Bulgarian Leva, unless otherwise stated

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Revenue and expenses

Roadway's revenue, expenses and result reported in the Group's consolidated statement of comprehensive income for the period from the date of acquisition of control to 31.12.2022 (as referred to in point B64(q)(i)) are as follows:

	For the period 01.10.2022 – 31.12.2022
Revenue	2,563
Expenses	(3,342)
Result	**(779)**

The total revenue, expense and result for 2022 of the business combination, calculated in accordance with paragraph B64(q)(ii) of Appendix B to IFRS 3 Business Combinations that would be reported if the date of control were the beginning of the reporting period would be as follows:

	For the period 01.01.2022 – 31.12.2022
Revenue	101,070
Expenses	(86,495)
Result	**14,575**

41. EVENTS AFTER THE REPORTING PERIOD

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the consolidated financial statements, except for the following non-adjusting events:

Decrease of capital of Bulgarian Development Bank EAD

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD from BGN 1,441,773,500 to BGN 1,135,500,000 and approved changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank’s Statute were entered into the Commercial Register and the register of non-profit legal entities on 30 May 2023.

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 Cerovski 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 Cerovski 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 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.

Change in the Board of Directors of National Guarantee Fund EAD

By decision with Protocol dated 10.03.2023 of the Management Board of BDB, as the sole owner of the capital of the National Guarantee Fund EAD, Krum Georgiev Georgiev was dismissed as a member of the Board of Directors of the company, and Ivan Valentinov Cerovski 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 Cerovski was elected Chairman of the Board of Directors of the company.

Change in the Board of Directors of BDB Microfinance EAD

By decision with Protocol 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.

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

Change in the Board of Directors of BDB Microfinance EAD (continued)

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.

By decision of the Management Board of BDB EAD, as sole owner of the capital dated 05.07.2023, Mrs. Mariyana Dimitrova Petkova was dismissed as member of the Board of Directors of BDB Microfinance EAD. This circumstance was entered into the Commercial Register on 26.07.2023.

By decision of the Management Board of BDB EAD, as sole owner of the capital dated 05.07.2023, the Statute of BDB Microfinance EAD was amended regarding the way the company is represented. After the amendment of the Statute of the company, it is represented jointly by the executive director and one of the members of the Board of Directors, and in the absence of the executive director – jointly by any two of the members of the Board of Directors. The current Statute was announced under the company file in the Commercial Register on 26.07.2023.

Change in the Board of Directors of BDB Leasing EAD

By decision with Protocol dated 07.03.2023 of the Management Board of BDB, as the sole owner of the capital of BDB Leasing EAD, Krum Georgiev Georgiev was dismissed as a member of the Board of Directors of the company, and Ivan Valentinov Cerovski 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 Cerovski was elected Chairman of the Board of Directors of the company.

With an entry in the Commercial Register on 11.04.2023 the five-year mandate of the members of the Board of Directors of BDB Leasing EAD was confirmed, according to Art.24 para.2 of the Statute of the company.

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

Change of the managing director of 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.

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.

As of the 31 December 2022 and the date of these financial statements, BDB and its subsidiaries have no exposures to the above-mentioned banks.

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, cannot be reliably measured.