



**BULGARIAN
DEVELOPMENT BANK**

BULGARIAN DEVELOPMENT BANK GROUP

**CONSOLIDATED ANNUAL MANAGEMENT REPORT
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

31 DECEMBER 2023

Unofficial translation from Bulgarian



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1 GENERAL INFORMATION

Bulgarian Development Bank EAD

The shareholding structure as of 31 December 2023 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 2023 and as of the date of approval of the consolidated financial statements:

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

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

MB as of 31 December 2023:	MB as of the date of approval of the consolidated financial statements:
- Iliya Zapryanov Karanikolov - Chairman of the MB and Executive Director	- 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
- Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director	- Teodora Petrova Pesheva – Member of the MB

Head office and registered address as of 31 December 2023:
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
 4 Mihail Tenev Str.
 1784 Sofia
 Bulgaria
 cebgreceptionteam@deloittece.com

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

Auditor of the National Guarantee Fund EAD and BDB Leasing EAD:

Deloitte Audit OOD
CPA Rositsa Boteva
4 Mihail Tenev Str., 1784 Sofia, Bulgaria
cebgreceptionteam@deloittece.com

Auditor of BDB Microfinancing EAD and Capital Investments Fund AD:

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

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:

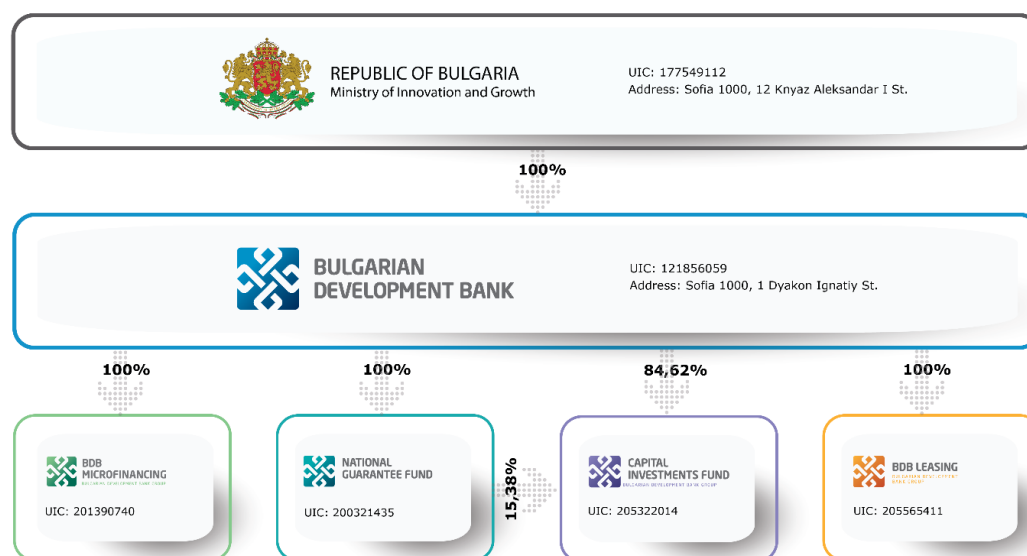
SMART AUDIT AND CONSULTING EOOD,
CPA Diana Yordanova Deyanova – Rangelova
Bankya, Izgrev region, 98, Sofia Street
d.rangelova@abv.bg

2 INFORMATION ABOUT BDB GROUP

2.1 BDB GROUP REVIEW

As of the end of 2023 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 2023 and as of the approval of this report:



The number of employees as of 31 December 2023 in BDB Group is 248 (as of 31 December 2022 – 276 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, the 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.

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

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

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 2023, 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 2023, 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 was adopted on 23 April 2008. It regulates the scope of Bank's activities and of its subsidiaries planned for establishment.

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 joint stock company.

As of 31 December 2023, 100% of the shares 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 2023, the Bank's capital is in the amount of BGN 1,135,500,000 and consists of 11,355,000 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 July 2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD, decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease.

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute were entered into the Commercial Register and the register of non-profit legal entities on 30 May 2023. The change does not affect neither the value of Group's net assets as of 31 December 2023 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.

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 the Statute are:

1. Improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to finance;
2. Attracting and managing medium- and long-term local and foreign resources necessary for the realization of the economic development of the country;
3. Implementation of schemes and instruments to finance public investment and projects that are a priority for the country's economy;
4. Raising funds and managing projects from international financial and other institutions;
5. Raising funds and providing funding in order to reduce regional imbalances in the country;
6. Financing projects of local companies creating export, innovation, high employment and/or added value;
7. Financing of priority sectors of the economy, according to the adopted government policy for economic development
8. 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 (enforced on 12 July 2024), the Bank's activity is oriented towards:

- 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;
- implementation of public policies for the economic development and growth of the country;
- implementation of instruments for financing public investments and projects that are a priority for the country's economy;

- attracting funds and providing financing in order to reduce regional imbalances in the country.

The Bank also provides other types of loans in order, such as exposure to one customer or a group of related clients, other than credit institutions, central governments and central banks, subject to compliance with the requirements and restrictions of Regulation 575/2013/EU, 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 and to financial institutions under Art. 3a of the Law on Credit Institutions for the purpose of indirect financing of small and medium-sized enterprises - BGN 15,000,000. 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 has the right to form exposures to individual or group of clients beyond the specified limits of BGN 5,000,000 and BGN 15,000,000.

1. In case of financing to end customers in whole or in part with funds received or managed by the Bank from the EU, the European Investment Bank, the European Investment Fund, another EU instrument, the Development Bank of the Council of Europe, other development banks, when the limit for a single exposure follows the limitations of the BDB financing agreement with the relevant institution
2. When financing public enterprises;
3. When financing beneficiaries under national programs or EU programs up to the amount of their approved grant. Funding outside the framework of the programs under the previous sentence or above the grant under national programs or EU programs is in the maximum amount according to para. 5;
4. For exposures fully or partially secured by cash and/or government securities and/or state guarantee, bank guarantees issued by first-class banks or significant credit institutions (as determined by the European Central Bank), and the part of the exposure covered by another type of collateral cannot exceed the limit under para. 5;
5. In case of joint financing/guaranteeing with development banks, first-class banks and significant credit institutions (as determined by the European Central Bank), EXIM institutions;

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

6. When financing clients for the implementation of projects commissioned by budget managers/budgetary organizations or by public enterprises up to the amount of the claim from the respective contracting authority;
7. When financing pre-export and export activities for products manufactured by exporting companies registered in Bulgaria. Financing is carried out according to a program approved by the Bank;
8. When financing manufacturing enterprises from the military-industrial complex registered in Bulgaria. Financing is carried out according to a program approved by the Bank;
9. When issuing bank guarantees for payment in order to guarantee (secure) the fulfilment of obligations under contracts for the provision of grants in accordance with the Investment Promotion Act and the regulations for its implementation.

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 using 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 credit and financial institutions. The terms and conditions for granting loans are determined by the Management Board.

As of 31 December 2023 and 31 December 2022, 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 31 December 2023 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 2023 and 2024, until the date of approval of the consolidated report on activities:

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

2.2.1.1 Management Board of the Bank

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 and the Register of Non-Profit Legal Entities 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.

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

By decision of the Supervisory Board under Protocol No 22 dated 28 May 2024 Mr. Ivan Valentinov Cerovski 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 10 June 2024.

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

2.2.1.2 Supervisory Board of the Bank

In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of Caretaker Government (promulgated SG No. 32 of 9 April 2024), Mr. Rosen Karadimov suspended and no longer exercises his powers as Chairman and member of the Supervisory Board of "Bulgarian Development Bank" EAD for the period in which he was appointed Minister of Innovation and Growth.

2.2.1.3 Audit committee of the Bank

From 01 January 2023, the Audit Committee of "Bulgarian Development Bank" EAD is composed of: Svetlana Hristova Kurteva, Svetlodara Encheva Petrova and Delyana Valerieva Ivanova.

2.2.1.4 Changes in the statute and capital of the Bank

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 2023 or as of subsequent periods nor the amount of Bank's regulatory equity.

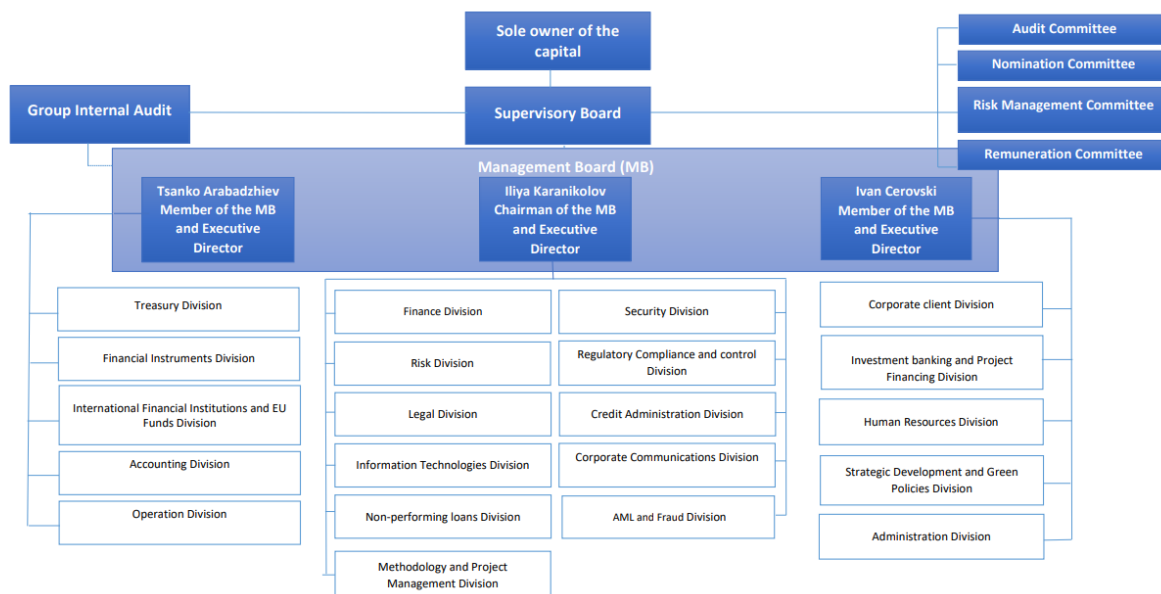
By decisions of the Minister of Innovation and Growth of 7 June 2024 and 18 June 2024, amendments were adopted to the Statute of Bulgarian Development Bank EAD, which were approved by the Bulgarian National Bank, entered in the Commercial Register and the Register of Non-Profit Legal Entities and are effective from 12 July 2024. The changes in the Statute are in accordance with the approved by the Council of Ministers Strategy for the activity of Bulgarian Development Bank EAD for the period 2024 - 2026.

2.2.2 Change in the structure of the Bank

Change in the structure of the Bank

The organizational structure effective as of 31 December 2023 is presented in the following chart:

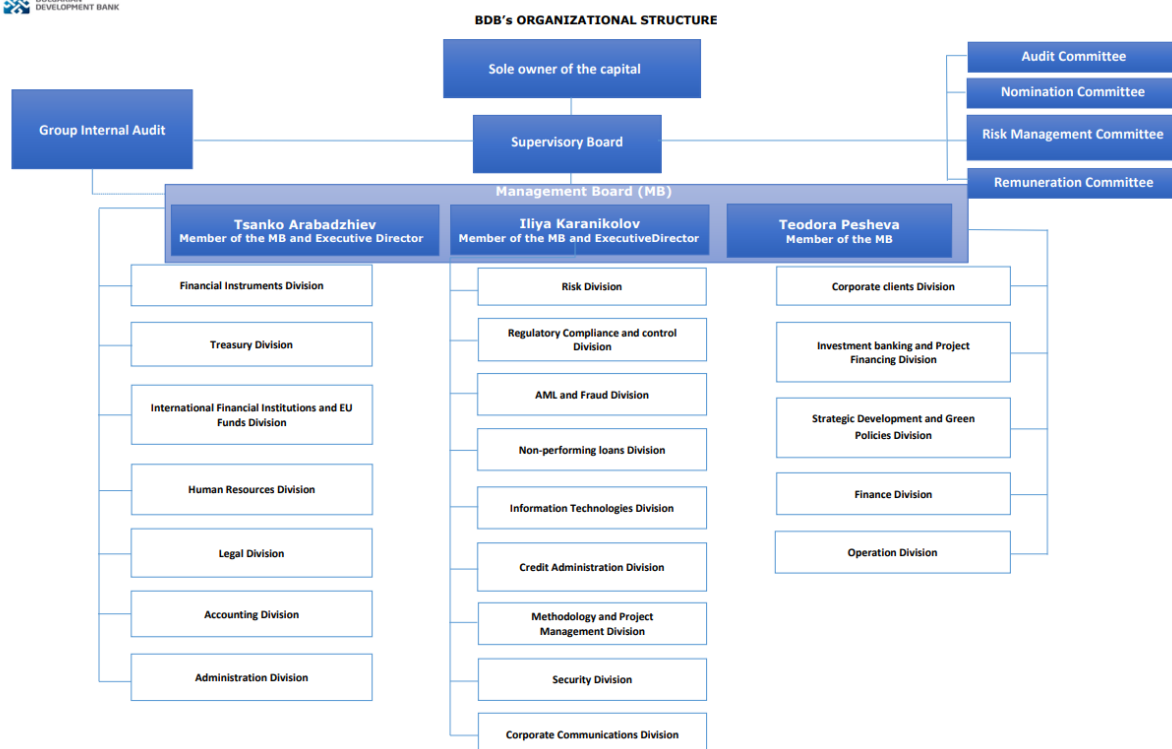
BDB's ORGANIZATIONAL STRUCTURE



◆ 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.

Following the January-June 2024 personnel and organizational changes described above, the Bank's organizational structure as of the date of issue of this report is presented in the chart on the following page.



♦ 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.
 ♦ BDB Organizational structure is changed with Decision of MB № 34/30.05.2024 and approved by SB with Decision № 23/03.06.2024

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

- ✓ The Regulatory Compliance Division is transformed into two new functional units - the Regulatory Compliance and Control 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 name of the Small and Medium-sized Enterprises Division is changed to Corporate Clients.
- ✓ In order to ensure compliance between the name of the Project Finance Division and the functions it actually performs, the same is changed to the Investment Banking and Project Finance Division and the Corporate Communications Department is transformed into 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, i.e.: 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).

The registered capital of the Company as of 31 December 2023 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.

The number of employees of NGF as of 31 December 2023 is 10.

As of 31 December 2023, 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 December 2023, 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.

With Protocol No. 88 of 21 December 2023, appended by Protocol No. 7 of 1 February 2024 and Protocol No. 14 of 12 March 2024, the Board of Directors of BDB, exercising the Bank's rights as the sole owner of the capital of BDB Microfinancing EAD decided to reduce the company's capital to BGN 14,035,000 (fourteen million and thirty-five thousand) by cancelling shares, as well as changes in the company's Statute related to the reduction of capital. The decisions to reduce the capital and changes in the Statute were entered in the Commercial Register and the Register of Non-Profit Legal Entities on 12 April 2024.

As of the date of approval of this report, the registered capital of BDB Microfinancing EAD is BGN 14,035,000 and is divided into 140,350 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 Ignatij Str. The Company rents an office in Sofia 1421, 105 Arsenalski Blvd.

The number of employees of BDB Microfinancing EAD as of 31 December 2023 is 18.

As of 31 December 2023, 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.

The capital of the company paid in at the time of establishment is BGN 65,000,000, divided into 650,000 ordinary, materialized, registered and indivisible shares with a nominal value of BGN 100.

As of 31.12.2023, 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 Ignatij Str.

The number of employees of CIF as of 31 December 2023 is 7.

As of 31 December 2023, CIF had no branches.

2.6 BDB LEASING EAD (BDB LEASING)

BDB Leasing EAD, was established on 06 March 2019 and registered into the Commercial Register on 12 March 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 December 2023, 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 Ignatij Str. The company uses rented office in Sofia, 10, Stefan Karadzha Str., floor 2.

The number of employees of BDB Leasing as of 31 December 2023 is 12.

As of 31 December 2023, BDB Leasing had no branches.

2.7 SIGNIFICANT CHANGES IN THE MANAGEMENT BODIES AND STATUTES OF THE SUBSIDIARIES FROM THE BEGINNING OF 2023 UNTIL THE DATE OF APPROVAL OF THIS REPORT

2.7.1 NATIONAL GUARANTEE FUND EAD (NGF)

National Guarantee Fund EAD has a one-tier management system - a Board of Directors consisting of three to five members, with the following composition as of 31 December 2023:

- Ivan Valentinov Cerovski – Chairman of the Board of Directors from 17 March 2023;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors from 20 May 2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors from 20 May 2020;
- Deyan Petrov Kalupchiev - Member of the Board of Directors from 27 September 2021.

By a decision of the Protocol of 10 March 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 March 2023. Mr. Ivan Valentinov Cerovski was elected Chairman of the Board of Directors of the company.

By decision under Protocol No. 32 of 28 May 2024 of the Management Board of Bulgarian Development Bank EAD, in its capacity of sole owner of the capital, Mr. Ivan Valentinov Cerovski was dismissed as a member of the Board of Directors of the National Guarantee fund EAD. This circumstance was entered in the Commercial Register on 10 June 2024.

By decision under Protocol No. 34 of 30 May 2024 of the Management Board of BDB, in its capacity of sole owner of the capital of National Guarantee Fund EAD, Mr. Iliya Zapryanov Karanikolov 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 10 June 2024. Mr. Iliya Zapryanov Karanikolov was elected Chairman of the Board of Directors of the company.

As of the date of approval of this report, the composition of the Board of Directors of the NGF is as follows:

- Iliya Zapryanov Karanikolov - Chairman of the Board of Directors from 10 June 2024;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors from 20 May 2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors from 20 May 2020;
- Deyan Petrov Kalupchiev – Member of the Board of Directors from 27 September 2021.

2.7.2 BDB Microfinancing EAD

BDB Microfinancing EAD has a one-tier management system - a Board of Directors consisting of three to five members, with the following composition as of 31 December 2023 and the date of approval of this report:

- Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors from 22 March 2023;
- Iliya Radkov Komitov - Member of the Board of Directors from 28 August 2020;
- Boyan Stefanov Byanov – Member of the Board of Directors from 30 August 2021;
- Ivana Borisova Tzaneva – Deputy Chairman of the Board of Directors and Executive Director as of 20 May 2020.

By a decision of the Protocol of 07 March 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 March 2023. Mr. Tsanko Rumenov Arabadzhiev was elected 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, 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 March 2023.

By a decision under Protocol No 4 of 09 March 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 March 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 March 2023.

By a decision No 55 of 05 July 2023 of the Management Board of Bulgarian Development Bank EAD, as sole owner of the capital, from 05 July 2023, Mrs. Mariana Dimitrova Petkova was dismissed as a member of the Board of Directors and Executive Director of BDB Microfinancing EAD. This circumstance was entered in the Commercial Register on 26 July 2023.

By a decision No 55 of 05 July 2023 of the Management Board of the Bulgarian Development Bank EAD, as the sole owner of the capital, from 05 July 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 July 2023.

2.7.3 Capital Investments Fund AD

The Board of Directors members as of 31 December 2023 and the date of this report are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors from 05 August 2021;
- Stefan Stefanov Tamnev – Executive Director and Deputy Chairman of the Board of Directors from 05 August 2021;
- Rusalin Stanchev Dinev – Member of the Board of Directors as of 16 September 2022.

There are no changes in the capital, articles of association and composition of the board of directors of the company in 2023 and until the date of approval of this report.

2.7.4 BDB Leasing EAD

BDB Leasing EAD has a one-tier management system - a Board of Directors consisting of three to five members, with the following composition as of 31 December 2023 and the date of approval of this report:

- Ivan Valentinov Cerovski - Chairman of the Board of Directors as of 17 March 2023;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors from 20 May 2020;
- Antonia Hristoforova Dobрева – Member of the Board of Directors from 20 May 2020.

The company has an authorized procurator from 01 June 2020– Ivaylo Kirilov Popov.

By a decision of the Protocol of 07 March 2023 of the Management Board of BDB, as the sole owner of the capital of BDB Leasing EAD, Krum Georgiev Georgiev was dismissed as 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 March 2023. Mr. Ivan Valentinov Cerovski was elected Chairman of the Board of Directors of the company.

By decision under Protocol No 32 dated 28 May 2024 of the Management Board of BDB, as a sole owner of the capital, Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of BDB Leasing EAD. The circumstance was recorded in the Commercial register on 10 June 2024

By Decision under Protocol No 34 of 30 May 2024 of the Management Board of BDB as a sole owner of the capital of BDB Leasing EAD, Mrs. Teodora Petrova Pesheva was elected as member of the Board of Directors of the company. The circumstance was recorded in the Commercial Register and The Register of Non-Profit Legal Entities on 10 June 2024. Mrs. Teodora Petrova Pesheva was elected as a Chairman of the Board of Directors of the company.

The Board of Directors members as of the date of this report are:

- Teodora Petrova Pesheva - Chairman of the Board of Directors from 10 June 2024;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors from 20 May 2020;
- Antonia Hristoforova Dobрева – Member of the Board of Directors from 20 May 2020.

The company has an authorized procurator from 01 June 2020 – Ivaylo Kirilov Popov.

2.7.5 Trade Center Maritsa EOOD

By a decision under Protocol No 18 of 21 February 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 March 2023.

3 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2023

3.1 KEY EVENTS AND PROCESSES

3.1.1 Regulatory changes

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

- 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, applied from December 2022).
- Guidelines for the amendment of Guidelines EBA/GL/2018/10 on the disclosure of non-performing and restructured exposures (EBA/GL/2022/13), which are applied from 31 December 2022, amended by Guidelines for the amendment of Guidelines EBA/GL/2018/10 on disclosure of non-performing and restructured exposures (EBA/GL/2022/13).
- Guidelines on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15).
- REGULATION (EU) 2022/2554 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 on the operational resilience of digital technologies in the financial sector and amending Regulations (EC) No. 1060/2009, (EC) No. 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 – Digital Operational Resilience Act /DORA/. The regulation was published in the Official Journal of the European Union on 27 December 2022 and entered into force on 16 January 2023. From that date, institutions have 24 months to reflect the new rules in their processes.
- EBA guidelines issued on the basis of Article 84, paragraph 6 of Directive 2013/36/EU for the determination of criteria for the identification, assessment, management and reduction of risks arising from potential changes in interest rates and for the assessment and monitoring of the risk of the credit spread of the activities of the institutions outside the trade portfolio (EBA/GL/2022/14), (applied from 30 June 2023).

- Guidelines on transferability to support the resolvability assessment for transfer strategies (EBA/GL/2022/11). The guidelines are issued by the European Banking Authority, published on its official website and applicable from 1 January 2024.

Changes in the national legal framework:

- Ordinance amending and supplementing Ordinance No. 20 of 2019 on the requirements for the members of the management and control body of a credit institution, as well as for the assessment of their suitability and of the persons occupying key positions;
- Act on Amendment and Supplement to the Markets in Financial Instruments Act; Ordinance amending and supplementing Ordinance No 38 of 21 May 2020 on the requirements to the activity of investment intermediaries;
- The Ordinance on amendment and supplement to Ordinance No. 21 of 26 November 2015 on the mandatory minimum reserves that banks maintain at the Bulgarian National Bank, Ordinance on amendment and supplement to Ordinance No 58 of 28 February 2018 of the FSC;
- Ordinance amending and supplementing Ordinance No. 16 of 29 March 2018 for issuing licenses and approvals, for entry in the register under Art. 19 of the Law on Payment Services and Payment Systems and on the Requirements for the Activity of Payment System Operators with Settlement finality.
- Law on Amendments and Supplements to the Law on Measures Against Money Laundering;
- Law on protection of persons reporting or publicly disclosing information on breaches;
- Anti-corruption law – new, in force from 6 October 2023.

3.1.2 Rating

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

Rating effective as of:	Date of preparation of the rating:	Long - term IDR, SRF Rating	Outlook
As of 31.12.2023	7.8.2023		
As of the date of approval of the financial statements	31.7.2024	„BBB“	Positive

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

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

3.2 BUSINESS HIGHLIGHTS

3.2.1 „COSME+ Programm“

At the end of 2023, 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 requests for payment in 2023 under the guarantee commitment of BDB, amounting to EUR 103 thousand (COSME and AHEAD) are satisfied for which BDB has received a corresponding payment under the counter-guarantee given by the EIF under the COSME program.

3.2.2 Leasing Line Programme

In 2023 three new on-lending agreements have been concluded for EUR 7 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 cost of financing is up to 6 months. EURIBOR + 3.5% and at 3.5% as a minimum. The partners under the Brod programme finance SMEs in compliance with a certain interest rate ceiling and a total annual increase, which are consistent with changes in the value of EURIBOR. In 2023, 1 agreement amounting to EUR 1.2 million euro is concluded.

3.2.4 Anti COVID-19 guarantee programmes

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

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

As of 31 December 2023, BDB has issued guarantees in the total amount of BGN 373,894 thousand², guaranteeing exposures under the two programs in the total amount of BGN 554,763 thousand (31 December 2022: BGN 715,979 thousand).

For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related inflow and cash outflow commitments. The methodology is described in detail in the Bank's annual financial statements for 2023.

At the end of 2022 the expected credit losses provisions on anti-COVID programmes amount to BGN 111,845 thousand (31 December 2022: BGN 127,215 thousand) which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

3.2.4.1 Programme for companies – Recovery Programme

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

The guarantee programme, which is part of the government's anti-crisis measures, started with a budget of up to BGN 500 million (the budget was decreased to BGN 400 million subsequently due to redirection of funds to anti COVID measures for individuals). Companies from all sectors could benefit the programme, and companies from the most

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

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 could 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 could benefit from the guarantee instrument.

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

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

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

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

The measure was approved by European Commission Decision No C (2020) 2342 of 08 April 2020 on State aid SA.56933 (2020/N) – Bulgaria COVID-19, as amended by EC Decision No C (2020) 8384 of 24 November 2020 and EC Decision C (2021) 7260 of 01 October 2021.

The loans were 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 June 2022.

The formation of portfolios under the Programme ended on 30 June 2022, according to final data from the commercial banks – partners under the scheme, 2,892 loans with an original loan amount of BGN 630,349 thousand have been guaranteed, for which a guarantee of BDB has been provided in the amount of 80% or BGN 504,279 thousand.

The status of the portfolio is updated on a quarterly basis. As of 31 December 2023, 2,184 loans with a total amount of BGN 427,042 thousand have been guaranteed. Satisfied requests for payment of guaranteed amounts under the Programme amount to BGN 7,741 thousand. The reimbursed amounts to BDB at the end of 2023 are BGN 225 thousand.

3.2.4.2 Programme for individuals and households

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

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

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

3.2.5 BDB's programme to support households by financing investments in energy from renewable sources, in implementation of the National Recovery and Sustainability Plan of the Republic of Bulgaria (Framework Conditions)

By decision of the Management Board of BDB EAD with Protocol No 57 dated 13 July 2023, a portfolio guarantee with loss-cap was approved for partial coverage of credit risk in bridge financing provided by commercial banks for investments in RES, in support of households under the National Households Support Scheme in The Field Of Energy From Renewable Sources of the Ministry of Energy (the Scheme). The initial budget of the Programme is BGN 56 million.

The goal is to facilitate and improve access to bridging financing for RES investments under the Scheme and to reach an optimal number of potential candidates under the Scheme - clients of commercial banks from all over the country. The term of the guarantee is up to 5 years, but no longer than the term of the individual guaranteed loan.

Guarantee payment limit (Cap on losses)

The maximum amount of covered losses under the Portfolio Guarantee under the programme amounts to BGN 16,800 thousand, with the limit of guarantee payments being the maximum amount to which BDB's obligation to pay to each commercial bank is limited, calculated on a portfolio basis by applying the Guaranteed Payment Limit percentage to the Guaranteed Portfolio multiplied by 70%.

Conditions for eligibility of Borrowers and financing under the Program.

Eligible Borrowers:

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

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

Type and purpose of financing:

Provision of bridging loans for realization of investments in RES, for which a grant has been approved and a contract has been signed with the MRS for financing under the Scheme, namely: 1. Solar installation for domestic hot water supply (DHW installation) or 2. Photovoltaic system up to 10 kWp, which may include electrical energy storage systems (System). The purpose of the financing is stated in the loan agreement under the

Programme, which specifically defines the costs eligible for financing. Credit amounts: up to BGN 3,000 for investments in DHW installations; up to BGN 22,000 for investments in systems, loan term - up to 5 years.

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

3.2.6 Three Seas Initiative

The Three Seas Initiative (Black, Adriatic, Baltic) aims to strengthen investment, ties and cooperation – politically and financially – between the member states in the region. 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 2023, BDB has paid share contributions amounting to EUR 18,620 thousand.

In 2023, the structuring of the Three Seas Innovation Fund continued, with a working group with representatives from the current shareholders in the Three Seas Investment Fund being formed. Discussions with the EIF regarding the Central Europe Fund of Funds presented by them continued. 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. The structuring is at an advanced stage and includes discussion of the fund's legal documentation, as well as the possibilities for BDB participation. The fund is expected to be established in 2024.

3.2.7 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 carried out a Pillar Assessment audited by an independent auditor, which was finally completed in 2023. and in November 2023 signed a Guarantee Agreement with the European Commission, by which it became an Implementing Partner under the program. The funds from the EU budget that the Bank will have at its disposal are EUR 165 million, against which it expects to guarantee loans that will be granted by the partner institutions, in the amount of over EUR 1 billion.

3.2.8 BDB program guaranteed by InvestEU Fund (IEU)

The InvestEU Fund provides a guarantee from the EU budget that supports financial products provided by Implementing Program partners. The fund promotes the attraction of investments in five areas in which the financial products that will benefit from the EU guarantee should be developed.

In July 2023, the BDB signed a Guarantee Agreement under the InvestEU Fund with the EIF. BDB Leasing is a participating but non-signatory party to the Guarantee Agreement. The contract allows BDB to provide direct financing to SMEs with a guarantee from the EIF with a payment limit in three areas: SME - Competitiveness, Innovation and digitalization and Sustainability. Each of the areas has specific eligibility requirements, payment limit and maximum guaranteed portfolio under which transactions can be covered. For its part, BDB is committed to providing a financial advantage – a reduction in the risk margin with the coverage of the InvestEU guarantee, which is reflected in:

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

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

As of 31 December 2023, the achieved guaranteed portfolio is in the amount of:

- SMEs - Competitiveness – EUR 6.752 million and includes 61 transactions of micro- and SMEs - 43% reached the guaranteed limit.
- Innovations and digitalization – EUR 2.474 million and include 3 transactions of micro- and SMEs - 47% reached the guaranteed limit.
- Sustainability - EUR 1.497 million and includes 4 micro- and SME transactions - 11% guaranteed limit reached.

3.2.9 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.

As of 31 December 2023, the guaranteed under the agreement portfolio amounts to EUR 18.5 million, which includes 51 transactions of micro and SMEs (as of 31 December 2022: EUR 21.17 and 52 transactions). As of the same date, BDB has claimed payments under the guarantee for three transactions with a total amount of EUR 203 thousand.

3.2.10 New products

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

The bank has announced several credit products to support SMEs and to promote certain sectors, which by the end of 2023 are the following:

- Green Energy Financing Programme;
- Support for Rose Processing Programme – continuation;
- Programme for financing SMEs with project proposals under European and national programmes;
- Working capital financing program for construction companies;
- Direct financing with a guarantee under InvestEU;
- Program to support households that apply to replace their solid fuel energy sources (stove, boiler, fireplace or other) with renewable ones under the National Recovery and Sustainability Plan

3.2.10.1 Green Energy Financing Programme

From the start of the initiative in 2021 BDB has financed 51 projects for the construction of photovoltaic installations.

3.2.10.2 Support for Rose Processing Programme

Continued the work on the Support for Rose Processing Programme which has become a permanent program of the Bank in order to support a traditional export industry. 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.

3.2.10.3 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 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 approved for financing over BGN 2 million 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.

3.2.10.4 Working capital financing program for construction companies

The Bank offers working capital financing for construction companies with a contract for the execution of construction and installation works (CIW) with contractors, a party to a contract for receiving grant-in-aid under national and European programs. Its scope includes two directions:

- DIRECTION 1 – projects under the National Recovery and Sustainability Plan (NRSP) and under the European Structural and Investment Funds (ESIF);
- DIRECTION 2 – projects under Measure 7.6 "Research and investments related to maintaining, restoring and improving the cultural and natural heritage of villages" of the European Agricultural Fund for Rural Development (EAFRD).

3.2.10.5 Direct financing with a guarantee under InvestEU

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

- "Competitiveness of SMEs" - in order to facilitate the access and availability of debt financing for SMEs that have a higher risk profile or that lack sufficient collateral.
- "Sustainability" - to increase access to debt financing for SMEs and mid-market capitalization that:

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

Maximum term of the loan: up to 12 years (144 months), but not later than 17 July 2037.

3.2.10.6 Hospital Funding Programme

The program was announced at the beginning of July 2022 includes investment and/or working capital loans for the improvement of infrastructure and medical equipment in order to increase the volume and quality of medical services provided up to BGN 5 million. The application deadline was 31 August 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. The Programme is being updated.

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

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

In 2023 also 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 02 February 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 living 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 according to expert assessment as a result of the Programme, the reduction in carbon dioxide emissions is estimated at 319,000 tCO₂/year and the energy savings – 726,000,000 kWh/year.

The economic effect also extends to 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. In 2024, the conclusion of contracts for the implementation of activities under the Program with external contractors, selected in accordance with the Law on Public Procurement pursuant to a Decree of the Council of Ministers, was suspended.

3.2.11 Highlights of activities of subsidiaries, projects and important activities

3.2.11.1 National Guarantee Fund EAD

Developments in the past year confirmed the Company's expectations of a weakening influence of financial incentives through public resource programs, which had a positive impact on the realization of the guarantee products of the Own Risk Fund.

In this market environment, as of 31 December 2023, the company guarantees 2,180 loans in the total amount of BGN 471 million to 1,866 micro, small and medium enterprises. In the fourth quarter, an additional 604 loans were guaranteed in the total amount of BGN 160 million to 55,201 enterprises. Accordingly, the forecast total size of the guaranteed portfolio for the year is BGN 325 million, a growth of 98% compared to the previous year.

The company reports an improvement in all key indicators compared to the comparable period of 2022:

Indicator	31.12.2023	31.12.2022	Result
Number of SMEs supported (new business)	2,180	339	+543 %
Number of active guarantees	3,388	1,717	+97 %
Size of the guaranteed portfolio (BGN million)	325	164	+98 %
Coverage: Warranty Fees/ Administrative Costs	216%	157%	+59 %

In the current year, in support of its mission to stimulate the sustainable development of SMEs in the country by providing equal access to financial resources in its role as a financial intermediary "supplementing" the market, NGF continued the process of implementing the long-term initiatives launched as follows:

- Finalized the coordination procedures with partner banks under the leading guarantee program for own risk "NGF 2022", with the aim of effective implementation of the scheme by all partners included in the program;
- Held consultations with the newly elected management of the Ministry of Agriculture and Food and negotiated an extension of the management period of a resource provided to support SMEs, in the amount of BGN 54.9 million until 30.06.2033;
- Completed the migration of the Company's main banking system to BrightOS;
- Completed the construction of a software solution for monitoring and managing guarantee instruments, which automates the process of issuing and managing guarantees. The decision will be implemented in the first quarter of this year.

In addition, in the last quarter of 2023, negotiations with potential implementing partners were resumed on the company's joint instrument with Black Sea Bank for Trade and Development, which provides an opportunity for guarantee coverage of up to 80% of the amount of newly granted loans to SMEs.

3.2.11.2 BDB Microfinancing

In the period 01 January 2023 to 31 December 2023, 150 new credit contracts were signed for an authorized amount of BGN 11,907 thousand, of which BGN 8,856 thousand were utilized.

As of 31 December 2023, the active loan and leasing portfolio of the Company amounts to BGN 32,731 thousand, represented at amortised cost and consists of 620 credit and leasing transactions.

3.2.11.3 BDB Leasing

As of 31 December 2023, there are three hundred and twelve (312) financial lease contracts in the Company's portfolio with a total financed value of BGN 123,096 thousand (as of 31 December 2022 – BGN 114,814 thousand). For the whole of 2023, 85 new lease contracts were signed with a total financed value of BGN 20,936 thousand (2022: BGN 37,122 thousand). Eleven of the signed lease contracts at the amount of BGN 8,944

thousand. are not in the Company's active portfolio, as they are in the process of delivering the leased assets as of 31 December 2023.

As of 31 December 2023, the largest share in the portfolio of BDB Leasing is land transport. Clients of BDB Leasing from the transport sector are companies operating in land transport and transporting food, cars, consumer goods, intermodal transport, etc. In second place is the processing 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 the assets often have a more specific purpose and there is a market shortage. This is followed by the construction and trade sectors, which are usual business for the leasing industry.

"BBR Leasing" EAD was one of the first financial institutions in Bulgaria, which in May 2021 signed a guarantee agreement with the European Investment Fund (EIF) under the program "Pan-European Guarantee Fund in Response to the Covid-19 Pandemic" for direct financing to small and medium-sized enterprises under reduced conditions with a guarantee from the EIF. The Pan-European Guarantee Fund program was created by the European Union in response to the economic crisis caused by the Covid-19 pandemic and provides guarantees to financial institutions from EU member countries in order to support the recovery of companies and sectors affected by the pandemic. Beneficiaries of the guarantee program are small and medium-sized enterprises that have access to lease financing under eased conditions - reduced requirements for self-participation (0% for vehicles and 5% for machinery and equipment), longer repayment terms (up to 96 months), as well as financing of companies with a shorter business history. According to the signed agreement, the guaranteed portfolio is in the amount of up to EUR 20 million, with the EIF covering up to 70% of the loss at the individual exposure level.

The deadline for utilization under the program expired on 31 December 2022, as BDB Leasing realized the full volume of the approved limit under the program.

Under the PEGF guarantee program, a total of 132 lease contracts were concluded with 54 lessees with a total financed value of BGN 39,076 thousand. As of 31 December 2023, there were 122 contracts in force. with a financed value of BGN 31,090 thousand.

3.2.11.4 Capital Investments Fund AD

In 2023, "Capital Investments Fund" AD reviewed 87 potential transactions for investments in capital instruments of developing companies, a shareholder agreement was signed and funds for capital investments were used for one transaction.

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 38 credit agreements with 16 international institutions amounting to EUR 1,589 million.

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

3.3.1.1 European Investment Bank (EIB)

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

3.3.1.2 Council of Europe Development Bank (CEB)

On 13 July 2023, the Framework Loan Agreement was signed between Council of Europe Development Bank and Bulgarian Development Bank to support micro, small and medium-sized enterprises for the creation and preservation of viable jobs and environmental protection in the amount of EUR 175 million for financing small and medium-sized enterprises, incl. green projects.

The Agreement uses a state guarantee under the Solidarity Guarantee Agreement signed between the Republic of Bulgaria and Council of Europe Development Bank on 20 July 2023.

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

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

3.3.1.3 China Exim Bank

On 05 December 2023, a contract was signed between the Chinese Exim Bank and the Bulgarian Development Bank in the amount of EUR 50 million. and for a period of 5 years. The funds under the agreement can be used to finance BDB's general lending activities and clients, medium-term or short-term transactions for trade finance and other purposes after coordination with the lender.

3.4 HUMAN RESOURCES

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

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

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

3.5 INFORMATION TECHNOLOGIES

The past year 2023 was extremely dynamic on the part of IT projects.

The IT infrastructure is supported with an up-to-date version of the antivirus software for the entire BDB EAD group - ESET protect and Anti-malware platform. BDB EAD has updated solution for hardware and software monitoring of the overall environment - Axence Nvision, and at the end of 2023 a Help Desk system was configured through the same application.

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

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

BDB EAD has implemented software changes in connection with the report "Progress under the Energy Efficiency of Multi-Family Residential Buildings National Programme" to reflect extraordinary payments (refunds) of amounts under the program.

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

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

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

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

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

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

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

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

In September 2022, BDB launched the Business Booster digital platform to help MSMEs. At this stage, the project offers the opportunity to apply online for funding of up to BGN 100,000. Business Booster is a huge enablement for micro, small and medium-sized companies in the country in need of financing, as the Bank does not have a branch network. All necessary documents are filled out and signed entirely online.

To create a company profile, it is necessary to fill in company data, which is automatically checked through API integration in several registers. The documents shall be signed with a qualified electronic signature. The company Evrotrust has been chosen as a provider of the certification service. At the moment, the development and implementation of a back-office system has been initiated, which will speed up the consideration of loan applications – Credit Quest. Business Booster also offers a free "Business Academy", which

includes: training with manuals, video tutorials and a digital library, where all the necessary forms and documents for starting a business are published, as well as a special tool for creating a business plan - Business Plan Wizard. The new digital platform of BDB allows for easy and free opening of an online store with a built-in module for issuing invoices.

3.6 COMMUNICATIONS AND PUBLIC RELATIONS

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

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

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

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

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

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

In 2023, BDB continued its meetings with companies in the country and its participation in events and conferences that allow it to present its products for business financing. The bank hosted a meeting with associations and venture capital funds, as well as a meeting on the protection of business intellectual property. BDB was also represented at the forums "Bulgaria in Support of Sport", Automotive & Battery Forum '23, Bulgaria in the Eurozone – the Next Steps for the Business, The Green Transition, Powers Summit, Investor Finance Forum, SIM Expo, Be Renewable, Green Smart Growth, "Industrial Zones - Growth for Municipalities and Regions", Project Financing Board of BCCI, "Financial

Instruments for Export Support of Bulgarian Companies" of BCCI, the 14th ICAP Credit Risk Conference, the Annual Forum of the Microfinance Centre for Central and Eastern Europe, as well as meetings with local businesses in Plovdiv, Burgas, Kyustendil, Ruse, Stara Zagora, Bansko, Shumen.

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

4 ECONOMIC ENVIRONMENT AND BANKING SECTOR SURVEY 2023 ECONOMIC ENVIRONMENT

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

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

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

In 2023, could be seen stability in employment and unemployment rates. For 2024, employment is expected to follow the growth of the Bulgarian economy and labour productivity.

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

4.1 BANKING SECTOR

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

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

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

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

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

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

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

The impact of a number of regulations and regulatory requirements also has an impact on the performance of the banking sector. In October 2023, BNB designated six banks as Other Systemically Important Institutions (SIIs), with the SIIs buffer levels in the range of 0.50%-1% as of 1 January 2024. The increase of the countercyclical capital buffer by BNB from 1% to 1.5%, starting from January 2023, and the announced increase to 2%, effective from 01 October 2023, did not have a significant impact on capital indicators, given the good capitalization of the banking system. The activity of the banking system in 2024 is expected to be influenced by banks' preparation for the future introduction of the Euro.

4.2 LEASING SECTOR

As of 31 December 2023, the receivables of the leasing companies under financial and operating leases are a total of BGN 6.104 million against BGN 5.293 million as of 31 December 2022 – an increase of 15.3%. The receivables under financial lease contracts are BGN 5.770 million, which is an increase of 16.9%. The share of receivables under financial lease contracts was 94.5% at the end of 2023, which is higher compared to the previous period. Receivables under operating lease contracts are BGN 334 million. The

latter decreased by 5.9% on an annual basis. The decline is related to a decline in the operating lease of other assets, which decreased by nearly 30%.

By type of asset at the end of 2023, the largest portfolio of receivables under car leasing contracts was with a share of 46.5% of financial lease receivables compared to 43.4% as of 31 December 2022.

As of 31 December 2023, the net value of receivables under financial lease contracts for trucks and light commercial vehicles was 25.08%, which is a minimal decrease compared to a year earlier, when it was 25.09%. The portfolio of receivables under financial lease contracts for machinery, equipment and industrial equipment as of 31 December 2023 is BGN 1.413 million, which is an increase of 3% compared to a year earlier. Machinery, equipment and industrial equipment form 24.5% of the receivables under financial lease contracts.

The main part of the leasing companies' clients are non-financial commercial companies - at the end of 2023, the volume of receivables under leasing contracts with commercial companies was BGN 4.608 million – 80% of all receivables under financial lease contracts (81% to the previous period). The portfolio of receivables under lease contracts with individuals registered an increase of 23.3%, which is an acceleration of growth compared to a year earlier, when the growth was 14.6%.

Non-performing receivables in the portfolios of leasing companies decreased as a percentage of the total receivables under leasing contracts – from 2% to 1.54%.

The data show that the main driver of the growth of the sector in 2023 is leasing of passenger cars. There is an acceleration of purchases by individuals of leased assets. Expectations are for a moderate increase in the total amount of receivables under lease contracts in the medium term.

5 OVERVIEW OF ACTIVITIES AND SELECTED FINANCIAL INFORMATION

5.1 BDB GROUP PERFORMANCE

5.1.1 Comprehensive income

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

Consolidated Statement of comprehensive income for 2023

	2023	2022	YoY change
Net interest income	73,668	63,482	16.0%
Net fee and commission income	4,927	3,005	64.0%
Net income on foreign exchange deals	257	524	(51.0%)
Net loss on financial assets at fair value through other comprehensive income	(11)	(851)	(98.7%)
General and administrative expenses incl. depreciation and amortization	(35,394)	(34,502)	(2.6%)
Other income from/(expenses for) the activity, net	7,093	2,092	239.1%
Operating profit before impairment and provisions	50,540	33,750	49.7%
Expenses for impairment and provisions of non-financial assets and financial instruments	(21,368)	(7,065)	(202.4%)
Gain before tax	29,172	26,685	9.3%
Income tax benefit / (expense)	(226)	29	(879.3%)
Net profit for the year	28,946	26,714	8.4%
Actuarial (loss)/gains on defined benefits plans, net of taxes	(12)	172	(107.0%)
Net change in fair value of equity financial assets at fair value through other comprehensive income	24,449	11,062	121.0%
Net change in fair value of debt financial assets at fair value through other comprehensive income	14,313	(39,544)	136.2%
Total comprehensive income	67,696	(1,596)	4,341.6%

The interest income for the financial year 2023 amounted to BGN 124,286 thousand (for 2022: BGN 82,351 thousand), reporting a significant increase of 50.9%, mainly due to the increased interest income due to higher market interest rates and the investment of temporarily available funds at higher yields.

In the past 2023, interest expenses in the Bank's financial statements increased by a minimum of 168.2%, reaching BGN 50,618 thousand compared to BGN 18,869 thousand for the same period in 2022. This annual change is due to the increased cost of the attracted resource due to the increased market levels of interest rates.

As a result of the realized interest income and expenses in 2023, net interest income was reported by 16.0% higher compared to 2022.

Fee and commission income for the twelve months of 2023 amounted to BGN 7,833 thousand and increased by 16.6% compared to the same period of 2022. The net result of accrued fees and commissions for 2023 was positive and amounted to BGN 4,927 thousand, or a growth of 64.0% compared to the same period of 2022. The result was influenced by the increased income in connection with the issued portfolio guarantees

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

In 2023, general and administrative expenses and depreciation and personnel costs amounted to BGN 35,394 thousand compared to the costs for 2022 BGN 34,502 thousand, growth of 2.6%. According to NSI data, the reported average annual inflation (HICP) as of 31 December 2023 is 9.5%, 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 2023, savings have also been reported.

In 2023 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 21,368 thousand. For comparison, for the same period of the previous 2022, the Bank reported a net impairment expense and provisions of loans, receivables and off-balance-sheet commitments amounting to BGN 7,065 thousand. The reported increased negative result for 2023 is determined by both (1) reintegration of provisions on off-balance-sheet commitments – portfolio guarantees issued to commercial banks under the two guarantee programmes – "Programme to guarantee interest-free loans to protect people deprived of the opportunity to work due to the COVID-19 pandemic" and "Programme to support the liquidity of enterprises affected by the emergency situation and the COVID-19 epidemic", with which the Bank has been mandated by the Government of the Republic of Bulgaria to provide financial assistance to support the economy and to overcome the consequences of the pandemic, as well as by (2) the accrued impairment costs to cover expected credit losses in the Bank's portfolio.

The financial result of the Bulgarian Development Bank EAD for 2023 is an after-tax profit of BGN 28,946 thousand (2022: BGN 26,714 thousand).

5.1.2 Financial position

As of 31 December 2023, the BDB Group's assets amounted to BGN 2,770,861 thousand, or a decrease of 8.6% 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 December 2023 and 31 December 2022 of BDB Group:

	As of 31.12.2023	As of 31.12.2022	YoY change
Assets			
Cash in hand and balances in current account with the Central Bank	128,665	527,924	(75.6%)
Receivables from Banks	513,980	139,420	268.7%
Financial assets at amortized cost, incl.	1,359,465	1,485,009	(8.5%)
<i>Loans and advances to customers</i>	<i>1,333,532</i>	<i>1,449,701</i>	<i>(8.0%)</i>
<i>Receivables from the State Budget</i>	<i>14,262</i>	<i>23,537</i>	<i>(39.4%)</i>
<i>Securities</i>	<i>11,671</i>	<i>11,771</i>	<i>(0.8%)</i>
Financial assets at fair value through other comprehensive income– debt and equity securities	579,761	638,753	(9.2%)
Net investment in financial lease	75,360	70,866	6.3%
Fixed assets	50,152	70,775	(29.1%)
Goodwill	1,254	23,745	(94.7%)
Other assets	62,224	74,061	(15.98%)
Total assets	2,770,861	3,030,553	(8.6%)
Liabilities			
Borrowings from international institutions	581,931	779,497	(25.3%)
Deposits from customers other than credit institutions	539,591	857,895	(37.1%)
Deposits from credit institutions	209,904	3,130	6,606.2%
Other borrowings	83,022	82,938	0.1%
Liabilities under lease	215	90	138.9%
Other liabilities	136,828	152,901	(10.5%)
Total liabilities	1,551,491	1,876,451	(17.3%)
Equity			
Share capital	1,135,500	1,441,774	(21.2%)
Accumulated loss	(165,917)	(195,293)	(15.0%)
Revaluation reserve on financial assets at fair value through other comprehensive income	(68,631)	(106,953)	(35.8%)
Reserves	318,418	14,574	2,084.8%
Total equity	1,219,370	1,154,102	5.7%
Total liabilities and equity	2,770,861	3,030,553	(8.6%)

5.2 LENDING ACTIVITY

5.2.1 Direct Lending

In 2023, the Group continued to develop its activities, supporting Bulgarian businesses, while continuing to maintain the diversification of the sectoral structure of its loan portfolio. The portfolio retained to a large extent the distribution by sector, with greater dynamics reported in the following sectors and subsectors: increases in the sectors Tourism services (+1.3%) and trade (+0.8%) and decreases in the sector Industry (-1.7%) and in particular "Industry - other production" (-1.9%) and Construction (-0.9%).

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 2023, the loans and advances granted after impairment (financial assets reported at amortised cost – receivables from customers) amounted to BGN 1,333,532 thousand and registered a decrease of 8.0% (as of 31 December 2022: BGN 1,449,701 thousand). The decline is due to the decrease of the granted loans and advances (BGN 116,169 thousand), as a decrease in gross loans amounted to BGN 124,564 thousand (of the impairments by BGN 8,395 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 2023 the total amount of the agreed funding undersigned contracts amounts to BGN 1,979,874 thousand (compared to the end of 2022 – BGN 1,977,438 thousand). The sites for which special purpose financing contracts have been concluded with the Bank are a total of 2,022 (of which 1,885 buildings under NPEEMFRB and 137 buildings transferred from Energy Renovation of Bulgarian Homes (ERBH) Programme). Under the National Programme for Energy Efficiency of Multi-Family Residential Buildings by the end of 2023 the completed loans under which the Ministry of Regional Development and Public Works has forwarded amounts to BDB AD are for 1,954 buildings. The utilized amount is BGN 1,956,153 thousand and gross receivables on loans under NPEEMFRB amount to BGN 14,431 thousand (as of 31 December 2022 – BGN 23,598 thousand). From the beginning of the Programme by the end of 2023, a total of BGN 1,972,865 thousand were repaid with funds from the state budget, which amount includes a principal repayment of BGN 1,947,848 thousand and interest paid on completed contracts at the amount of BGN 25,017 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

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

The total amount of the amounts that BDB can guarantee is BGN 700 million. They were fully secured by increasing the Bank's capital in 2020 by the same amount.

At the end of 2023, BDB has issued guarantees for a total of BGN 373,894 thousand³ by guaranteeing exposures under both programmes totalling BGN 554,763 thousand. (31 December 2022: BGN 715,979 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 2023.

At the end of 2023, the provisions set aside for expected credit losses under the anti-COVID programmes amounted to BGN 111,845 thousand (31 December 2022: BGN 127,215 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.

5.4 BORROWINGS FROM INTERNATIONAL INSTITUTIONS

The attracted funds from international institutions at the end of 2023 accounted for 37.5% in the liability structure and amounted to BGN 581,931 thousand compared to BGN 779,497 thousand at the end of 2022. The change in 2023 amounted to BGN 197,566 thousand compared to the end of 2022 and was determined by scheduled repayments undersigned financial agreements, as well as a full early repayment of BGN 97,792 thousand to China Development Bank at the end of the period.

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, at 50% limit of guarantee payments on portfolio basis.

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

In the period from 01 January 2023 to 31 December 2023, 150 new credit contracts were concluded for a total amount of BGN 11,907 thousand, of which BGN 8,856 thousand were utilized.

As of 31 December 2023, the active loan and lease portfolio of the company amounts to BGN 32,731 thousand presented at amortised cost and consists of 620 loan and lease transactions.

The amount of the assets of the company as of 31 December 2023 amounts to BGN 33,441 thousand.

The total revenue of the company in 2023 amounts to BGN 3,161 thousand and the interest income amounts to BGN 2,524 thousand, which represents nearly 80% 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.

As of 31 December 2023, the Company guaranteed 2,180 loans in the total amount of BGN 471⁴ million to 1,866 micro, small and medium-sized enterprises. In the fourth quarter, an additional 604 loans in the total amount of BGN 160 million were guaranteed to 55,201 enterprises. Accordingly, the projected total amount of the guaranteed portfolio for the year amounted to BGN 325 million, an increase of 98% compared to the previous year.

The company reports an improvement in all key indicators compared to the comparable period of 2022:

Indicator	31.12.2023	31.12.2022	Result
Number of SMEs supported (new business)	2,180	339	+543%
Number of guarantees in force	3,388	1,717	+97%
Amount of the guaranteed portfolio (million BGN)	325	164	+98%
Coverage: Warranty Fees / Administrative Costs	216%	157%	+59%

During the current year, in support of its mission to stimulate the sustainable development of SMEs in the country by providing equal access to financial resources in its role as a "complementary" financial intermediary, the NGF continued the process of implementing the launched long-term initiatives as follows:

⁴ Total amount of financing granted with guarantees from the company.

- Finalized the coordination procedures with partner banks under the leading guarantee program for own risk "NGF 2022", with the aim of effective implementation of the scheme by all partners included in the program;
- Held consultations with the newly elected management of the Ministry of Agriculture and Food and negotiated an extension of the management period of a resource provided to support SMEs, in the amount of BGN 54.9 million until 30 June 2033;
- Completed the migration of the Company's main banking system to BrightOS;
- Completed the construction of a software solution for monitoring and managing guarantee instruments, which automates the process of issuing and managing guarantees. The decision will be implemented in the first quarter of this year.

In addition, in the last quarter of 2023, negotiations with potential implementing partners were resumed on the company's joint instrument with Black Sea Bank for Trade and Development, which provides an opportunity for guarantee coverage of up to 80% of the amount of newly granted loans to SMEs.

5.6.1 Own Risk Guarantee Schemes

The first guarantee scheme of the NGF - **Guarantee Scheme 2009-2013**, was launched in 2009, and loans could be included until February 2013. Under the first guarantee scheme, agreements were signed with 11 commercial banks. Under the scheme, the NGF issues guarantees on loans to SMEs in the amount of up to BGN 500 thousand on investment and working capital loans, as well as bank guarantees. The maximum term of the guarantees is up to 10 years. and the NGF approves the inclusion of loans in the guaranteed portfolio on an individual basis.

During the period of inclusion of loans in the guaranteed portfolio, the NGF has approved guarantees in the amount of BGN 168,000 thousand. Lv. on loans in the amount of BGN 391,000 thousand. The total number of enterprises supported under the scheme is 2,471.

As of 31 December 2023, the approved amount of guarantees included in the portfolios of partner banks is 614 thousand BGN (2022: BGN 614 thousand), and the amount of the guaranteed debt is BGN 189 thousand (2022: BGN 213 thousand). Expiry date of guarantees – 16 November 2027

In March and April 2017, NGF EAD and 10 commercial banks signed guarantee agreements at total amount of BGN 328,000 thousand. BGN. **The Guarantee Scheme 2017-2018** is a continuation of NGF 2015. Under the scheme, up to 50% of the loan amount is guaranteed, but not more than BGN 1 million. The deadline for inclusion of loans in the guaranteed portfolio was until 30 September 2018. From the start of the guarantee scheme until 31 December 2022, 3,000 SMEs have been supported, and with subsequent annexation, the total limit of funds, granted to banks for inclusion of loans in the portfolio amounted to BGN 416,131 thousand. As of 31 December 2023, the approved amount of guarantees included in the portfolios of partner banks is BGN 0 thousand (2022: BGN 526 thousand), and the amount of the guaranteed debt is BGN 0 thousand (2022: BGN 501 thousand). In 2023, the scheme ended.

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-compliant 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. During the inclusion period, 1,486 loans were guaranteed for the amount of BGN 450 million, the supported SMEs were 1,350. As of 31 December 2023, agreements were signed with 6 banks with a maximum guaranteed portfolio size of BGN 244,000 thousand.

As of 31 December 2023, the approved amount of the guarantees included in the portfolios of the partner banks amounts to BGN 119,357 thousand (2022: BGN 138,764 thousand) and the amount of the guaranteed debt is BGN 82,757 thousand (2022: BGN 108,796 thousand). Deadline of validity of the guarantees – 31 December 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. As at 31 December 2023, NGF EAD has signed agreements with five financial institutions.

As of 31 December 2023, 236 loans amounting to BGN 31,160 thousand (2022: BGN 41,543 thousand) have been guaranteed. The amount of the current guaranteed debt as of 31 December 2023 is BGN 15,480 thousand (2022: BGN 20,772 thousand). Deadline of validity of the guarantees – 31 December 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.

As of 31 December 2023, with the application of a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for the Company on loans issued to partner banks for financing approved projects under the Operational Program for the Development of the Fisheries Sector 2007–2013, in the amount of BGN 20,780 thousand with a total value of loans/bank guarantees – BGN 30,551 thousand (2022: guarantees BGN 20,780 thousand with a total value of loans/bank guarantees – BGN 30,551 thousand). The amount of the guaranteed debt at book value as of 31 December 2023 is BGN 78 thousand (2022: 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 2023, 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 (2022: BGN 185,606 thousand). The total amount of loans is BGN 238,112 thousand (2022: BGN 238,112 thousand). The book value of the guaranteed debt as of 31 December 2023 was BGN 474 thousand (2022: 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 June 2023 and the deadline for submitting payment requests by the partner banks is 28 February 2026.

As of 31 December 2023, when applying a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for the Company 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. (2022: BGN 185,606 thousand) with a total value of loans – BGN 238,112 thousand (2022: BGN 238,112 thousand). The amount of the guaranteed debt at book value as of 31 December 2023 is BGN 474 thousand (2022: BGN 1,365 thousand).

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 December 2023, 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, Eurobank Bulgaria AD, UniCredit Bulbank AD. Maximum amount of the guaranteed portfolio in the amount of BGN 629,000 thousand. As of 31 December 2023, 2,038 loans amounting to BGN 453,000 thousand were guaranteed, 1,753 SMEs were supported.

As of 31 December 2023, the approved amount of guarantees included in the portfolios of partner- banks is BGN 213,192 thousand (2022: BGN 9,041 thousand) and the amount of the guaranteed debt is BGN 194,620 thousand (2022: BGN 8,949 thousand).

The guarantee expiration date is 30 June 2028.

Guarantee scheme 2022 – Leasing

At the beginning of 2022, NGF EAD launched a procedure for the selection of 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 31 December 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 and BDB Leasing EAD.

As of 31 December 2023, the approved amount of guarantees included in the portfolios of partner- banks is BGN 12,563 thousand (2022: BGN 6,585 thousand) and the amount of the guaranteed debt is BGN 9,788 thousand (2022: BGN 5,995 thousand). The guarantee expiration date is 31 December 2028.

5.6.3 Financial result of NGF EAD

The financial result after taxes of the National Guarantee Fund for 2023 is profit in the amount of BGN 414 thousand.

Based on the results of the application of the risk assessment test on the guarantee portfolio as of the end of 2023, the management of the NGF EAD adopted that the coverage with the expected credit losses of the portfolio should be decreased from 3.02% for 2022 to 2.25% for 2023 r., 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.

During the period, impairment of BGN 572 thousand on financial assets was reported and expected credit losses on guarantee portfolios amounting to BGN 2,431 thousand were recognized.

5.7 THE GROUP'S ACTIVITY THROUGH BDB LEASING EAD

As of 31 December 2023, the assets of the company amount to BGN 79,491 thousand. The largest share is for the receivables under finance lease presented at net value after impairment is BGN 75,407 thousand, and there is an increase in the amount of total assets BGN 2,421 thousand compared to 2022.

As of 31 December 2023, three hundred and twelve (312) finance lease contracts were concluded with a total financed value of BGN 123,096 thousand (as of 31 December 2022 – BGN 114,814 thousand). From a total of 312 signed contracts, 301 are in the active leasing portfolio. 11 lease contracts with a financed value of BGN 9 million are in the process of delivery of the leased assets and as of 31 December 2023 do not appear in the leasing portfolio.

In 2023, 85 new lease contracts were signed of the total financing value of BGN 20,936 thousand. Taking into account the assets in the process of delivery, the adjusted portfolio amounts to BGN 84 million.

The book value of receivables under lease contracts as at 31 December 2023 amounts to BGN 75,407 thousand with VAT compared to BGN 70,874 thousand for 2022 – a growth of 6.4% was reached compared to the previous 2022. The reported payments for delivery of lease assets amount to BGN 2,451 thousand excluding VAT (2022: BGN 3,462 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 total reported revenue in 2023 amount to BGN 5,638 thousand, and the main share of the revenue is interest income on finance lease contracts amounting to BGN 5,436 thousand (2022: BGN 2,830 thousand). The total reported expenses amount to BGN 2,214 thousand.

The net financial result for the period ending 31 December 2023 is profit after taxation in the amount of BGN 1,004 thousand (for 2022: profit in the amount of BGN 1,141 thousand).

5.8 THE GROUP'S ACTIVITY THROUGH CAPITAL INVESTMENTS FUND AD

As of 31 December 2023, the registered capital in the Company has been fully paid in.

For 2023 the net financial result of the Fund's activity is a loss of BGN 305 thousand (for 2022: loss of BGN 493 thousand).

For 2023 the Company reports revenue from fees and commissions (fees for review) in the amount of BGN 51 thousand.

The Fund's expenses for 2023 are in the total amount of BGN 828 thousand, as follows:

- general and administrative expenses at the amount of BGN 145 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 678 thousand.
- depreciation/amortization expenses amounting to BGN 4 thousand.
- Income tax expense amounting to BGN 1 thousand.

The total expenses of the Fund for the same period of 2022 amount to BGN 685 thousand of which the expenses for remuneration are BGN 523 thousand.

In 2023 the Fund has realized positive differences due to sale of owned shares in companies.

6 DEVELOPMENT STRATEGY OF THE GROUP AND BUSINESS GOALS 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.

In 2023 the Strategy of 2021–2023, adopted by a decision of the Council of Ministers on 29 July 2022 continues its operation. By decision of the Supervisory Board of BDB dated 20 December 2023, it is proposed to the principal that its term of implementation be extended by another 12 months. According to the document the BDB should follow four **strategic goals**:

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.

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

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

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

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

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

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

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

In 2023, BDB introduced a practice of performance evaluation through performance indicators (KPIs). The indicators measure and track the implementation of the set goals and the overall contribution of the Bank's activities. The measured results do not give a clear and definite trend due to lack of historical data.

For each of the selected sustainable development goals, the Bank has begun to report its contribution. It is most significant in relation to Goal 7 "Affordable and clean energy", as through a green energy financing program the Bank finances the construction of 34.4 MW of solar parks. The infrastructure for green energy is supported by 72 new implemented projects for the amount of BGN 40.2 million.

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

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

The activities of the BDB Group take into account the dynamics of business and the economy as a result of overlapping crises. The humanitarian and economic consequences of the war in Ukraine and the sanctions imposed on Russia are negatively changing the business environment. The Group strives to respond to the greatest extent to the demand and need of SMEs for financing and to deal with the 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 Investments 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 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. 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 2023, 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 RISKS

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 ("the Plan"). Its latest update, was adopted by decision of the MB with Protocol No 78/02.11.2023 and decision of the SB with Protocol No 50/09.11.2023. The Recovery Plan complies with the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Intermediaries, adopted in the middle of 2015, Guidelines on recovery plan indicators and technical recommendations on the definition of critical functions and key business lines (Technical advice on critical functions and core business lines) of the European Banking Authority (EBA).

The Recovery Plan addresses the systemically important/critical functions of the BDB 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 BDB Group follows a management philosophy and operational style subordinated to the principles of conservatism in the implementation of the Bank's strategic objectives assigned under the BDB Act.

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

The first line of defence covers risk management by business and risk-taking units - divisions Corporate Clients, Investment Banking and Project Financing, Financial Instruments, Problem Receivables and Treasury. Their activities are supported by the divisions Legal, Loan Administration, Security, Finance, Operations and IFI and European Funds", as well as the respective business units in the subsidiaries 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 and Control. The 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. The Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB Group to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Division controls the prevention of money laundering and terrorist financing. 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 support 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 Group 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.

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

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

Effective 01 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 01 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 of 31 December 2023 is 44.53 % (31 December 2022: 43.73%). The values of asset coverage with capital buffers exceed many times the statutory levels. Respectively, the aggregated data for the capital adequacy banking system are: 21.65% (as of 31 December 2023) and 20.88% (as of 31 December 2022). BDB continues to maintain a good level of liquidity.

As of 31 December 2023, the liquidity coverage ratio (LCR according to the definition of Regulation 575 / 2013/EU) of the BDB Group is 410.5% (compared to value of 283.6% as of the end of 2022). For the banking system, the aggregated liquidity coverage ratio was 246.7% (as of 31 December 2023) and 235.0% (as of 31 December 2022).

As part of the Basel III regulatory framework, effective as of 28 June 2021, a 'net stable funding ratio' (NSFR) with a minimum regulatory requirement of 100% applies. The information about it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) with quarterly frequency, on an individual and consolidated basis. As of 31 December 2023, the aggregate level of NSFR for the banking system was 161.1%, and for the BDB Group it was 119.61%.

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. In August 2021, BDB purchased two new shares in the capital increase of EIF, bringing the total number of shares held to five shares.

BDB is an active member in a number of European and international associations: European Association of Public Banks (EABP), Network of European Financial Institutions (NEFI), European Association of Long-Term Investors (ELTI), International Network for Small and Medium-sized Enterprises (INSME), French-Bulgarian Chamber of Commerce and Industry (FBCI), Interbank Association of China and the countries of Central and Eastern Europe and Eastern European Chamber of Commerce and Industry (Singapore).

Since the beginning of 2024 BDB became a member of the Loan Market Association.

11 GOVERNANCE OF THE BDB GROUP

11.1 BANK GOVERNANCE

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

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

The changes in the Supervisory Board, Management Board, Audit Committee and Statute of the Bank, which have occurred in 2023 and until the date of approval of this report are described in section **Error! Reference source not found.:**

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

11.1.1 SUPERVISORY BOARD OF BDB IN 2023, AS OF 31 DECEMBER 2023 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.

In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of Caretaker Government (promulgated SG No. 32 of 09 April 2024), Mr. Rosen Karadimov suspended and no longer exercises his powers as Chairman and member of the Supervisory Board of "Bulgarian Development Bank" EAD for the period in which he was appointed Minister of Innovation and Growth.

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.

11.1.2 BDB MANAGEMENT BOARD IN 2023, AS OF 31 DECEMBER 2023 AND AS OF THE DATE OF APPROVAL 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 since 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.

Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director since 07 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 "UNIQA", 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 has been part of the team of Pension Insurance Company Doverie, where he was responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated in International Economic Relations at the University of National and World Economy and holds a Master's degree in Finance.

Teodora Petrov Pesheva – member of the MB since 25 March 2024.

Teodora Pesheva has 31 years of experience in the sphere of banking. She was head of corporate banking at UBB and at a commercial bank of Greece (Emporiki Bank Bulgaria). For 10 years she was also head of the Large corporate client's department at DSK Bank.

During her career she was also a financial consultant at Mazars Group – London. She prepared final analysis of the entire scope of credit activities of corporate commercial banking. She participated in the first asset quality reviews of the banking sector in Bulgaria in 2016.

Teodora Pesheva has also worked as auditor at Deloitte Bulgaria, where she participated in many audit engagements.

Before she was elected as member of the MB of BDB, Teodora Pesheva was head of the activity in the "Corporate Clients" segment. She actively participates in the bank's credit process and is responsible for achieving its budget goals.

Teodora Pesheva has a Master's degree in social and economic planning from the University of National and World Economy, Bulgaria.

In 2023 the following members also participated in the Management Board:

Ivan Valentinov Cerovski - Member of the Management Board and Executive Director from 20 January 2023 until 10 June 2024.

Ivan Cerovski has 18 years of experience in the field of banking and private equity. His professional path goes through the German financial institutions Commerzbank, Deutsche Börse and Dresdner Bank. 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.

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 07 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.

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 PARTICIPATION OF THE MEMBERS OF MB AND SB OF THE BANK IN OTHER COMPANIES

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

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

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

There is no practice of concluding agreements between BDB Group companies and their management bodies and/or employees for the payment of compensation upon leaving 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 31.12.2023 and the date of approval this report):

Members of the Management Board and Supervisory Board of Bulgarian Development Bank EAD

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

Rosen Andreev Karadimov⁵, Chairman of the Supervisory Board of Bulgarian Development Bank EAD since 14 November 2022.

Participation in the management of other companies: none

Participation with over 25% 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.

⁵ In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of Caretaker Government (promulgated SG No. 32 of 09 April 2024), Mr. Rosen Karadimov suspended and no longer exercises his powers as Chairman and member of the Supervisory Board of "Bulgarian Development Bank" EAD for the period in which he was appointed Minister of Innovation and Growth.

Participation in the management of other companies: none

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

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

Participation in the management of trade companies: none.

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

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

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

Participation in the management of other companies:

- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – since 10 June 2024;

Participation in the capital of commercial companies or cooperatives:

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

Tsanko Rumenov Arabadzhiev – Executive Director and member of the Management Board of Bulgarian Development Bank EAD since 07 July 2021.

Participation in the management of other companies:

- Capital Investments Fund AD, UIC: 205322014 – member of the Board of Directors – since 05 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – since 22 March 2023.

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

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

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

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors since 17 March 2023.

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

In 2023 the following members also participated in the Management Board:

Ivan Valentinov Cerovski – member of the Management Board and Executive Director of Bulgarian Development Bank EAD from 20 January 2023 until 10 June 2024.

Participation in the management of other companies:

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

Participation in the capital of commercial companies or cooperatives:

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

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 06 July 2022 to 17 March 2023;
- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 to 09 July 2022.

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

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

11.1.4 AUDIT COMMITTEE IN 2023, AS OF 31 DECEMBER 2023 AND AS OF 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 01 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 01 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 01 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.

11.2 MANAGEMENT OF THE SUBSIDIARIES

As of 31 December 2023, and as at the date of preparation 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 2023, BDB exercises control over Cohofarm OOD⁶, 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 2023, BDB exercises control over Roadway Construction AD, UIC 205427809 by virtue of exercised rights under the pledge of commercial enterprise.

As of 31 December 2023, BDB exercises control over Ponstoyengineering AD (in bankruptcy), UIC 102907182, by virtue of exercised rights under the pledge of commercial enterprise.

11.2.1 NATIONAL GUARANTEE FUND EAD

The members of the BD of NGF EAD do not own shares of the Fund and have no special rights for acquiring such shares.

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

Participation within the meaning of Art. 247, para. 2, item 4 of the Commercial Act of members of the BD of NGF in commercial companies as general partners, owning more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers or members of boards is as follows:

Iliya Zapryanov Karanikolov – Chairman of the Board of Directors of NGF since 10 June 2024.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, member of the MB and executive director since 20 January 2023.

Participation in the capital of trade companies:

- IntelArt EOOD, UIC 205318749, sole owner of the capital.

Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors of NGF since 20 May 2020

Participation in the management of trade companies:

- Glenridge Capital EOOD, UIC 205578775, managing director;

⁶ Cohofarm OOD is not part of the strategic business model of the financial group of BDB.

- 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%.

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

Participation in the management of trade companies - none.

Participation in the capital of trade companies - none.

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

Participation in the management of trade companies:

- Capital Alliance EOOD, UIC: 175172627, managing director until 21 December 2023.

Participation in the capital of trade companies:

- Capital Alliance EOOD, UIC: 175172627, sole owner of the capital until 21 December 2023.

In 2023 the following members also participated in the Board of Directors:

Ivan Valentinov Cerovski - member of the Board of Directors of NGF from 17 March 2023 until 10 June 2024.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD – member of the Management Board and Executive Director from 20 January 2023 until 10 June 2024;
- BDB Leasing EAD, UIC: 205565411 – member of the Board of Directors from 17 March 2023 until 10 June 2024.

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 of NGF from 06 July 2022 to 17 March 2023

Participation in the management of trade companies:

- Bulgarian Development Bank EAD - Member of the Management Board from 07 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 09 July 2022.

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

11.2.2BDB MICROFINANCING EAD

The members of the BD of BDB Microfinancing EAD do not own shares of the company and have no special rights for acquiring such shares.

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

Participation within the meaning of Art. 247, para. 2, item 4 of the Commercial Act of members of the BD in commercial companies as general partners, owning more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers or members of boards is as follows:

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

Participation in the management of trade companies:

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

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

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

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 2023 the following members also participated in the Board of Directors:

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)

The members of the BD of Capital Investments Fund AD do not own shares of the company and have no special rights for acquiring such shares.

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

Participation within the meaning of Art. 247, para. 2, item 4 of the Commercial Act of members of the BD of the Capital Investments Fund AD in commercial companies as general partners, owning more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers or members of boards is as follows:

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

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board and Executive Director since 07 July 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 as member of the Supervisory Board of the Three Seas Investment Fund.

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

Stefan Stefanov Tamnev – Executive Director and Vice Chairman of the Board of Directors since 05 August 2021;

Participation in the management of trade companies: none.

Participation in the capital of trade companies

- My Place Varna OOD (previous name RM Fruit OOD), UIC 206485936 – partner until 23 January 2024.

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.

11.2.4BDB LEASING EAD

The members of the BD of BDB Leasing EAD do not own shares of the company and have no special rights for acquiring such shares.

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

Participation within the meaning of Art. 247, para. 2, item 4 of the Commercial Act of members of the BD of BDB Leasing EAD in commercial companies as general partners, owning more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers or members of boards is as follows:

Teodora Petrova Pesheva – Chairman of the Board of Directors since 10 June 2024.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – member of the Management Board since 25 March 2024.

Participation in the capital of trade companies - none.

Emil 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 Dobрева – 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 01 June 2020.

Participation in the management of trade companies - none.

Participation in the capital of trade companies:

- Vzeh EOOD, UIC: 203745229, partner – until 02 June 2020.

In 2023 the following members also participated in the Board of Directors:

Ivan Valentinov Cerovski – Chairman of the Board of Directors from 17 March 2023 until 10 June 2024.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, member of the MB and executive director from 20 January 2023 until 10 June 2024;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 17 March 2023 until 10 June 2024.

Participation in the capital of trade companies or cooperatives:

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

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

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – member of the Management Board from 07 July 2021 until 14 February 2023;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 6 July 2022 until 17 March 2023;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 until 09 July 2022.

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

In 2023, 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 2023.

13 EVENTS AFTER THE END OF THE REPORTING PERIOD

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

Changes in the Management Board the Bulgarian Development Bank EAD in 2024

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

By decision of the Supervisory Board with Protocol No 22 dated 28 May 2024 Ivan Valentinov Cerovski was dismissed as member of the Management Board and executive director. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024.

Change in Board of Directors of National Guarantee Fund EAD

By decision of the Management Board of Bulgarian Development Bank EAD, in its capacity of sole owner of the capital, with Protocol No 32 dated 28 May 2024 Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of National Guarantee Fund EAD. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024.

By decision with Protocol No 34 dated 30 May 2024 of the Management Board of BDB, in its capacity of sole owner of the capital of the National Guarantee Fund EAD, Mr. Iliya Zapryanov Karanikolov was elected as member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024. Mr. Iliya Zapryanov Karanikolov was elected as chairman of the Board of Directors of the company.

Change in the Board of Directors of BDB Leasing EAD

By decision of the Management Board of Bulgarian Development Bank EAD, in its capacity of sole owner of the capital, with Protocol No 32 dated 28 May 2024 Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of BDB Leasing EAD. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024.

By decision with Protocol No 34 dated 30 May 2024 of the Management Board of BDB, in its capacity of sole owner of the capital of BDB Leasing EAD, Mrs. Teodora Petrova Pesheva was elected as member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024. Mrs. Teodora Petrova Pesheva was elected as chairman of the Board of Directors of the company.

Changes in the Management Board of Bulgarian Development Bank EAD

Please, see section 2.2.1.1 of the report on activities of the Bulgarian Development Bank Group for 2023.

Changes in the Statute of Bulgarian Development Bank EAD:

Please, see section **Error! Reference source not found.** of the report on activities of the Bulgarian Development Bank Group for 2023.

Changes in the management bodies and statutes of the subsidiaries:

BDB Leasing EAD

Please, see section 2.7.34 of the report on activities of the Bulgarian Development Bank Group for 2023.

National Guarantee Fund EAD

Please, see section 2.7.1 of the report on activities of the Bulgarian Development Bank Group for 2023.

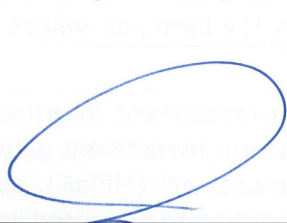
14 MANAGEMENT STATEMENT

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 2023, 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.

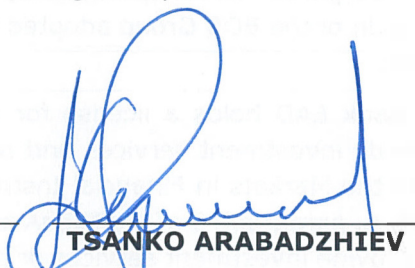
All measures have been taken to protect the assets of the BDB Group, prevent fraud and prevent violation of the laws of the country and the regulations of the BNB for regulating banking activity.

This consolidated activity report was adopted with Protocol no. 51 of the Management Board dated 01 August 2024 by the Management Board of Bulgarian Development Bank EAD and with Protocol no. 31 of the Supervisory Board of the Bank dated 02 August 2024, and was signed by:



ILIYA KARANIKOLOV

MEMBER OF THE MB AND
EXECUTIVE DIRECTOR



TSANKO ARABADZHIIEV

MEMBER OF THE MB AND
EXECUTIVE DIRECTOR



TEODORA PESHEVA

MEMBER OF THE MB
PROXY

APPENDIX 1: CORPORATE GOVERNANCE STATEMENT OF BDB GROUP

1 PRINCIPLES OF CORPORATE GOVERNANCE

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

2 BDB GROUP

As of the end of 2023, the financial group of Bulgarian Development Bank⁷ (the "Group", "BDB Group" or the "Financial Group") includes Bulgarian Development Bank EAD⁸ ("BDB", the "Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), BDB Microfinancing EAD, Capital Investments Fund AD ("CIF") and BDB Leasing EAD ("BDB Leasing").

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

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

⁷ As of the end of 2023 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 managing 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 (see Note 26 and Note 34 of the Consolidated financial statements). The net amount of these assets, reflected in the Group's statement of financial position as at 31 December 2022, is BGN 7,031 thousand.

⁸ On 04 June 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 2023, Bulgarian Development Bank EAD has no branches.

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

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

On 04 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 2023, ownership of the capital is distributed as follows: 100% are owned by the Republic of Bulgaria, and the rights of the state as sole owner of the capital are exercised by the Minister of Innovation and Growth.

As of 31 December 2023, the capital of the Bank amounts to BGN 1,135,500,000 composed of 111,355,000 ordinary registered dematerialized shares with voting rights, with a nominal value of BGN 100 each. BDB shares are not traded on a regulated market.

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

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

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

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 2023, BDB has no obligations under existing or new securities issues.

As of 31 December 2023, there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group at the amount of 10% or more of equity.

Pursuant to the Statute (effective as of 12 July 2024) the activity of Bulgarian Development 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, implementation of public policies for the country's economic development and growth, implementation of instruments for financing public investments and projects that are a priority for the country's economy; attracting funds and providing financing in order to reduce regional imbalances in the country.

The Bank also provides other types of loans, whereas the amount of the exposure to one client or a group of related clients, other than credit institutions, central governments and central banks, in line with the requirements and restrictions of Regulation 575/2012/EU, 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 and to financial institutions under Art. 3a of the Credit Institutions Act for the purpose of indirect financing of small and medium-sized enterprises – BGN 15,000,000. 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 has the right to form exposures to individual clients and group of clients beyond the stated limits of BGN 5,000,000 and BGN 15,000,000:

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

2. When financing public entities;

3. When financing beneficiaries under national or EU programs up to the amount of their approved grant. Funding outside the framework of the programs under the previous sentence or above the grant under national programs or EU programs is in the maximum amount according to para. 5.

4. For exposures fully or partially secured by cash and/or government securities and/or government guarantee, bank guarantees issued by first-class banks or significant credit institutions (as determined by the European Central Bank), such as the part of the exposure covered by another type of collateral cannot exceed the limit under paragraph 5;

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

6. When financing clients for the implementation of projects assigned by budget managers/budgetary organizations or by public enterprises up to the amount of the receivable from the relevant contractor;

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

8. When financing manufacturing enterprises registered in Bulgaria from the military-industrial complex. Financing is carried out according to a program approved by the Bank;

9. When issuing bank guarantees for payment in order to guarantee (ensure) the fulfilment of obligations under contracts for the provision of non-grant financial assistance in accordance with the Law on the Promotion of Investments and the Rules for its Implementation.

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.

Bank provides loans directly or through credit and financial institutions. The terms and conditions for providing loans are determined by the Management Board.

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

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 161,416 thousand (including BGN 126,460 thousand balance sheet debt, BGN 34,956 thousand for utilization) at amortised cost (31 December 2022: BGN 172,448 thousand), which represents 15.23% of Group's equity/eligible capital ratio according to Regulation 575/2013/EU (31 December 2022: 16.62%).

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 2023 represent 84.59% of the total amount of Deposits from customers other than credit institutions (31 December 2022: 72.58%). The share of the biggest non-bank depositor of the total amount of Deposits from customers other than credit institutions is 23.23% (31 December 2022: 29.90%).

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

- The program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic (amount: BGN 200 million from the capital of the Bank); By Decision of the Council of Ministers 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31 August 2021 or until the guarantee limits for financing under the programme by partner banks are exhausted,

whichever occurs earlier". At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio under this program has expired.

- Recovery Program - The program for portfolio guarantees to support the liquidity of enterprises affected by the state of emergency and the COVID-19 pandemic, approved by Decision No 310 of the Council of Ministers from 2020. More information on the implementation of the programs is published on the Bank's website (amount: BGN 500 million from the capital of the Bank). 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 2023 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 2023, the number of employees of NGF is 10.

As of 31 December 2023, NGF has no branches.

2.3 BDB MICROFINANCING EAD (BDB MICROFINANCING)

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

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

As of 31 December 2023, 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.

As of the date of approval of this declaration, the registered capital of BDB Microfinancing is BGN 14 035 000, distributed in 140 350 shares with 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 2023, the number of employees of BDB Microfinancing EAD is 18.

As of 31 December 2023, BDB Microfinancing EAD has no branches.

2.4 CAPITAL INVESTMENTS FUND AD (CIF)

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

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

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

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

As of 31 December 2023, 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 2023, the number of employees of CIF is 7.

As of 31 December 2023, CIF has no branches.

2.5 BDB LEASING EAD (BDB LEASING)

BDB Leasing EAD was incorporated on 6 March 2019 and entered in the Commercial Register on 12 March 2019. The sole owner of the capital 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 2023, 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 2023, the number of employees of BDB Leasing EAD is 12.

As of 31 December 2023, BDB Leasing EAD has no branches.

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 2023/

3.1.1 Credit risk of the 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 strategy of the companies in the BDB Group 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 relevant company. The types of collateral and guarantees acceptable to the companies in the Group 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, the Group complies with a system of limits set by internal regulations 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 2023, the BDB Group did not maintain a trading portfolio and was not subject to capital requirements for market risk from commercial activities, according to regulatory regulations.

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

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

3.1.3 Operational risk of the BDB Group

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

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

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

3.2 STRUCTURE OF RISK MANAGEMENT

The main units which are directly responsible for risk management are as follows:

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 and Control Division** is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in BDB to the current and future changes. Money Laundering and Fraud Prevention Division supervises the prevention of money laundering and terrorist financing. In accordance with the Rules and Procedures for Compliance Regulation at Bulgarian Development Bank the Regulatory Compliance and Control Division 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 Division, thus limiting the possibility of potential conflict with the applicable regulatory framework.
- **Finances Division** – performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, including risks at operational, business, reporting and strategic level;
- Business units that take a risk apply the established rules and procedures for the management of risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation, and informed decision-making. Their activities are supported by the divisions Legal, Credit Administration, Security, Finances, Operations and Microfinancing and European Funds.

For the subsidiary National Guarantee Fund EAD:

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

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

For the subsidiary BDB Leasing EAD:

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

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

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

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

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

For the subsidiary BDB Microfinancing EAD:

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers. Also, analyses credit transactions worth more than BGN 100,000 in terms of credit risk management in their resolution;
- Credit Committee – currently monitors and analyses the Loan and Leasing Portfolio of the Company in terms of credit risk, including individual transactions;
- Credit Council – analyses credit and leasing transactions in terms of credit risk management in their resolution and/or renegotiation;

- Operational management (Executive Director) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for risk analysis, measurement and assessment with the internal normative documents adopted by the Board of Directors;
- Risk Management Division - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

For the subsidiary Capital Investments Fund AD:

The main units directly responsible for risk management are:

Board of Directors – the responsibilities include:

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

Risk Manager:

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

- Coordinates the periodic revaluation of the investments of CIF, taking into account the inherent risks and their relative weights in the formation of the final values.

The transformation of BDB Factoring EAD through merger into Bulgarian Development Bank EAD was entered in the Commercial Register on 09 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 2023, BDB has complied with all regulatory requirements of BNB and the Bulgarian legislation.

The Bank applies the guidelines, recommendations and other measures adopted by EBA which refer to it and for which BNB has announced that it complies with according to art. 79a, para 1, item 2 of Law on Credit Institutions (effective as of 05 December 2017).

Effective from 01 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 01 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 2023 is 44.53 % (31 December 2022: 43.73%). The values of asset coverage with capital buffers exceed many times the statutory levels. Respectively, the aggregated data for the capital adequacy banking system are: 21.65% (as of 31 December 2023) and 20.88% (as of 31 December 2022). 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 410,5% (compared to a value of 283.6% at the end of 2022). For the banking system, the aggregated liquidity coverage ratio was 246.7% (as of 31 December 2023) and 235.0% (as of 31 December 2022).

As part of the Basel III regulatory framework, effective as of 28 June 2011, a 'net stable funding ratio' (NSFR) with a minimum regulatory requirement of 100% applies. The information about it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) with quarterly frequency, on an individual and consolidated basis. As of 31 December 2023, the aggregate level of NSFR for the banking system was 161.1%, % and for BDB EAD Group it was 119.61%.

5 CONTROL ENVIRONMENT

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

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

The first line of defence covers risk management by business and risk-taking units - divisions Corporate clients, Investment Banking and Project Financing, Financial Instruments, Problem Receivables and Treasury. Their activities are supported by the divisions Legal, Credit Administration, Security, Finance, Operations and MFI and European Funds, as well as the respective business units in the subsidiaries which evaluate and analyse the implementation of internal and regulatory constraints and support the decision-making activity in taking and managing risks.

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

The second line of defence provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk and Regulatory Compliance and Control. The 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. The Regulatory Compliance and Control Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB to the changes that have occurred and/or are forthcoming. The Prevention of Money Laundering and Fraud Division controls the prevention of money laundering and terrorist financing. The second line of 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 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 support 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 Group 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.

The Group 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 Group's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the statutory audit of the annual financial statements (separate and consolidated); familiarizes itself with the audit strategy and audit plan of the statutory audit; monitors the implementation of the audit plan by providing recommendations to the Bank's management and auditors to remedy any difficulties; reviews the draft auditors' reports under art. 59 and art. 60 of the IFAA and the identified key audit matters, the findings made and the auditor's opinion expressed; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends its appointment; prepares an annual report and reports its activities to the sole owner of the capital once a year and other responsibilities detailed in the Statute of the Audit Committee.

6 MANAGEMENT OF BULGARIAN DEVELOPMENT BANK EAD

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

6.1 SUPERVISORY BOARD OF BDN IN 2023, AS OF 31.12.2023 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

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

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

In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of Caretaker Government (promulgated SG No. 32 of 09 April 2024), Mr. Rosen Karadimov suspended and no longer exercises his powers as Chairman and member of the Supervisory Board of Bulgarian Development Bank EAD for the period in which he was appointed Minister of Innovation and Growth.

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

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

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

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

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

In 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's annual report on the activity; monitors the mandatory audit of the annual financial statements (separate and consolidated); gets acquainted with the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management and auditors for elimination of difficulties; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act and identified key audit matters, findings and expressed audit opinion; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee;

- Remuneration Committee – comprising three members, the chairman and the members of the Committee are members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. The Remuneration Committee prepares and proposes remuneration solutions, taking into account the impact on risk and its management in the BDB Group, the long-term interests of shareholders, investors and other stakeholders; provides advice to the Supervisory Board on the structure of remuneration policy, which also includes advice on gender neutrality and equal treatment of employees of different sexes; assists the Supervisory Board in monitoring compliance with remuneration policies, practices and processes related to remuneration; verifies the relevance of the existing remuneration policy and, if necessary, makes proposals for changes; review the appointment and remuneration of external consultants that the Supervisory Board may decide to engage for advice or assistance; ensure the adequacy of the information provided to the sole owner of BDB's capital, respectively to the sole owner of the capital / general meeting of shareholders of the subsidiaries on remuneration policies and practices, in particular on the proposed higher level of the fixed versus variable remuneration ratio; evaluates the mechanisms and systems adopted to ensure that the remuneration system takes proper account of all types of risks, liquidity and capital levels and that the general remuneration policy is consistent and promotes sound and effective risk management and is in line with the business strategy, objectives, the corporate culture and values, as well as the long-term interests of the BDB Group; assesses whether the objectives of BDB Group's activities have been achieved, as well as the need for subsequent risk adjustment, including the application of deduction clauses and clauses for reimbursement of the amount of variable remuneration; reviews possible scenarios to verify how remuneration policies and practices respond to external and internal events, as well as the back-testing of the criteria used to determine remuneration and ex-ante risk-based adjustments based on actual risk outcomes; directly controls the remuneration of the heads of the Group's Internal Audit Division, the Risk Division and the Regulatory Compliance Division; makes recommendations to the Supervisory Board regarding the structure of the remuneration conditions and the amount of remuneration to be paid to the heads of the Group's Internal Audit Division, the Risk Division and the Regulatory Compliance Division;
- Recruitment Committee – comprising three members, the chairman and the members of the Committee are members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. The Recruitment Committee identifies and recommends for election by the Supervisory Board candidates for members of the Management Board, respectively by the sole owner of the capital - candidates for members of the Supervisory Board; prepares a description of the functions and requirements for the candidates and determines the time that the elected members are expected to devote to work for the Management Board and the Supervisory Board; sets a target level in connection with the participation of the underrepresented gender in the composition of the Management Board and the Supervisory Board of BDB, respectively in the

composition of the Board of Directors in the subsidiaries, and updates the policy to increase the number of underrepresented gender in the composition of the councils to achieve this level; analyse periodically, but not less than once a year, the structure, composition, number of members and the results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes; analyses periodically, but not less than once a year, the knowledge, skills and experience of the Management Board and the Supervisory Board as a whole and their members individually and reports to each of them; periodically reviews the Policy for selection, continuity and assessment of suitability in the Bulgarian Development Bank EAD Group and makes recommendations for changes.

The composition of the committees of the Supervisory Board as of 31 December 2023 and as of the date of approval of this declaration is as follows:

	Risk Management Committee	Recruitment Committee	Remuneration Committee
Rosen Andreev Karadimov	Member	Member	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.

On 09 April 2024 Mr. Rosen Karadimov was sworn in as Minister of Innovation and Growth.

6.2 AUDIT COMMITTEE

As of the date of approval of this document the Audit Committee has the following composition:

Svetlana Hristova Kourteva – Chairperson of the Audit Committee since 01 January 2023.

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

Svetlodara Encheva Petrova - Member of the Audit Committee since 01 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 01 January 2023.

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

6.3 BDB MANAGEMENT BOARD:

As of the date of approval of this declaration the Management Board has the following composition:

Iliya Zapryanov Karanikolov – Chairman of the Management Board and Executive Director from 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.

Tsanko Rumenov Arabadzhiev – Member of the MB and executive director from 07 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 "UNIQA", where for 5 years he was Director of Investment Management.

His main responsibilities have been 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 has been part of the team of Pension Insurance Company Doverie, where he was responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

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

Teodora Pesheva has 31-years of experience in the sphere of banking. She was head of corporate banking at UBB and at a commercial bank of Greece (Emporiki Bank Bulgaria). For 10 years she was also head of the Large corporate client's department at DSK Bank.

During her career she was also a financial consultant at Mazars Group – London. She prepared final analysis of the entire scope of credit activities of corporate commercial banking. She participated in the first asset quality reviews of the banking sector in Bulgaria in 2016.

Teodora Pesheva has also worked as auditor at Deloitte Bulgaria, where she participated in many audit engagements.

Before she was elected as member of the MB of BDB, Teodora Pesheva was head of the activity in the "Corporate Clients" segment. She actively participates in the bank's credit process and is responsible for achieving its budget goals.

Teodora Pesheva has a Master's degree in social and economic planning from the University of National and World Economy, Bulgaria.

In 2023 the following members participated in the Management Board:

Ivan Valentinov Cerovski - Member of the MB and executive director from 20 January 2023 to 10 June 2024.

Ivan Cerovski has 18 years of experience in the field of banking and private equity. His professional path goes through the German financial institutions Commerzbank, Deutsche Börse and Dresdner Bank. 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.

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 07 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.

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

6.4 COMMITTEES OF THE MB

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

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

MB Committees	Operational Risk Committee (ORC)	Assets and Liabilities Management Committee	Credit Committee for classified exposures *	Committee on Impairments and Provisions	Change Management Committee	Sustainability Committee
Iliya Karanikolov	Chairman	Member	Chairman	-	-	-
Ivan Cerovski	-	Member	Member	-	-	-
Tsanko Arabadzhiev	-	Chairman	Member	-	-	-
Head of Finance Department	Member	Member	-	Chairman	Member	Member
Head of Reporting, Finance Division	Member	-	-	-	-	-
Head of Corporate Clients Division	-	-	Member	Member	-	Member
Head of Monitoring Department, Corporate Clients Division	-	-	Member	-	-	-
Head of Investment Banking and Project Financing Division	Member	-	-	Member	-	-
Head of Risk Division	Member	Member	Member	Member	-	Member
Head of Risk Control Department/ Risk Division	Member	-	-	-	-	-
Head of Market, liquidity and operational risk department, Risk Division	Member	Member	-	-	-	-
Head of Problem Receivables Division	Member	-	Member	Member	-	-
Head of Treasury Department	Member	Member	-	-	-	-
Head of International Financial Institutions and European Funds Division	-	Member	-	-	-	-
Head of Legal Division	-	-	Member	-	-	Member
Head of Financial Instruments Division	Member	Member	-	Member	-	-

MB Committees	Operational Risk Committee (ORC)	Assets and Liabilities Management Committee	Credit Committee for classified exposures *	Committee on Impairments and Provisions	Change Management Committee	Sustainability Committee
Head of Regulatory Compliance and Control Division	Member	-	-	-	-	-
Head of Security Division	Member	-	-	-	-	-
Head of Operations Division	Member	-	-	-	-	-
Head of IT Division	-	-	-	-	Member	-
Head of Methodology and Project Management Division	-	-	-	-	Chairman	-
Head of Strategic Development and Green Policies Division	-	-	-	-	-	Chairman

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

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

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

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

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

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

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

Members of MB and SB:

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

Rossen Andreev Karadimov⁹, Chairman of the Supervisory Board of Bulgarian Development Bank EAD from 14 November 2022.

Participation in the management of other companies: none

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

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

Participation in the management of other companies: none

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

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

Participation in the management of other companies: none

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

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

- National Guarantee Fund EAD, UIC 200321435 – member of the Board of Directors – from 10 June 2024.

⁹ In connection with Decree No. 101 of the President of the Republic of Bulgaria on the appointment of Caretaker Government (promulgated SG No. 32 of 09 April 2024), Mr. Rosen Karadimov suspended and no longer exercises his powers as Chairman and member of the Supervisory Board of "Bulgarian Development Bank" EAD for the period in which he was appointed Minister of Innovation and Growth.

Participation in the capital of commercial companies or cooperatives:

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

Tsanko Rumenov Arabadzhiev – Executive Director and member of the Management Board of Bulgarian Development Bank EAD from 07 July 2021.

Participation in the management of other companies:

- Capital Investments Fund AD, UIC: 205322014 – member of the Board of Directors – from 05 August 2021;
- BDB Microfinancing EAD, UIC 201390740 – member of the Board of Directors – from 22 March 2023.

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

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

Teodora Petrova Pesheva – member of the Management Board from 25 March 2024.

Participation in the management of other companies:

- BDB Leasing EAD, UIC 205565411 – member of the Board of Directors from 10 June 2024.

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

In 2023, the following members participated of the Management Board:

Ivan Valentinov Cerovski – member of the Management Board and Executive Director of Bulgarian Development Bank EAD from 20 January 2023 until 10 June 2024.

Participation in the management of other companies:

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

Participation in the capital of commercial companies or cooperatives:

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

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 07 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 06 July 2022 to 17 March 2023;
- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 to 09 July 2022.

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

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

7 MANAGEMENT OF THE SUBSIDIARIES

As of 31 December 2023, and the date of preparation of this statement, BDB is the sole owner of the capital of the following subsidiaries:

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

BDB participates jointly with NGF AD in the share 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 2023, BDB exercises control over Roadway Construction AD, UIC 205427809, UIC 108001767 by virtue of exercised rights under the pledge of a commercial enterprise.

As of 31 December 2023, BDB exercises control over Ponstroyengineering AD (in bankruptcy), UIC 102907182, by virtue of exercised rights under the pledge of a commercial enterprise.

7.1 NATIONAL GUARANTEE FUND EAD

National Guarantee Fund EAD has a one-tier management system - Board of Directors, consisting of three to five members and as at 31 December 2023 has the following member:

- Ivan Valentinov Cerovski – Chairman of the BD 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.

By decision under Protocol of 10 March 2023 the Management Board of BDB, in its capacity of sole owner of the capital of National Guarantee Fund EAD, dismissed Krum Georgiev Georgiev as member of the Board of Directors of the company and elected as new member Ivan Valentinov Cerovski. These circumstances were entered in the Commercial Register and Register of Non-Profit Legal Entities on 17 March 2023. Mr. Ivan Valentinov Cerovski was elected as chairman of the Board of Directors of the company.

By decision under Protocol № 32 of 28 May 2024 of the Management Board of Bulgarian Development Bank EAD, in its capacity of sole owner of the capital, Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of National Guarantee Fund EAD. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 10 June 2024.

By decision under Protocol № 34 of 30 May 2024 of the Management Board of BDB, in its capacity of sole owner of the capital of National Guarantee Fund EAD, Iliya Zapryanov Karanikolov was elected as member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 10 June 2024. Mr. Iliya Zapryanov Karanikolov was elected as Chairman of the Board of Directors of the company.

As of the date of approval of this report, the members of the BD of NGF are as follows:

- **Iliya Zapryanov Karanikolov** – Chairman of the BD since 10 June 2024
- **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 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:

Iliya Zapryanov Karanikolov – Chairman of the Board of Directors since 10 June 2024.

Participation in the management of other commercial companies:

- Bulgarian Development Bank EAD – Member of the Management Board and Executive Director since 20 January 2023

Participation in the capital of trade companies:

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

Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors of NGF since 20 May 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%.

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

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:

- Capital Alliance EOOD, UIC: 175172627, managing director until 21 December 2023

Participation in the share capital of trade companies:

- Capital Alliance EOOD, UIC: 175172627, sole owner of capital until 21 December 2023.

In 2023, the following members participated of the Board of Directors:

Ivan Valentinov Cerovski – member of the Board of Directors of NGF from 17 March 2023 until 10 June 2024.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, member of the MB and executive director from 20 January 2023 until 10 June 2024;
- BDB Leasing EAD, UIC: 205565411 – member of the Board of Directors – from 17 March 2023 until 10 June 2024.

Participation in the capital of commercial companies or cooperatives:

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

Krum Georgiev Georgiev – member of the Board of Directors of NGF from 06 July 2022 until 17 March 2023.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, member of the MB from 07 July 2021 until 14 February 2023;
- BDB Leasing EAD, UIC: 205565411 – member of the Board of Directors - from 23 August 2021 until 17 March 2023;
- BDB Factoring EAD, UIC: 205566082 – member of the Board of Directors – from 16 September 2021 until 09 July 2022.

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

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 2023 and at the date of approval of this declaration the BoD members are:

- **Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 22 March 2023.
- **Iliya Radkov Komitov** – member of the Board of Directors since 28 August 2020.
- **Boyan Stefanov Byanov** – member of the Board of Directors since 30 August 2021.
- **Ivana Borisova Tsaneva** – Executive Director and Deputy Chairman of the Board of Directors since 20 May 2020.

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.

By decision under Protocol № 23 of 07 March 2023 the Management Board of BDB, in its capacity of sole owner of the capital of BDB Microfinancing EAD, Mr. Tsanko Rumenov Arabadzhiev was elected as member of the Board of Directors of the Company. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 22 March 2023. Mr. Tsanko Rumenov Arabadzhiev was elected as Chairman of the Board of Directors of the Company.

By Protocol № 23 of 07 March 2023 and Protocol № 26 of 10 March 2023, the Management Board of BDB, exercising the rights of the Bank as sole owner of the capital of BDB Microfinancing EAD, took a decision to amend the Statute of BDB Microfinancing EAD regarding the way of representing the Company, 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 amendments are announced under the file of BDB Microfinancing EAD in the Commercial Register and entered into it on 22 March 2023.

By decision under Protocol № 4 of 09 March 2023 of the Board of Directors of BDB Microfinancing EAD, Mrs. Mariana Dimitrova Petkova was elected as second executive director. By decision under Protocol № 26 of 10 March 2023, the Management Board of BDB, in its capacity of sole owner of the capital of BDB Microfinancing EAD approved the election of Mrs. Mariana Dimitrova Petkova as executive director and confirmed that Ivana Borisova Tsaneva continues to perform the functions of executive director of the Company. These circumstances were entered in the Commercial Register and Register of Non-Profit Legal Entities on 22 March 2023.

By decision of the Management Board of Bulgarian Development Bank EAD, in its capacity of sole owner of the capital, dated 05 July 2023, Mrs. Mariana Dimitrova Petkova was dismissed as member of the Board of Directors and Executive Director of BDB Microfinancing EAD. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 26 July 2023.

By decision of the Management Board of Bulgarian Development Bank EAD, in its capacity of sole owner of the capital of, dated 05 July 2023 the statute of BDB Microfinancing EAD was amended, in the part that concerns the way of representing the Company. After the amendment to the statute the Company is represented jointly by the executive director and one member 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 file of the Company in the Commercial Register on 26 July 2023.

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 07 July 2021
- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors since 05 August 2021

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 2023, a member of the Board of Directors was also:

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

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member 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 and cooperatives – 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 has a one-tier management system - Board of Directors, consisting of three to six members and as at the end of 2023 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 20 August 2021;

Stefan Stefanov Tamnev – Executive Director and Vice Chairman of the Board of Directors since 05 August 2021;

Rusalin Stanchev Dinev – Member of the Board of Directors since 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 05 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Executive Director and Member of the management Board since 07 July 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.

Stefan Stefanov Tamnev – Executive Director and Vice Chairman of the Board of Directors since 05 August 2021;

Participation in the management of trade companies: none.

Participation in the capital of trade companies:

- My Place Varna OOD (former name RM FRUIT OOD), UIC 206485936 – partner until 23 January 2024.

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.

7.4 BDB LEASING EAD

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members and as at the end of 2023 the Board of Directors consists of the following members:

- **Ivan Valentinov Cerovski** – Chairman of the Board of Directors since 17 March 2023
- **Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020
- **Antonia Hristoforova Dobрева** – Member of the Board of Directors since 20 May 2020

The company has an authorized procurator since 01 June 2020 – Ivaylo Kirilov Popov.

By decision under Protocol of 07 March 2023 the Management Board of BDB, in its capacity of sole owner of the capital of BDB Leasing EAD, dismissed Krum Georgiev Georgiev as member of the Board of Directors of the company, and elected as a new member Ivan Valentinov Cerovski. These circumstances were entered in the Commercial Register and Register of Non-Profit Legal Entities on 17 March 2023. Mr. Ivan Valentinov Cerovski was elected as chairman of the Board of Directors of the company.

By decision under Protocol № 32 of 28 May 2024 the Management Board of the Bulgarian Development Bank EAD, in its capacity of sole owner of the capital, dismissed Mr. Ivan Valentinov Cerovski as member of the Board of Directors of BDB Leasing EAD. This circumstance was entered in the Commercial Register on 10 June 2024.

By decision under Protocol № 34 of 30 May 2024 the Management Board of BDB, in its capacity of sole owner of the capital of BDB Leasing EAD, elected Mrs. Teodora Petrova Pesheva as member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and Register of Non-Profit Legal Entities on 10 June

2024. Mrs. Teodora Petrova Pesheva was elected as chairman of the Board of Directors of the company.

As of the date of approval of this report, the members of the BD of BDB Leasing are as follows:

- **Teodora Petrova Pesheva** – Chairman of the Board of Directors since 10 June 2024;
- **Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.
- **Antonia Hristoforova Dobрева** – Member of the Board of Directors since 20 May 2020.

The company has an authorized procurator since 01 June 2020 – Ivaylo Kirilov Popov.

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:

Teodora Petrova Pesheva – Chairman of the Board of Directors since 10 June 2024.

Participation in the management of trade companies

Bulgarian Development Bank EAD, UIC 121856059 – member of the MB

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 Dobрева – 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 01 June 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

- Vzesh EOOD, UIC: 203745229, partner – until 02 June 2020.

In 2023 the following members participated of the Board of Directors:

Ivan Valentinov Cerovski – Member of the Board of Directors from 17 March 2023 until 10 June 2024.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, member of the MB and Executive Director from 20 January 2023 until 10 June 2024;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 17 March 2023 until 10 June 2024.

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 until 17 March 2023;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – member of the Management Board from 07 July 2021 until 14 February 2023;
- National Guarantee Fund EAD, UIC: 200321435 – member of the Board of Directors – from 06 July 2022 until 17 March 2023;
- BDB Factoring EAD, UIC 205566082 – member of the Board of Directors – from 16 September 2021 until 09 July 2022.

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

In 2023, 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 transactions of BDB Group and of BDB with companies under the common control of the state.

9 STRATEGY FOR DEVELOPMENT OF BDB GROUP AND BUSINESS GOALS

By Decision № 389 of the Council of Ministers of 07 June 2024 the Strategy for the activities of Bulgarian Development Bank EAD for the period 2024-2026 was approved.

The long-term objectives of BDB follow the principle of continuity and complement its role as a development institution:

- To improve, stimulate and develop the general 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 and commitment of SMEs to meet the economic challenges;
- To support business and the public sector in the transition to decarbonization and sustainability;
- To accelerate economic development by (co)financing/guaranteeing national and regional priority projects and those aimed at addressing regional imbalances;
- To implement programs and tools for the implementation of public investments and projects;
- To attract funds and manage programs from international financial institutions, as well as to support the implementation of European and national programs.

The institutional goal of BDB for 2024-2026 are derived from the goals set in the BDB Act, as follows:

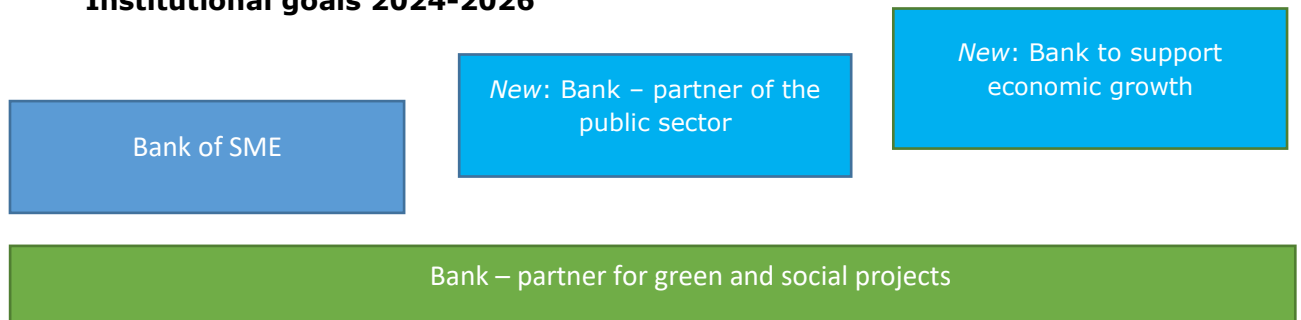
- i. Improving, stimulating and developing the general economic, export and technological potential of small and medium-sized enterprises by facilitating their access to financing, by providing financial schemes and instruments for financing sub-optimal and unbalanced situations for which the market does not provide a solution adequate to the demand;*
- ii. Attracting and managing medium-term and long-term local and foreign resources necessary for the realization of the country's economic development;*
- iii. Implementation of schemes and instruments for financing public investments and projects that are a priority for the country's economy;*
- iv. Attracting funds and providing financing in order to reduce regional imbalances in the country;*

v. *Attracting funds and managing projects from international financial and other institutions.*

The institutional goals of BDB correspond to the framework of the national strategic goals 2021-2030, including: National program for development of Bulgaria 2030, National strategy for SMEs 2021-2027, Integrated plan in the field of energy and climate of the Republic of Bulgaria 2021-2030 and project for its updating from 2024, National Climate Change Adaptation Strategy and Action Plan and other documents on the national level.

The institutional goals are illustrated in the graphic below.

Institutional goals 2024-2026



The main business priorities, laid down in the new strategy are:

- Support for the implementation of public investments and projects that are a priority for the country's economy (including through support for the implementation of the National Capital Investment Program)
- Support for accelerated use of EU funds
- Local and regional development
- Sustainability and decarbonization
- Banking services and direct financing of public enterprises

The sectoral focus of the activities of the Group gravitates around:

- Continued support for SMEs, innovation, digitization and sustainability;
- Programs providing support and control of the use of funds in strategic sectors: health care, strategic security, defence and military-industrial complex, water supply sector, energy;
- Infrastructure (incl. green, sustainable) and connectivity, incl. transport, energy, communication, etc.;
- Support for market participants in the context of liberalization of the electricity market, support for the construction of green capacities and the creation of energy communities;
- Financing of electricity/gas transmission/distribution network development;

- Support regarding state policy for effective and efficient spending of public funds in planning and implementation of concessions;
- Support for industrial zones;
- Energy efficiency of residential buildings.

10 SOCIAL RESPONSIBILITY AND DIVERSITY POLICY

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

10.1 ENTREPRENEURSHIP

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

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

10.2 CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

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

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

10.3 VULNERABLE GROUPS

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

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

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

10.4 HEALTHCARE

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

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

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

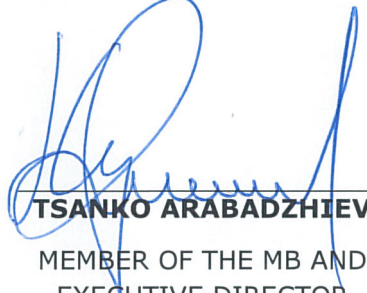
BDB also joined with the support of **the Danae Foundation**, established in memory of 15-year-old Danaya, who lost the battle for her life, but saved 4 other lives through donation and continued to be an engine of good. The goals of the foundation are the integration of modern standards in children's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

10.5 ECOLOGY

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

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

This Corporate Governance Statement is current as of 01 August 2024 and is signed by:


ILIYA KARANIKOLOV
MEMBER OF THE MB AND
EXECUTIVE DIRECTOR
TSANKO ARABADZHIIEV
MEMBER OF THE MB AND
EXECUTIVE DIRECTOR
TEODORA PESHEVA
MEMBER OF THE MB
PROXY



**BULGARIAN
DEVELOPMENT BANK**

BULGARIAN DEVELOPMENT BANK GROUP

**INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

31 DECEMBER 2023

Unofficial translation from Bulgarian

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

INDEPENDENT AUDITORS' REPORT

To the sole owner of Bulgarian Development Bank EAD

REPORT ON THE AUDIT OF THE 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, 2023, 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 material accounting policy information 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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
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, 2023 loans and advances to customers at the gross amount of BGN 1,573,795 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 240,263 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 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	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 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

Key audit matter	How our audit addressed the key audit matter
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.	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.
Key audit matter	How our audit addressed the key audit matter
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, 2023 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 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, 2023 amount to BGN 111,845 thousand in total on loans to companies and on loans to individuals.	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. 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.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
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 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 Auditor's Report Thereon

The Management Board of the Parent bank (the "Management") is responsible for the other information. The other information comprises the annual 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 auditor's 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 IFRSs 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.

Auditor’s 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 auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditor’s 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 auditor’s 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 auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the 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 Auditor's Report Thereon*, with respect to the annual consolidated report on the activities and the Group corporate governance statement, we have also performed the procedures, together with the required under ISAs, in accordance with the Guidelines regarding new extended reports and communication by the auditor of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, in our opinion:

- The information included in the annual 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 annual 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, 2023 by a decision of the sole owner taken on December 15, 2023 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2023 represents fifth total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and fifth 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 annual 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, 2023, 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



4, Mihail Tenev Street
1784 Sofia, Bulgaria

Grant Thornton OOD

Silvia Dinova

Registered Auditor, in charge of the audit

Mariy Apostolov

Statutory Manager



26, Cherni Vrah Blvd
1421 Sofia, Bulgaria

August 8, 2024

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2023

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2023	As of 31.12.2022
Assets			
Cash in hand and balances in current accounts with the Central Banks	16	128,665	527,924
Financial assets at amortized cost – Receivables from banks	17	513,980	139,420
Financial assets at amortized cost – Loans and advances to customers	18	1,333,532	1,449,701
Financial assets at amortized cost – Receivables from the State budget	19	14,262	23,537
Financial assets at amortized cost – Securities	20	11,671	11,771
Financial assets at fair value through other comprehensive income – debt instruments	21	439,431	538,535
Financial assets at fair value through other comprehensive income – equity instruments	21	140,330	100,218
Net investment in finance lease	22	75,360	70,866
Assets held for sale	26	49	2,569
Assets, acquired from collateral foreclosure	27	38,726	37,434
Investment property	25	4,908	7,759
Property, plant and equipment, intangible assets	24	50,152	70,775
Right-of-use assets	23	180	39
Current tax receivables	27	667	827
Deferred tax assets	14	8,094	12,407
Goodwill	40	1,254	23,745
Other assets	27	9,600	13,026
Total assets		2,770,861	3,030,553
Liabilities			
Borrowings from international institutions	30	581,931	779,497
Deposits from customers other than credit institutions	29	539,591	857,895
Deposits from credit institutions	28	209,904	3,130
Lease liabilities	33	215	90
Other borrowings	31	83,022	82,938
Provisions	32	125,699	141,256
Deferred tax liabilities	14	1,993	4
Other liabilities	34	9,136	11,641
Total liabilities		1,551,491	1,876,451
Equity			
Share capital	35	1,135,500	1,441,774
Current year profit		28,946	26,714
Accumulated loss		(194,863)	(222,007)
Revaluation reserve on financial assets at fair value through other comprehensive income	36	(68,631)	(106,953)
Reserves	36	318,418	14,574
Total equity		1,219,370	1,154,102
Total liabilities and equity		2,770,861	3,030,553

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 1.8.2024.

Iliya Karanikolov
Executive Director

Tsanko Arabadzhiev
Executive Director

Teodora Pesheva
Member of the MB
Proxy

Dimitar Mitev
Head of Finance Division

Ivan Lichev
Chief Accountant
Preparer

Auditors' report on the consolidated financial statements issued on 8 August 2024.
Deloitte Audit OOD, auditing company

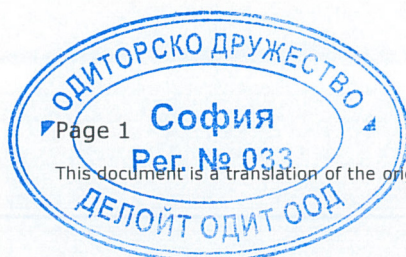
Rositsa Boteva

Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company

Silvia Dinova, Registered Auditor, in charge of the audit

Mariy Apostolov, Statutory Manager



BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2023	2022
Interest income	6	124,286	82,351
Interest expense	6	(50,618)	(18,869)
Net interest income		73,668	63,482
Fee and commission income	7	7,833	6,715
Fee and commission expense	7	(2,906)	(3,710)
Net fee and commission income		4,927	3,005
Net income on foreign exchange deals	8	257	524
Net loss on financial assets at fair value through other comprehensive income	9	(11)	(851)
Other operating income	10	32,031	6,228
Other operating expenses	11	(24,938)	(4,136)
Operating profit before impairment, personnel expenses, administrative expenses, depreciation and amortisation		85,934	68,252
Net expenses on impairment of financial instruments	12A	(21,776)	(1,634)
Net (expenses on)/reversal of impairment of non-financial instruments	12B	408	(5,431)
Operating profit before personnel expenses, administrative expenses, depreciation and amortisation		64,566	61,187
Employee benefits	13A	(21,775)	(20,756)
General and administrative expenses	13B	(9,835)	(10,281)
Depreciation and amortisation expenses	23, 24	(3,784)	(3,465)
Profit before income tax		29,172	26,685
Income tax (expense)/benefit	14	(226)	29
Net profit for the year		28,946	26,714
Share of net profit for the shareholder of the Parent bank		28,946	26,714
Other comprehensive income			
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial (losses)/gains on defined benefit plans, net of taxes	34	(12)	172
Net change in fair value of financial assets at fair value through other comprehensive income	15	24,449	11,062
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Net change in fair value of financial assets at fair value through other comprehensive income	15	14,313	(39,544)
Total other comprehensive income for the year, net of tax		38,750	(28,310)
Total comprehensive income for the year		67,696	(1,596)
Share of the total comprehensive income for the shareholder of the Parent bank		67,696	(1,596)

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 1.8.2024.

Illya Karanikolov
Executive Director

Tsanko Arabadzhiev
Executive Director

Teodora Pesheva
Member of the MB
Proxy

Dimitar Mitev
Head of Finance Division

Ivan Lichev
Chief Accountant
Preparer

Auditors' report on the consolidated financial statements issued on 8 August 2024.
Deloitte Audit OOD, auditing company

Rositsa Boteva

Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company

Silvia Dinova, Registered Auditor, in charge of the audit

Mariy Apostolov, Statutory Manager



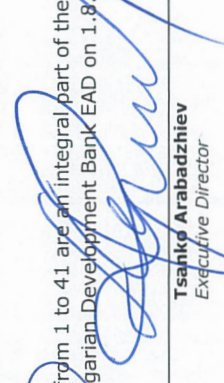
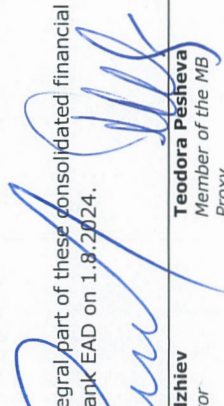
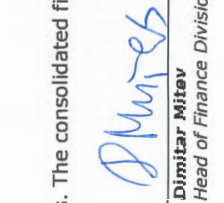
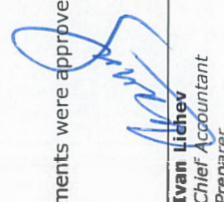
**BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Accumulated loss	Total
As of 1 January 2022	1,441,774	87,185	83,521	(78,471)	(388,300)	1,145,709
Comprehensive income for the year						
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	-	(74,939)	(81,365)	-	166,293	9,989
Total transactions with owners		(74,939)	(81,365)		166,293	9,989
As of 31 December 2022	1,441,774	12,246	2,328	(106,953)	(195,293)	1,154,102
Comprehensive income for the year						
Profit	-	-	-	-	28,946	28,946
Other comprehensive income	-	-	(12)	38,762	-	38,750
Total comprehensive income			(12)	38,762	28,946	67,696
Decrease in shareholder's capital	(306,274)	-	307,415	-	(1,141)	-
Losses covered by reserves	-	(549)	(1,192)	-	1,741	-
Other movements in equity	-	-	(1,818)	(440)	(170)	(2,428)
Total transactions with owners	(306,274)	(549)	304,405	(440)	430	(2,428)
As of 31 December 2023	1,135,500	11,697	306,721	(68,631)	(165,917)	1,219,370

In 2023 and 2022 the Group has not distributed dividends to the shareholder.

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 1.8.2024.

 Ilva Karanikolova Executive Director	 Teodora Pesheva Member of the MB Proxy	 Dimitar Mitev Head of Finance Division	 Ivan Lichev Chief Accountant Preparer

Auditors' report on the consolidated financial statements issued on 8 August 2024.
Deloitte Audit OOD, auditing company

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

Grant Thornton OOD, auditing company

Silvia Dinova, Registered Auditor, in charge of the audit
Mariy Apostolov, Statutory Manager



BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2023	2022
Cash flows from operating activities			
Profit for the year before tax		29,172	26,685
Adjustments for:			
Dividend income	10	(73)	(127)
Impairment loss on loans	12	23,402	45,708
Income from guarantee provisions and unutilised credit commitments	12	(4,544)	(46,330)
(Income from)/ Expenses for impairment of portfolio guarantees	12	2,510	(225)
(Income from)/ Expenses for impairment of receivables from paid guarantees	12	937	(227)
Impairment (losses)/gains and changes in the fair value of financial assets – securities at fair value through other comprehensive income	12	(706)	2,860
Impairment (losses)/gains and changes in the fair value of financial assets – securities at amortized cost	12	(129)	61
(Income from)/Expenses for impairment on finance lease	12, 22	306	(203)
Income from Impairment of subsidiaries	12	-	(13)
Loss/(Gain) on revaluation of investment properties	10	16	(869)
Impairment loss on other assets	12	448	277
Gain on sale of properties acquired from collateral foreclosure		(3,116)	(817)
Net loss on revaluation of foreign currency assets and liabilities	8	3	22
Depreciation and amortisation expenses	24	3,784	3,465
Carrying amount of written-off assets		21,136	310
Other changes		235	21
		73,381	30,598
Changes in:			
Financial assets at amortized cost – Receivables from banks		48,370	243,576
Financial assets at amortized cost – Loans and advances to customers		94,987	34,736
Financial assets at amortized cost – Receivables from the State budget		9,167	(4,742)
Financial assets at fair value through other comprehensive income – debt and equity securities		135,118	48,097
Net investment in finance lease		(4,986)	(13,680)
Assets held for sale		(1,654)	(4,333)
Deposits from credit institutions		207,277	1,057
Deposits from customers other than credit institutions		(343,901)	112,395
Financial liabilities at amortized cost		-	(13)
Provisions		(9,488)	1,180
Other assets		1,385	(3,880)
Other liabilities		84	875
Income taxes paid		(57)	(48)
Net cash flows from operating activities		209,683	445,818
Cash flows from investing activities			
Cash payments for acquisition of property, plant and equipment and intangible assets		(1,265)	(1,110)
Cash proceeds from sale of property, plant and equipment and intangible assets		3,865	3,981
Cash proceeds from sale of investment properties		4,570	-
Purchase of securities at amortised cost		(23)	(11)
Changes in securities at fair value through other comprehensive income		(29,765)	13,278
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		(2,063)	(13,691)
Net cash flows (used in)/from investing activities		(24,681)	7,739

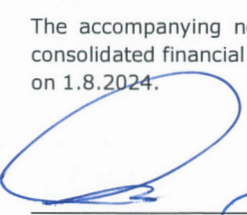
ГРУПА БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ
 КОНСОЛИДИРАН ОТЧЕТ ЗА ПАРИЧНИТЕ ПОТОЦИ (ПРОДЪЛЖЕНИЕ)
 ЗА ГОДИНАТА, ПРИКЛЮЧВАЩА НА 31 ДЕКЕМВРИ 2023 г.
 Всички суми са в хиляди лева, освен ако не е посочено друго

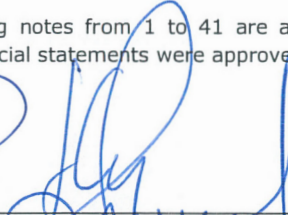
	Note	2023	2022
Cash flows from financing activities			
Cash paid on other borrowings		(3,470)	(570)
Cash received from other borrowings		3,576	713
Cash paid on borrowings from international institutions		(197,566)	(331,243)
Proceeds from/(Payments for) leases		(2)	16
Other movements in equity and retained earnings		(13)	(1)
Net cash flows used in financing activities		(197,475)	(331,085)
Net (decrease)/increase in cash and cash equivalents		(12,473)	122,472
Cash and cash equivalents at the beginning of year	38	609,344	485,892
Acquired from business combination during the year	40	-	980
Cash and cash equivalents at end of year	38	596,871	609,344

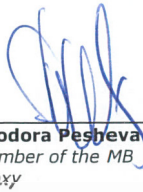
Operating interest-related cash flows

Proceeds from interest	78,798	78,215
Interest paid	(18,375)	(17,355)

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 1.8.2024.


Iliya Karanikolov
 Executive Director


Tsanko Arabadzhiev
 Executive Director


Teodora Pesheva
 Member of the MB
 Proxy


Dimitar Mitev
 Head of Finance
 Division

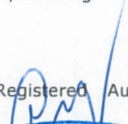

Ivan Lichev
 Chief Accountant
 Preparer

Auditors' report on the consolidated financial statements issued on 8 August 2024.
 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



1. ORGANISATION AND OPERATING POLICY

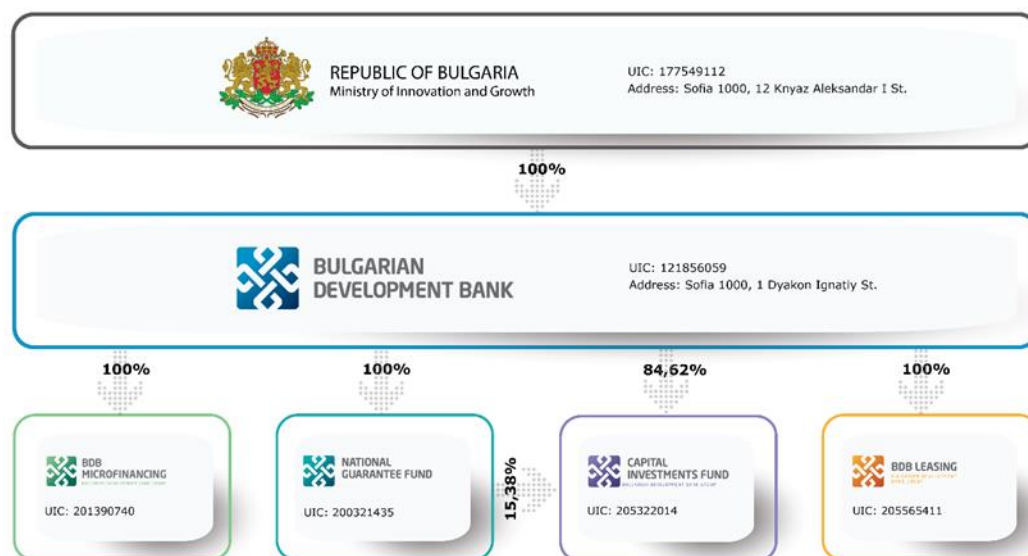
These consolidated financial statements of the Group of Bulgarian Development Bank EAD (the „Group“) for the year ended 31 December 2023 were approved for issue by decision of the Management Board of Bulgarian Development Bank EAD (‐BDB‐, the ‐Bank‐, the ‐Parent company‐, the ‐Parent bank‐) on 1 August 2024.

Bulgarian Development Bank EAD is a sole owned¹ 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 Str. 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 Investments Fund AD (‐CIF‐), BDB Leasing EAD (‐BDB Leasing‐), BDB Factoring EAD (‐BDB Factoring‐) and TC Maritsa EOOD (‐TCM‐).

As of 31 December 2023, the number of employees of BDB Group is 248 (as of 31 December 2022: 276 employees).



¹ TC Maritsa is not part of the strategic planning process of the BBR Group.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

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.

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 Investments 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 SME;
- financing SME investments abroad;
- participation in public public-private projects or partnerships of strategic, national and/or regional importance.
- implementation of public policies for the economic development and growth of the country;
- implementation of instruments for financing public investments and projects that are a priority for the local economy;
- attracting funds and providing financing in order to reduce regional imbalances in the country.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

The main objectives of the Bank are:

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

Bulgarian Development Bank EAD has a two-tier system of governance, which comprises Supervisory Board (SB) and Management Board (MB). The Supervisory Board and the Audit Committee represent those charged with governance.

Supervisory Board

As of 31 December 2023, 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.

Management Board

As of 31 December 2023, the Management Board (MB) of BDB comprises: Iliya Zapryanov Karanikolov – member of the MB and Executive Director; Tsanko Rumenov Arabadzhiev – member of MB and Executive Director and Ivan Valentinov Cerovski – member of MB and Executive Director.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

As of the approval date of these consolidated financial statements, the Management Board of BDB comprises: Iliya Zapryanov Karanikolov – member of the MB and Executive Director; Tsanko Rumenov Arabadzhiev - member of MB and Executive Director and Teodora Petrova Pesheva - member of MB.

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

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

By decision of the Supervisory Board under Protocol No 9 dated 08 February 2023 Krum Georgiev was dismissed as member of the Management Board of BDB. This circumstance was recorded in the Commercial register and register of non-profit legal entities on 14 February 2023.

By decision of the Supervisory Board under Protocol No 14 dated 09 March 2023 Mrs. Mariana Dimitrova Petkova was dismissed as member of the Management Board of BDB and Executive Director. The decision was recorded in the Commercial register and register of non-profit legal entities on 16 March 2023.

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

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

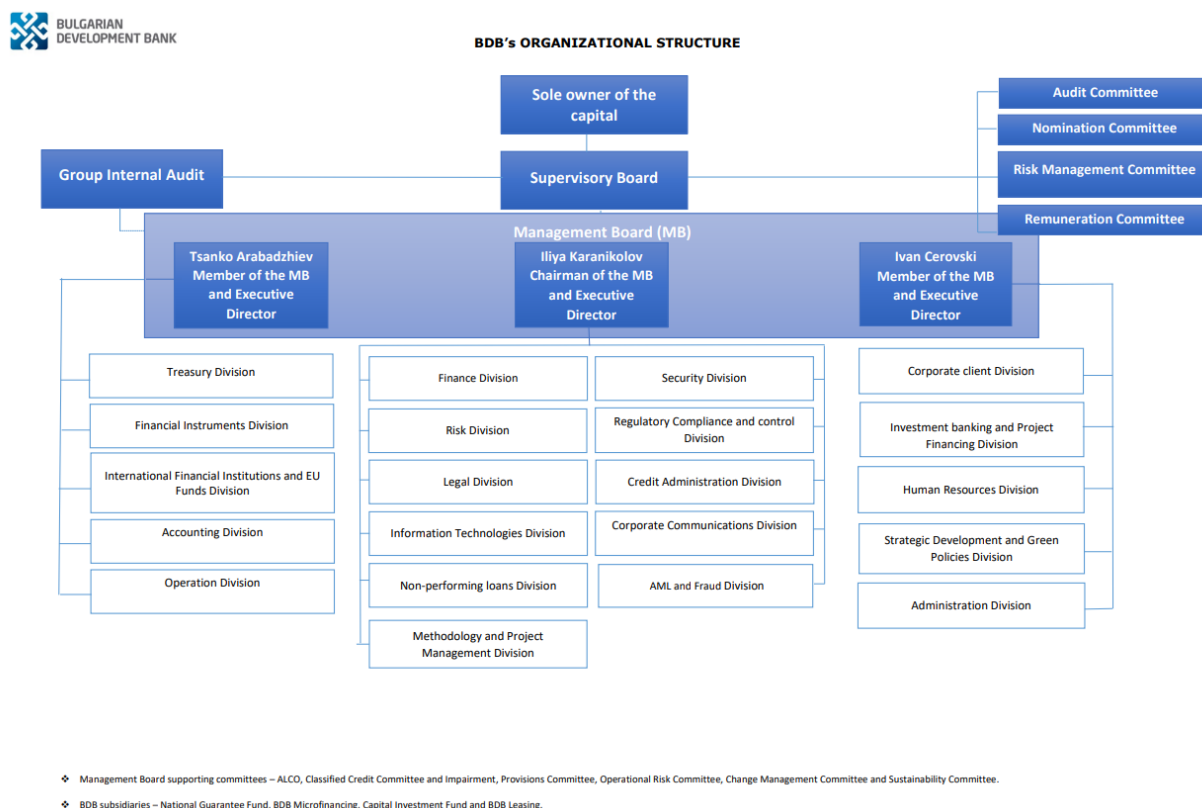
The Bank is represented jointly by either two of the three Executive Directors or by one executive director and a procurator (if any).

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

Changes in the Bank's structure

The organizational structure of BDB as of 31 December 2023 is as follows:

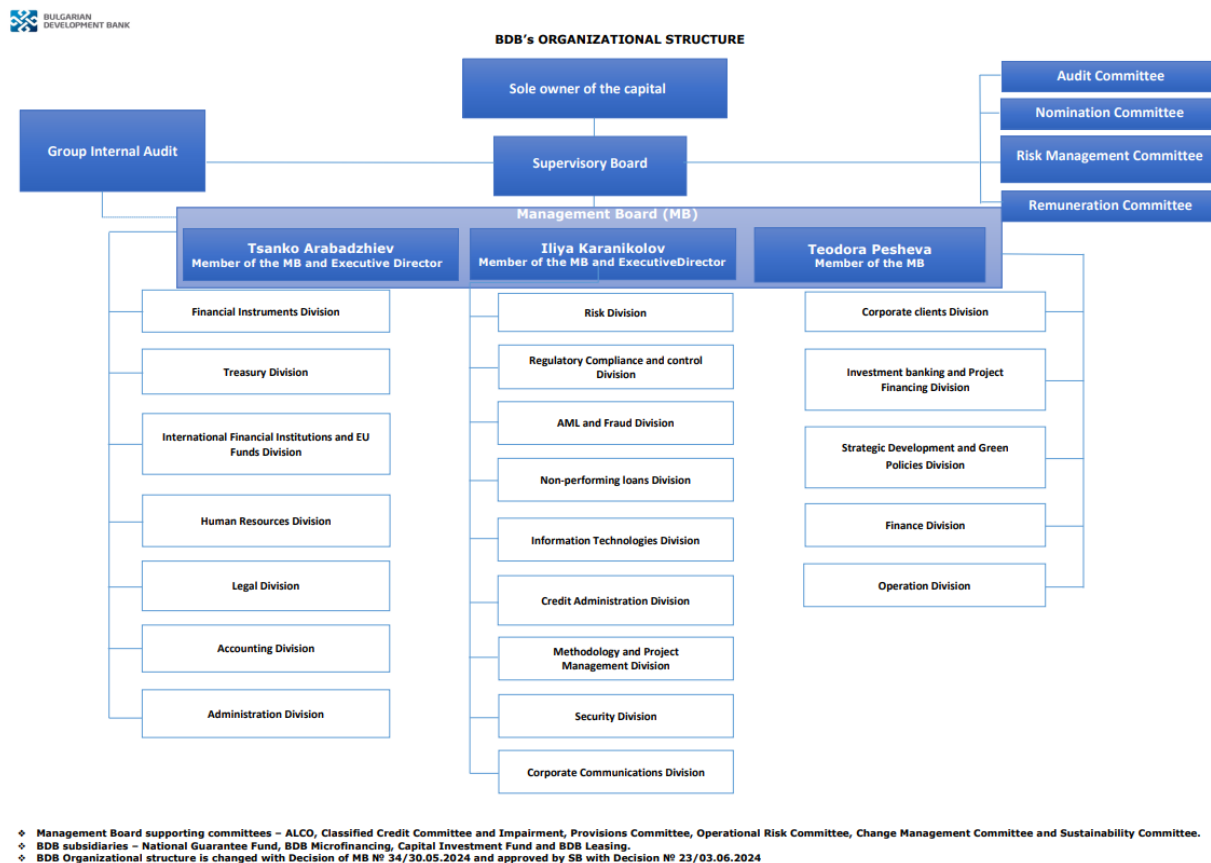


Following the personal and organizational changes from January-June 2024 described above, the organizational structure of the Bank at the date of issue of these consolidated financial statements is presented in the following diagram:

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

Changes in the Bank's structure (continued)



As of 31 December 2023, the Bank's employees were 201 (as of 31 December 2022: 233).

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

Audit Committee of Bulgarian Development Bank EAD in 2023 and 2024

In 2023 and until the date of approval of these consolidated financial statements, there are no changes in the audit committee, which is composed of Svetlana Kurteva, Svetlodara Petrova and Delyana Ivanova.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank EAD (continued)

Credit rating

On 07 August 2023 the international rating agency Fitch Ratings confirmed the credit rating of Bulgarian Development Bank EAD – BBB, with positive outlook. The Bank's rating is equal to the Bulgarian State rating and practically it is the highest possible credit rating for BDB.

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

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

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

By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute are 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 2023 or as of subsequent periods nor the amount of Bank's regulatory equity.

By decisions of the Minister of Innovation and Growth dated 07 June 2024 and 18 June 2024, amendments to the Articles of Incorporation of Bulgarian Development Bank EAD were adopted, which were approved by the Bulgarian National Bank, entered in the Commercial Register and the register of non-profit legal entities and are effective from 12 July 2024. The changes in the Articles of Incorporation are in accordance with the Strategy for the activity of BDB EAD for the period 2024-2026, approved by the Council of Ministers.

Subsidiaries

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - National Guarantee Fund EAD and Capital Investments Fund AD.

National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investments 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 in order to cover losses from revaluations of securities held by Capital Investments Fund AD its capital was reduced from BGN 65,000 thousand to BGN 57,814 thousand through acquisition and invalidation of shares. The share of BDB in Capital Investments 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 December 2022: 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 December 2023 (as of 31 December 2022: BGN 18,630 thousand) following the decision to decrease its capital in 2022 in order 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 07 July 2022.

All subsidiaries of BDB, as part of the BBR Group's strategic planning framework, 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.

TC Maritsa EOOD is represented by a Managing Director.

Changes in the management bodies of subsidiaries in 2023 and 2024

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 27 of 10 March 2023 of the Management Board of BDB as a sole owner of the capital of the National Guarantee Fund, Krum Georgiev Georgiev was dismissed as member of the Board of Directors and Ivan Valentinov Cerovski was elected as a new member. These circumstances were recorded in the Commercial register and the Register of non-profit legal entities on 17 March 2023. Mr. Ivan Valentinov Cerovski was elected as a Chairman of the Board of Directors of the company.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

Changes in the management bodies of subsidiaries in 2023 and 2024 (continued)

National Guarantee Fund EAD (continued)

The Board of Directors members as of 31 December 2023 are:

- Ivan Valentinov Cerovski - Chairman of the Board of Directors;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors;
- Zaharina Damyanova Todorova – Member of the Board of Directors;
- Deyan Petrov Kalapchiev - Member of the Board of Directors.

By decision under Protocol No 32 dated 28 May 2024 of the Management Board of BDB, as a sole owner of the capital, Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of the National Guarantee Fund. The circumstance was recorded in the Commercial register on 10 June 2024.

By Decision under Protocol No 34 of 30 May 2024 of the Management Board of BDB as a sole owner of the capital of the National Guarantee Fund, Mr. Iliya Zapryanov Karanikolov was elected as member of the Board of Directors of the company. The circumstance was recorded in the Commercial register and the Register of non-profit legal entities on 10 June 2024. Mr. Iliya Zapryanov Karanikolov was elected as a Chairman of the Board of Directors of the company.

The Board of Directors members as of the date of these financial statements are:

- Iliya Zapryanov Karanikolov - Chairman of the Board of Directors;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors;
- Zaharina Damyanova Todorova – Member of the Board of Directors;
- Deyan Petrov Kalapchiev - Member of the Board of Directors.

BDB Microfinancing EAD

By Decision under Protocol of 07 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.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

Changes in the management bodies of subsidiaries in 2023 and 2024 (continued)

BDB Microfinancing EAD (continued)

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 09 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 05 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 05 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.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

Changes in the management bodies of subsidiaries in 2023 and 2024 (continued)

BDB Microfinancing EAD (continued)

By Protocol No 88 of 21 December 2023, supplemented by Protocol No 7 of 01 February 2024 and Protocol No 14 of 12 March 2024, the Management Board of BDB in its capacity of sole owner of BDB Microfinancing EAD took decision to reduce the capital of the company from BGN 14 643 000 (fourteen million six hundred forty three thousand) to BGN 14 035 000 (fourteen million and thirty-five thousand) by acquiring and invalidation of 6 080 (six thousand and eighty) ordinary, registered, materialized, indivisible 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 in relation to art. 247a, para 2 of the Commercial Act. The decision was entered in the Commercial register and the register of non-profit legal entities on 12 April 2024.

The Board of Directors members as of 31 December 2023 and the date of these consolidated 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;
- Boyan Stefanov Byanov – Member of the Board of Directors.

BDB Leasing EAD

By Decision under Protocol of 07 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.

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.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

Changes in the management bodies of subsidiaries in 2023 and 2024 (continued)

BDB Leasing EAD (continued)

The Board of Directors members as of 31 December 2023 are:

- Ivan Valentinov Cerovski - Chairman of the Board of Directors as of 17 March 2023;
- Emil Valkanov Valkanov –Executive Director and Deputy Chairman of the Board of Directors;
- Antonia Hristoforova Dobрева – Member of the Board of Directors.

The company has an authorized procurator – Ivaylo Kirilov Popov.

By decision under Protocol No 32 dated 28 May 2024 of the Management Board of BDB, as a sole owner of the capital, Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of BDB Leasing EAD. The circumstance was recorded in the Commercial register on 10 June 2024

By Decision under Protocol No 34 of 30 May 2024 of the Management Board of BDB as a sole owner of the capital of BDB Leasing EAD, Mrs. Teodora Petrova Pesheva was elected as member of the Board of Directors of the company. The circumstance was recorded in the Commercial register and the Register of non-profit legal entities on 10 June 2024. Mrs. Teodora Petrova Pesheva was elected as a Chairman of the Board of Directors of the company.

The Board of Directors members as of the date of these financial statements are:

- Teodora Petrova Pesheva - Chairman of the Board of Directors as of 10 June 2024;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors;
- Antonia Hristoforova Dobрева – Member of the Board of Directors.

Capital Investments Fund AD

The Board of Directors members as of 31 December 2023 and the date of these consolidated financial statements are:

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

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Subsidiaries (continued)

Changes in the management bodies of subsidiaries in 2023 and 2024 (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 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 from collateral foreclosure carried at the lower of their acquisition cost and net realisable value.

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

Going concern

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

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.

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 2023 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 Investments 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

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.

Upon consolidation all receivables and liabilities, income and expenses, arising from transactions between the Bank and its subsidiaries, are eliminated.

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.

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 managing 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 December 2023, is BGN 3,817 thousand (as at 31 December 2022: BGN 7,031 thousand). See Note 40.

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

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.

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.

Analogous approach is used also for assessments at individual credit exposure, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes 12A and 18C).

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

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 non-publicly traded companies' shares/entities (less than 33% of their capital), which 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 stock markets

As of 31 December 2023, 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.

For investments in securities that are listed for dealing at stock exchange markets, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1).

In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the 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.

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

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

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

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

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

d) Actuarial calculations

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

e) Valuation of investment property

The fair value of investment property, which management considers reasonable and adequate for the Group, 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).

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

Key estimates and assumptions of high uncertainty (continued)

f) Assets acquired from collateral foreclosure

Assets acquired from 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.

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 existing standards effective for the reporting period

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

- **IFRS 17 Insurance Contracts** including amendments to IFRS 17 adopted by the EU in June 2020 and December 2021 (effective for annual periods beginning on or after 01 January 2023);
- **Amendments to IAS 1 Presentation of Financial Statements:** Disclosure of Accounting policies adopted by the EU on 02 March 2022 (effective for annual periods beginning on or after 01 January 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 01 January 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 01 January 2023).
- **Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules** (IASB effective date: 01 January 2023).

The adoption of the new standard and amendments to the existing standards has not led to any material changes in the consolidated 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 Bank's separate financial statements are listed below.

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

At the date of authorisation of these financial statements, the following revised IFRS Accounting Standard has not been applied that has been issued by IASB and adopted by EU but are not yet effective:

- **Amendments to IFRS 16 Leases** - Lease Liability in a Sale and Leaseback issued by IASB on 22 September 2022 (effective for annual periods beginning on or after 01 January 2024);

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

- **IFRS 18 - Presentation and Disclosures in Financial Statements:** This standard will have effect on the financial statements presentation (effective for annual periods beginning on or after 01 January 2027);
- **IFRS 19 Subsidiaries without Public Accountability: Disclosures** (effective for annual periods beginning on or after 01 January 2027);
- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (effective for annual periods beginning on or after 01 January 2024);
- **Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements** (effective for annual periods beginning on or after 01 January 2024);
- **Amendments to IAS 21: The Effects of Changes in Foreign Exchange Rates** - Lack of Exchangeability (IASB effective date: 01 January 2025);
- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after 01 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred by IASB indefinitely but earlier application permitted). Endorsement process postponed 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 consolidated financial statements of the Group in the period of initial application, except for IFRS 18 which is expected to have material impact on the presentation and disclosure of information in the consolidated financial statements. The Group is in process of analysing the specific impact of IFRS 18 on its separate financial statements.

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

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

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 consolidated financial statements, if applied as at the reporting date.

3. MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Financial instruments: classification and measurement (IFRS 9)

Financial assets

Recognition of assets

The 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 through 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; and
- 2) the features of the contractual cash flow of the financial asset.

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial assets (continued)

Recognition of assets (continued)

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

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

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

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

Reclassification of financial assets

When and only when the 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.

Measurement and reporting

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial assets (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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial assets (continued)

Determination of a business model (continued)

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, 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 in accordance with the standard. Where the modification of a financial asset results in the write-off of the existing financial asset and subsequent recognition of the modified financial asset, the modified asset shall be considered a "new" financial asset for the purposes of IFRS 9.

Financial assets and liabilities are offset and the net amount presented in the 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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial assets (continued)

Financial assets at amortized cost

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

Financial assets measured at amortised cost are financial assets which are held within a "held to collect" business model and that are 'solely payments of principal and interest (SPPI)'. The 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 method, 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 companies in the Group accrue 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial assets (continued)

Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include equity and debt instruments, and certain cases of loans. Financial assets measured at fair value through other comprehensive income are assets acquired under a business model with the objective of both holding to collect contractual cash flows and selling the financial assets.

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

- 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).

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial assets (continued)

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised through other comprehensive income and accumulated in the revaluation reserve.

The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

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

Assets under trust management

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

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/EC 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial liabilities

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

Initially, they are stated at fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability. The financial liabilities reported by the 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 Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Financial liabilities (continued)

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 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 uncollectibility, respectively incomplete collection, within the usual period, which assessment is based on some the following circumstances:

1. The court actions taken under the Civil Procedure Code, the PPA and the CA have been exhausted and / or the initiation of court actions (respectively the continuation of such actions already taken) is pointless and this has been confirmed by the Legal Department;

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments: classification and measurement (IFRS 9) (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 Group cannot undertake executive actions towards them, or they are of insignificant value compared to the residual debt;
5. The Group 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 Group, 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 Group;
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 Group's expected proceeds from the sale or the reduced value acceptable for the Group;
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 collectability, regardless of the delay in the usual procedural period, which assessment is caused by the presence of any of the following circumstances:

- For borrowers, severally liable debtors and guarantors who are legal entities - when traders are written off.
- For borrowers, severally liable debtors and guarantors who are natural persons - a deceased person without accepted inheritance, or without heirs.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Derecognition of financial instruments (continued)

- 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 Group from the sale or the reduced value acceptable for the Group.
 - no more income is expected for repayment of debts - both from enforcement actions and from voluntary repayments.
 - the costs related to taking action to write off the company from the Commercial Register are an expense that is not expected to be reimbursed.

Impairment of financial assets

IFRS 9 requires the recognition of a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of the impairment depends on the probability of default of the debtor over the next 12 months after initial recognition, unless there has been a significant increase in credit risk, which requires the estimation of expected credit losses (ECL) over the lifetime of the financial asset.

The estimate of ECLs is based on all available, reasonable and justified information at the reporting date for past events, the current situation and the use of relevant macroeconomic indicators and reliable forecasts of future economic conditions. Every year, the Group analyses the impact of various measurable macroeconomic factors on the behaviour of loans in the portfolio and integrates into the models for calculating expected credit losses those that historically show statistically significant correlations - positive or negative - with cases of default and loss volumes.

For the year ended 31 December 2022 the Group uses only GDP growth (Bulgaria). For the year ended 31 December 2023, based on the analysis of correlations between various macro factors and the level of non-performing loans, the Group updated its impairment models, including the unemployment rate and oil prices. The weights of the last two factors are optimized for maximum correlation.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Impairment of financial assets (continued)

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Impairment of financial assets (continued)

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Group 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 is classified in Stage 3.

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the 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 such assets is stated as revaluation gain.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Impairment of financial assets (continued)

Financial assets measured at amortised cost (continued)

Currently, the Group has designated as a portfolio for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP), receivables on lease contracts, and 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 the Group applies:
 - a. a tool to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameter, sector specifics, etc., or
 - b. an individual matrix for expected future cash flows from operations under going concern scenarios in several (at least two) scenarios with the respective weights with a total amount equal to the probability that no default will occur, as well as an individual matrix for the expected future cash flows from the disposal of collateral in a "non-going concern" scenario with a weight equal to the probability of default.

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

Financial assets measured at fair value through other comprehensive income

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Impairment of financial assets (continued)

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 Group'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 Group has occurred are impaired as loans to the respective beneficiary.

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programmes are analysed and impaired in accordance with a separate model developed by the Group, taking into account the specifics of both the programmes (see subsection "Contingent commitments" in section 4.1 Credit risk, as well as notes 32 and 37) and the beneficiaries, as well as historical data on losses of similar credit products on the Bulgarian market. The calculated provision rates as of 31 December 2023 are 27.6% under the loan guarantee program for legal entities and 34% under the loan guarantee program for individuals and freelance (as of 31 December 2022: 27.6% and 36%, respectively).

As of the end of 2023 the provisions amount to BGN 111,845 thousand (as of 31 December 2022: BGN 127,215 thousand) (see notes 32 and 37).

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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

Fair value of financial assets and liabilities (IFRS 13)

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 the Group has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

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

The choice of method used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction. Upon subsequent measurement, the Group takes into account the methods used in the initial / previous fair value measurement and analyses the differences in values between the periods. When changing methods and / or weights, the 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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.1 Financial instruments (continued)

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

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.

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. MATERIAL ACCOUNTING POLICY INFORMATION (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. MATERIAL ACCOUNTING POLICY INFORMATION (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 statement of comprehensive income is recognised also in the 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. MATERIAL ACCOUNTING POLICY INFORMATION (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 – 7 years

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

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

Subsequent costs

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly. At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

3. MATERIAL ACCOUNTING POLICY INFORMATION (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.

Impairment of property, plant and equipment and intangible assets

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

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

Investment property (IAS 40)

The Group's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value.

Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (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 from collateral foreclosure.

Assets acquired from collateral foreclosure (IAS 2)

Assets acquired from collateral foreclosure and initially classified as Assets held for sale for which the requirements of IFRS 5 are not met, are transferred to Assets acquired from collateral 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 from collateral foreclosure is the sum of all direct costs incurred on the acquisition of the assets and other expenses incurred on bringing them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete the trade cycle and costs to sell.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2 Other assets (continued)

Assets acquired from 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 from collateral foreclosure. The impairment of the assets acquired from 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 from collateral foreclosure is the best estimate of their net realisable value at the date of the statement of financial position. Further details are provided in 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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.3. Liabilities

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 Group 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 consolidated statement of financial position under Lease Liabilities.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.3. Liabilities (continued)

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

According to the Bulgarian legislation, the 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 consolidated 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 consolidated statement of comprehensive income in the period in which they were incurred.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.3. Liabilities (continued)

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

Long-term retirement benefits (continued)

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 falling due more than 12 months are discounted to and presented in the consolidated statement of financial position at present value.

3. MATERIAL ACCOUNTING POLICY INFORMATION (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 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. MATERIAL ACCOUNTING POLICY INFORMATION (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 Group recognizes interest income based on the effective interest rate method accrued on their gross carrying. For exposures classified in Stage 3, the Group recognizes interest income based on the effective interest rate method accrued on their amortised cost, less impairment for expected credit losses.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.5 Income and expenses (continued)

Revenue from contracts with customers (IFRS 15)

Under IFRS 15 a five-step model is applied to account for revenue arising from contracts with customers, regardless of the type of 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 recognised at the time of its provision. The fees for these services are based on the Bank's tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Group applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff.
- Issuance of guarantees and letters of credit – revenue is recognized over time because the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time and thus, the 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.
- Deposit maintenance – revenue is recognised at a point in time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Group's Tariff and represent a fixed monthly amount 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 withhold 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.

Servicing of bond issue fees are fees for the Group 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.5 Income and expenses (continued)

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

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

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:

<u>Foreign currency</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
USD	1.76998	1.83663
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.

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 process of risk management is essential for the Group's profitability and existence.

The risk management within the 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

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* – 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;

The main units that are directly responsible for risk management are as follows:

- *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* – 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* – 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* – 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 verification of the risk assessment methods.

For the subsidiary Capital Investments Fund AD:

Risk management is performed by:

- *Supervisory Board and Management Board of BDB EAD* – perform overall supervision of risk management; take decisions for total exposure to group of related parties to Capital Investments 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 Investments 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 data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the 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-performing“. 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.

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 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 Group'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;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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;
- 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:

Financial asset	2023		2022	
	maximum	net	maximum	net
Cash in hand and balances in current accounts with the Central Banks	128,665	128,665	527,924	527,924
Financial assets at amortized cost – Receivables from banks	514,681	513,980	140,804	139,420
Financial assets at amortized cost – Loans and advances to customers	1,573,795	1,333,532	1,698,359	1,449,701
Financial assets at amortized cost – Receivables from the State budget	14,431	14,262	23,598	23,537
Financial assets at amortized cost – Net investment in finance lease	76,321	75,360	71,537	70,866
Financial assets at amortized cost – Securities	11,792	11,671	11,975	11,771
Financial assets at fair value through other comprehensive income – Debt instruments	439,431	439,431	538,535	538,535
Financial assets at fair value through other comprehensive income – Equity instruments	140,116	140,330	100,710	100,218
Other financial assets	4,362	4,362	7,178	7,178
	2,903,594	2,661,593	3,120,620	2,869,150

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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

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

	2023		2022	
	maximum	net	maximum	net
Loan guarantees under anti-COVID programs	373,894	262,049	403,208	275,993
Bank guarantees and letters of credit	397,460	384,865	267,334	252,407
Unutilised amount of authorized loans	159,954	159,903	178,510	178,463
Uncalled part of shares of Three Seas Initiative	7,788	7,788	17,970	17,970
Participation in the SIA investment program	479	479	652	652
	939,575	815,084	867,674	725,485
Maximum exposure to credit risk	3,843,169	3,476,677	3,988,294	3,594,635

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 Group to a group of related parties /other than bank institutions/ amounts to BGN 161,416 thousand (including BGN 126,460 thousand balance sheet debt, BGN 34,956 thousand for utilization) at amortised cost (31.12.2022: BGN 172,448 thousand), which represents 15.23% of Group's equity/eligible capital ratio according to Regulation 575/2013/EC (31.12.2022: 16.62%). The concentration of client's portfolio (other than bank institutions) is presented in the following table:

	2023*	% of equity	2022*	% of equity
The largest total exposure to a customer group	161,416	15.23%	172,448	16.62%
Total amount of the ten largest exposures	859,462	81.09%	1,012,789	97.61%
Total amount of the twenty largest exposures	1,056,318	99.66%	1,290,160	124.34%

* 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 2023 and 31 December 2022, exceeding 25% of Group's equity.

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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 and receivables, and also finance leases and securities at amortized cost, are stated at amortised cost before impairment:

Sectors	2023	%	2022	%
Government	544,535	18.75	665,144	21.31
Industry, total	358,494	12.35	399,117	12.79
<i>Industry – energy generation and distribution</i>	87,833	3.02	68,063	2.18
<i>Industry – other industries</i>	140,145	4.83	191,491	6.14
<i>Industry – manufacture of food products</i>	47,319	1.63	46,965	1.50
<i>Industry – manufacture of plant and equipment</i>	83,197	2.87	92,598	2.97
Financial services	894,860	30.82	882,688	28.28
Trade	440,366	15.17	461,703	14.80
Transport	143,947	4.96	154,328	4.95
Tourist services	267,473	9.21	267,018	8.56
Construction	131,980	4.55	167,942	5.38
Real estate transactions	52,486	1.81	56,484	1.81
Agriculture	36,245	1.25	28,385	0.91
Collection and disposal of waste	-	-	357	0.01
Other industries	33,208	1.14	37,454	1.20
	2,903,594	100	3,120,620	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.

Quality of financial assets

The structure of the financial assets of the Group by risk classification groups is as follows:

As of 31 December 2023	Standard (Stage 1)	Watch (Stage 2)	Non- performing (Stage 3)	Total
Cash in hand and balances in current accounts with the Central Banks	128,665	-	-	128,665
Financial assets at amortized cost:				
Receivables from banks	514,681	-	-	514,681
Loans for commercial property and construction	255,563	280,409	124,582	660,554
Trade loans	349,514	121,940	288,832	760,286
Net investment in finance lease	64,534	6,143	5,644	76,321
Consumer loans	2,097	2	57	2,156
Residential and mortgage loans to individuals	1,660	-	-	1,660
Loans to other financial institutions	54,810	1,779	2,056	58,645
Other loans and receivables	21,252	44,867	24,375	90,494
Receivables from the State budget	14,431	-	-	14,431
Financial assets at amortized cost – Debt securities	11,792	-	-	11,792
Financial assets at fair value through other comprehensive income – Debt instruments	423,789	-	15,642	439,431
Other financial assets	4,362	-	-	4,362
Total financial assets	1,847,150	455,140	461,188	2,763,478

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

As of 31 December 2022

	Standard (Stage 1)	Watch (Stage 2)	Non- performing (Stage 3)	Total
Cash in hand and balances in current 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

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.

Type of collateral	2023		2022	
	Fair value	%	Fair value	%
Mortgages	840,780	74.5	738,639	66.2
Pledges of plant, machinery, equipment, and inventories	217,662	19.3	294,599	26.4
Credit risk insurance	23,299	2.0	36,999	3.3
Restricted deposits	42,965	3.8	44,613	4.0
Bank guarantees	4,559	0.4	960	0.1
Total collateral	1,129,265	100	1,115,810	100

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

At the request of the contractors, a Group company is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favour of the debtor as well 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

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 2023 and 2022 the Group carried out an analysis of the effect of the modifications on the exposures in its portfolio, 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.

Regarding the loans extended under the energy efficiency programme, 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.

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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
	Corporate customers and non-banking 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
As of 31 December 2023									
Impaired on individual basis									
-standard (Stage 1)	298,883	-	113	-	3	11,792	64,707	4,362	423,789
-watch (Stage 2)	426,441	-	-	-	-	-	6,143	-	-
-non-performing (Stage 3)	419,753	-	-	57	-	-	5,644	-	15,642
Gross amount	1,145,077	-	113	57	3	11,792	76,494	4,362	439,431
Incl. renegotiated	1,079,184	-	-	6	-	-	-	-	-
Past due but not impaired									
-standard (Stage 1)	2,519	-	-	-	-	-	-	-	-
-watch (Stage 2)	1,456	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	5,442	-	-	-	-	-	-	-	-
Gross amount	9,417	-	-	-	-	-	-	-	-

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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
	Corporate customers and non-banking 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
As of 31 December 2023									
Incl. renegotiated	6,898	-	-	-	-	-	-	-	-
Within 30 days	1,456	-	-	-	-	-	-	-	-
From 30- 90 days	-	-	-	-	-	-	-	-	-
Over 90 days	5,442	-	-	-	-	-	-	-	-
Impaired on portfolio basis									
-standard (Stage 1)	233,914	14,431	31,391	3,757	-	-	(173)	-	-
-watch (Stage 2)	17,860	-	-	2	-	-	-	-	-
-non-performing (Stage 3)	-	-	-	-	-	-	-	-	-
Gross amount	251,774	14,431	31,391	3,759	-	-	(173)	-	-
Incl. renegotiated	143,480	-	18,359	227	-	-	-	-	-
Not past due and not impaired									
Stage 1	145,822	-	483,177	-	128,662	-	-	-	-
Stage 2	3,238	-	-	-	-	-	-	-	-
Stage 3	14,651	-	-	-	-	-	-	-	-
Gross amount	163,711	-	483,177	-	128,662	-	-	-	-
Incl. renegotiated	163,007	-	-	-	-	-	-	-	-
Gross amount	1,569,979	14,431	514,681	3,816	128,665	11,792	76,321	4,362	439,431
Incl. renegotiated	1,392,569	-	18,359	233	-	-	-	-	-

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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
	Corporate customers and non-banking 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
As of 31 December 2022									
Impaired on 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	-	-

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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
	Corporate customers and non-banking 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 assets	financial	Debt instruments
As of 31 December 2022										
Incl. renegotiated	25,299	-	-	-	-	-	-	-	-	-
Within 30 days	4,955	-	-	-	-	-	-	-	-	-
From 30- 90 days	-	-	-	-	-	-	-	-	-	-
Over 90 days	20,344	-	-	-	-	-	-	-	-	-
Impaired on 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	-	-	-	-	-	-

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:

	2023	2022
Loans for commercial property and construction	280,409	185,635
Trade loans	121,940	235,499
Consumer loans	2	75
Other loans and receivables	46,646	63,760
	448,997	484,969
Finance lease receivables	6,143	2,290
	455,140	487,259

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).

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

	2023	2022
Loans for commercial property and construction	240,416	251,901
<i>incl. Performing – Stage 1</i>	-	-
<i>Watch – Stage 2</i>	158,925	164,108
<i>Non-performing – Stage 3</i>	81,491	87,793
Trade loans	331,703	340,966
<i>incl. Performing – Stage 1</i>	9,549	-
<i>Watch – Stage 2</i>	100,671	179,921
<i>Non-performing – Stage 3</i>	221,483	161,045
Other loans	61,772	70,482
<i>incl. Performing – Stage 1</i>	-	1,238
<i>Watch – Stage 2</i>	37,360	63,760
<i>Non-performing – Stage 3</i>	24,412	5,484
	633,891	663,349

Contingent commitments

Bank guarantees, letters of credit and unutilized loan commitments

The Group assesses the credit quality of provided contingent commitments by applying a methodology, which estimates whether events indicating with a high probability that outflow of Group'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 2023, the Group identified commitments amounting to BGN 396,359 thousand (2022: BGN 436,763 thousand), which are impaired at the amount of BGN 9,904 thousand (2022: BGN 5,893 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 favour 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 value 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 prejudice a significantly higher risk than under normal business guarantee programmes.

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

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

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for companies (continued)

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.

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").

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;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for individuals (continued)

- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

As of 31 December 2023, BDB has guaranteed 42,840 active loans under the program, for which a guarantee at the amount of BGN 135.2 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.

As of 31 December 2023, the Bank has active guarantees under both anti-COVID programs at the amount of BGN 373,894 thousand (31 December 2022: BGN 403,208 thousand), has guaranteed exposures under the two programmes totalling BGN 554,763 thousand (31 December 2022: BGN 715,979 thousand), recognizing provisions at the amount of BGN 111,845 thousand (31 December 2022: 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.

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 2023 and 2022.

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 01.01.2022	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)	-	-
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
Transfers:				
Transfer from Stage 1 to Stage 2	(136,368)	136,368	-	-
Transfer from Stage 1 to Stage 3	(5,978)	-	5,978	-
Transfer from Stage 2 to Stage 3	-	(175,869)	175,869	-
Transfer from Stage 2 to Stage 1	11,477	(11,477)	-	-
Transfer from Stage 3 to Stage 2	-	45,871	(45,871)	-
Newly occurred and newly acquired exposures	85,824	4,510	3,862	94,196
Paid or transferred	(161,905)	(44,289)	(54,970)	(261,164)
Increased	31,318	8,914	1,989	42,221
Balance as of 31.12.2023	696,688	448,997	439,902	1,585,587

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 01.01.2022	18,866	-	-	18,866
Newly occurred and newly acquired exposures	9	-	-	9
Paid or transferred	(2,612)	-	-	(2,612)
Increased	7,335	-	-	7,335
Balance as of 31.12.2022	23,598	-	-	23,598
Newly occurred and newly acquired exposures				
Paid or transferred	(13,234)	-	-	(13,234)
Increased	4,067	-	-	4,067
Balance as of 31.12.2023	14,431	-	-	14,431

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 01.01.2022	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	-
Newly occurred and newly acquired exposures	109,559	672	-	110,231
Paid or transferred	(94,829)	(1,723)	(566)	(97,118)
Balance as of 31.12.2022	66,474	2,290	2,773	71,537
Transfers:				
Transfer from Stage 1 to Stage 2	(5,296)	5,296	-	-
Transfer from Stage 1 to Stage 3	(4,190)	-	4,190	-
Transfer from Stage 2 to Stage 3	-	(136)	136	-
Transfer from Stage 2 to Stage 1	796	(693)	(103)	-
Newly occurred and newly acquired exposures	101,396	237	-	101,633
Paid or transferred	(94,646)	(855)	(1,352)	(96,853)
Increased	-	4	-	4
Balance as of 31.12.2023	64,534	6,143	5,644	76,321

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 – Receivables from banks	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2022	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
Newly occurred and newly acquired exposures	459,441	-	-	459,441
Paid or transferred	(94,600)	-	-	(94,600)
Increased	9,036	-	-	9,036
Balance as of 31.12.2023	514,681	-	-	514,681

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 01.01.2022	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
Newly occurred and newly acquired exposures	43,459	-	-	43,459
Paid or transferred	(157,290)	-	(24)	(157,314)
Increased	13,770	-	981	14,751
Balance as of 31.12.2023	423,789	-	15,642	439,431

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movement in the impairment of main groups of assets subject to impairment in 2023 and 2022

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized 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 2023 and 2022 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 01.01.2022	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
Transfers:				
Transfer from Stage 1 to Stage 2	(3,223)	3,223	-	-
Transfer from Stage 1 to Stage 3	(425)	-	425	-
Transfer from Stage 2 to Stage 3	-	(23,629)	23,629	-
Transfer from Stage 2 to Stage 1	71	(71)	-	-
Transfer from Stage 3 to Stage 2	-	9,815	(9,815)	-
Newly occurred and newly acquired exposures	1,185	2,768	47,457	51,410
Paid or transferred	(5,846)	(14,001)	(55,401)	(75,248)
Increased	480	13,646	1,234	15,360
Balance of impairment as of 12.2023	12,435	58,493	169,456	240,384

Impairment of financial assets at amortized cost – Securities is included in the movement in the impairment above.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movement in the impairment of main groups of assets subject to impairment in 2023 and 2022 (continued)

Assets measured at amortised cost – Receivables from the State Budget	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2022	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
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	108	-	-	108
Balance of impairment as of 31.12.2023	169	-	-	169
Assets measured at amortised cost - Finance lease	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2022	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
Transfers:				
Transfer from Stage 1 to Stage 2	(294)	294	-	-
Transfer from Stage 1 to Stage 3	(220)	-	220	-
Transfer from Stage 2 to Stage 3	-	(12)	12	-
Transfer from Stage 2 to Stage 1	2	(2)	-	-
Newly occurred and newly acquired exposures	545	163	141	849
Paid or transferred	(55)	(146)	(358)	(559)
Balance as of 31.12.2023	285	326	350	961
Assets measured at amortised cost – Receivables from banks	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2022	2,090	-	-	2,090
Decreased	(706)	-	-	(706)
Balance of impairment as of 31.12.2022	1,384	-	-	1,384
Decreased	(683)	-	-	(683)
Balance of impairment as of 31.12.2023	701	-	-	701

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movement in the impairment of main groups of assets subject to impairment in 2023 and 2022 (continued)

Assets measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2022	4,431	-	-	4,431
Transfers:				
Transfer from Stage 1 to Stage 3	(1,243)	-	1,243	-
Paid or transferred	(377)	-	-	(377)
Increased	293	-	2,863	3,156
Balance of impairment as of 31.12.2022	3,104	-	4,106	7,210
Paid or transferred	(1,558)	-	-	(1,558)
Increased	262	-	589	851
Balance of impairment as of 31.12.2023	1,808	-	4,695	6,503

Value of collaterals as of 31.12.2023 and 31.12.2022

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	390,908	840,780
Pledge of machinery, plant, equipment and inventories	79,947	217,662
Restricted deposits	102,645	42,965
Credit risk insurance	9,962	23,299
Bank guarantees	2,144	4,559
Other collateral	722,465	2,648,814
Unsecured	25,461	-
Total loans as of 31.12.2023	1,333,532	3,778,079

Leases by type of collateral	Carrying amount of the lease	Value of the collateral
Other collaterals	75,360	-
	75,360	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Value of collaterals as of 31.12.2023 and 31.12.2022 (continued)

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
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	-

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 393,494 thousand as of 31 December 2023 and BGN 495,551 thousand as of 31 December 2022.

Standard & Poor's credit rating for the Republic of Bulgaria stands at BBB/A-2 with positive outlook (24 November 2023), BBB with positive outlook from Fitch Ratings (27 October 2023) and Baa1 with stable outlook from Moody's (03 February 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.

4.2. 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

31 December 2023	Floating interest rate	Fixed interest rate	Interest- free	Total
Financial assets				
Cash in hand and balances in current accounts with the Central Banks	128,662	-	3	128,665
Financial assets at amortised cost - Receivables from banks	43,380	459,517	11,083	513,980
Financial assets at amortised cost - Loans and advances to customers	1,322,880	9,952	700	1,333,532
Financial assets at amortised cost - Receivables from the State budget	14,262	-	-	14,262
Financial assets at amortised cost - Securities	1,622	10,049	-	11,671
Financial assets at amortised cost - Net investment in finance leases	73,667	-	1,693	75,360
Financial assets at fair value through other comprehensive income - Debt instruments	31,602	407,829	-	439,431
Other financial assets	373	-	3,989	4,362
	1,616,448	887,347	17,468	2,521,263
Financial liabilities				
Deposits from credit institutions	20,601	189,303	-	209,904
Deposits from customers other than credit institutions	332,183	193,496	13,912	539,591
Borrowings from international institutions	581,931	-	-	581,931
Lease liabilities	215	-	-	215
Other borrowings and liabilities	11,687	5,131	74,108	90,926
	946,617	387,930	88,020	1,422,567
Total interest rate exposure	669,831	499,417	(70,552)	1,098,696
Contingencies and commitments	126,354	31,237	657,493	815,084

The Group's assets and liabilities with floating interest rate are based mainly on 3-month and 6-month EURIBOR.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

31 December 2022	Floating interest rate	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

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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 31.12.2023	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	over 5 years	Fixed interest rate	Interest -free	Total
Financial assets									
Financial assets at amortised cost – Receivables from banks	8,854	34,526	-	-	-	-	459,517	11,083	513,980
Financial assets at amortised cost – Loans and advances to customers	89,886	1,251,307	(30)	-	-	(18,492)	10,161	700	1,333,532
Financial assets at amortised cost – Net investment in finance lease	308	73,233	-	126	-	-	-	1,693	75,360
Financial assets at amortised cost – Receivables from the State budget	14,262	-	-	-	-	-	-	-	14,262
Financial assets at amortised cost – Securities	-	-	1,622	-	-	10,049	-	-	11,671
Financial assets at fair value through other comprehensive income – Debt instruments	4,019	42,873	19,947	91,123	233,352	48,117	-	-	439,431
Other financial assets	373	905	1	-	4	-	-	3,079	4,362
Total financial assets	117,702	1,402,844	21,540	91,249	233,356	39,674	469,678	16,555	2,392,598
Financial liabilities									
Borrowings from international institutions	-	103,945	477,986	-	-	-	-	-	581,931
Deposits from customers other than credit institutions	395,720	28,567	17,145	84,247	-	-	-	13,912	539,591
Deposits from credit institutions	20,601	-	-	-	-	-	189,303	-	209,904
Other borrowings and liabilities	4,458	11,713	-	-	65,709	5,131	-	3,915	90,926
Lease liabilities	-	127	-	-	88	-	-	-	215
Total financial liabilities	420,779	144,352	495,131	84,247	65,797	5,131	189,303	17,827	1,422,567
Total interest rate sensitivity exposure	(303,077)	1,258,492	(473,591)	7,002	167,559	34,543	280,375	(1,272)	970,031
Contingencies and commitments	271,540	13,519	137,241	2,387	-	-	31,237	359,160	815,084

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

As of 31.12.2022	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	over 5 years	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

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.

Curren cy	2023				2022			
	Increase/ Decrease %	Sensitivity of the financial result	Sensitivity of equity		Increase/ Decrease %	Sensitivity of the financial result	Sensitivity of equity	
BGN	0.50%	1,370	(1,579)		0.50%	341	(2,237)	
EUR	0.50%	775	(1,642)		0.50%	(265)	(2,747)	
USD	0.50%	(192)	-		0.50%	(230)	(25)	
BGN	-0.50%	(1,370)	1,579		-0.50%	(341)	2,237	
EUR	-0.50%	(775)	1,642		-0.50%	265	2,747	
USD	-0.50%	192	-		-0.50%	230	25	

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 Group'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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As of 31 December 2023	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	77	35,646	-	92,942	128,665
Financial assets at amortised cost – Receivables from banks	53,563	446,356	41	14,020	513,980
Financial assets at amortised cost – Loans and advances to customers	-	854,243	-	479,289	1,333,532
Financial assets at amortised cost – Receivables from the State budget	-	-	-	14,262	14,262
Net investment in finance leases	-	73,541	-	1,819	75,360
Financial assets at amortised cost – Securities	-	10,049	-	1,622	11,671
Financial assets at fair value through other comprehensive income – Debt Instruments	-	233,143	-	206,288	439,431
Financial assets at fair value through other comprehensive income – Equity Instruments	-	41,502	-	98,828	140,330
Other financial assets	16	1,734	-	2,612	4,362
Total financial assets	53,656	1,696,214	41	911,682	2,661,593
Financial liabilities					
Borrowings from international institutions	-	581,931	-	-	581,931
Deposits from customers other than credit institutions	53,614	143,191	-	342,786	539,591
Deposits from credit institutions	-	186,521	-	23,383	209,904
Guarantee provisions	-	47	-	121,696	121,743
Lease liabilities	-	35	-	180	215
Other borrowings	3	17,271	-	73,652	90,926
Total financial liabilities	53,617	928,996	-	561,697	1,544,310
Net balance sheet currency position	39	767,218	41	349,985	1,117,283
Contingencies and commitments	6,147	91,378	-	842,050	939,575

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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

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.

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

2022						
Currency	Change in exchange rates*	in exchange	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	-

*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 2023 and 2022, the open positions on currency and market volatility for the respective currencies would have an immaterial effect on the financial result of the Group, measured at an amount minus BGN 3 thousand (2022: minus BGN 9 thousand) in a hypothesis of adverse change in the exchange rates against the open positions by separate currencies of the Group 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. The 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 the 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 monitoring and control of the overall liquidity are performed by Assets and Liabilities Committee (ALCO) and are based on normatively determined coefficients and ratios set by the BNB and EBA, as well as internal analysis based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions that could have an impact on the Group's liquid position. Additionally, varieties of correlations are monitored to indicate the liquid position by periods.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Liquidity risk is also measured through application of additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the Group and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which could lead to a decrease of the rating with two degrees at least and combined shocks.

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:

	2023	2022
As of 31 December	410.5%	283.55%
Average for the period	338.83%	619.42%
Highest for the period	534.80%	820.79%
Lowest for the period	233.89%	283.55%
	2023	2022
Cash and cash balances with BNB	128,665	527,924
Balances in current accounts with other banks and international deposits of up to 90 days	468,206	81,420
Government debt securities	393,494	495,551
Liquid assets	990,365	1,104,895
Financial liabilities measured at amortised cost	1,422,567	1,727,627
Provisions	121,743	133,061
Liabilities	1,544,310	1,860,688
Liquid assets ratio (LAR)	64.13%	59.38%

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).

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2023	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	128,665	-	-	-	-	128,665
Financial assets at amortised cost – Receivables from banks	468,207	1,541	4,074	40,158	-	513,980
Financial assets at amortised cost – Loans and advances to customers	283,167	45,309	134,512	480,494	390,050	1,333,532
Financial assets at amortised cost - Receivables from the State budget	-	4,139	10,123	-	-	14,262
Financial assets at amortised cost – Net investment in finance lease	1,842	4,273	10,937	56,535	1,773	75,360
Financial assets at amortized cost – Securities	-	-	184	1,438	10,049	11,671
Financial assets at fair value through other comprehensive income – Debt instruments	4,676	44,177	112,307	231,413	46,858	439,431
Financial assets at fair value through other comprehensive income – Equity instruments	140,330	-	-	-	-	140,330
Other financial assets	3,381	905	72	4	-	4,362
Total financial assets	1,030,268	100,344	272,209	810,042	448,730	2,661,593
Financial liabilities						
Borrowings from international institutions	-	15,933	112,956	440,773	12,269	581,931
Deposits from customers other than credit institutions	391,056	33,756	109,092	5,686	1	539,591
Deposits from credit institutions	209,904	-	-	-	-	209,904
Other borrowings	7,808	114	539	78,249	4,216	90,926
Lease liabilities	5	11	50	149	-	215
Total financial liabilities	608,773	49,814	222,637	524,857	16,486	1,422,567
Gap in maturity thresholds of assets and liabilities	421,495	50,530	49,572	285,185	432,244	1,239,026
Contingencies and commitments	306,547	10,382	108,724	380,563	8,868	815,084

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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 – Net investment in finance lease	2,254	3,139	12,816	49,186	3,471	70,866
Financial assets at amortized 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

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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 2023	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	581,931	656,672	-	16,275	118,956	505,108	16,333
Deposits from customers other than credit institutions	539,591	539,612	391,064	33,758	109,100	5,689	1
Deposits from credit institutions	209,904	210,058	210,058	-	-	-	-
Lease liabilities	215	227	6	13	57	151	-
Other borrowings	90,926	93,702	7,808	114	543	79,990	5,247
	1,422,567	1,500,271	608,936	50,160	228,656	590,938	21,581
Credit guarantee and bank guarantee provisions	121,698	121,698	6,911	600	2,700	111,487	-
Unutilised credit commitments	159,909	159,960	25,781	2,322	36,853	91,835	3,169
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

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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 2023 represent 84.59% of the total amount of Deposits from customers other than credit institutions (31 December 2022: 72.58%). The share of the biggest non-bank depositor of the total amount of Deposits from customers other than credit institutions is 23.23% (31 December 2022: 29.90%).

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 2023

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current accounts with Central Banks	-	36,149	92,516	128,665
Financial assets at amortised cost - Receivables from banks	11,083	502,897	-	513,980
Financial assets at amortised cost - Loans and advances to customers	-	684,449	649,083	1,333,532
Financial assets at amortised cost - Receivables from the State budget	-	14,262	-	14,262
Financial assets at amortised cost - Net investment in finance leases	-	75,360	-	75,360
Financial assets at amortised cost - Securities	-	11,671	-	11,671
Financial assets at fair value through other comprehensive income - Debt instruments	6,260	433,171	-	439,431
Financial assets at fair value through other comprehensive income - Equity instruments	-	214	140,116	140,330
Other financial assets	-	1,717	2,645	4,362
Total financial assets	17,343	1,759,890	884,360	2,661,593

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

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2022

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current account at Central Banks	-	390,876	137,048	527,924
Financial assets at amortized cost – Receivables from banks	6,997	132,423	-	139,420
Financial assets at amortized cost – Loans and advances to customers	-	870,770	578,931	1,449,701
Financial assets at amortized 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

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

Receivables from banks pledged as collateral as per maturity interval	2023	2022
On demand		1,267
From 91 to 180 days	1,592	519
From 181 to one year	4,022	4,931
Over one year	5,469	280
	11,083	6,997

As of 31 December 2023, securities on a legal requirement to provide for funds of the State budget amounting to BGN 6,260 thousand (as of 31 December 2022: BGN 6,038 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. Capital 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 activity, the Group should comply with the regulatory requirements for capital adequacy (Notes 35 and 36), as well as continue to operate as a going concern.

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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:

	2023	2022
OWN FUNDS	1,063,449	1,037,604
TIER I CAPITAL	1,063,449	1,037,604
COMMON EQUITY TIER I CAPITAL	1,063,449	1,037,604
Share capital	1,135,500	1,441,774
Loss	(229,590)	(229,534)
Statutory reserves	11,697	12,246
Additional reserves	317,489	2,235
Accumulated other comprehensive income	(68,704)	(106,953)
Intangible assets	(7,690)	(7,670)
Investments in subsidiaries	(3,023)	(3,023)
(-) Common Equity Tier 1 instruments of financial sector entities when the institution has significant investments	(79,315)	(54,268)
Value adjustments due to prudential assessment requirements	(571)	(639)
Transitional adjustments to CET1 Capital	-	-
Deductible deferred tax assets that are based on future profit and arise from temporary differences	(8,002)	(12,327)
Components of or deductions from CET 1 Capital - other	(4,342)	(4,237)
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-
TOTAL RISK EXPOSURES	2,388,309	2,372,705
Credit risk - Standardised approach	2,252,434	2,244,580
Central governments or central banks	16,622	6,947
Regional governments or local authorities	1,621	1,745
Public sector entities	-	-
Multilateral development banks	-	-
Institutions	113,099	70,521
Corporates	1,110,935	1,088,057
Retail	270,805	282,034
Secured by mortgages on immovable property	188,785	346,793
Exposures in default	373,580	250,900
Items associated with particular high risk	94,574	87,666
Equity exposures	183	190
Other items	82,230	109,727
Currency and commodity risk	-	-
Operational risk - Basic indicator approach	135,875	128,125

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4. FINANCIAL RISK MANAGEMENT (continued)

4.5 Equity management (continued)

	2023	2022
CET 1 Capital Ratio	44.53%	43.73%
Total Capital Ratio	44.53%	43.73%
Capital conservation buffer	59,708	59,318
Systemic risk buffer	71,649	71,181
Institution-specific countercyclical capital buffer	47,766	23,727
Buffer of other institutions of systemic importance	11,942	11,864
Regulatory required levels		
CET 1 Capital Ratio	6.60%	6.75%
Tier 1 Capital ratio	8.10%	8.25%
Total Capital ratio	10.10%	10.25%
Capital conservation buffer	2.50%	2.50%
Systemic risk buffer	3.00%	3.00%
Institution-specific countercyclical capital buffer	2.00%	1.00%
Buffer of other institutions of systemic importance	0.50%	0.50%

By decision of BNB No 93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%. By decision of BNB No 84 of 08 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. 92, 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 1 and 3 of the Law on Credit Institutions, BNB makes a recommendation to BDB to maintain additional equity of 0.30%.

By decision of the BNB No. 272 of 30 May 2024, based on Art. 103, para. 15, item 2, in connection with Art. 79c, para. 1, 2 and 9, Art. 103, para. 2, item 5 and art. 103a, para. 3, 4 and 9, of the Law on Credit Institutions, the requirement for capital exceeding the requirements under Art. 92, paragraph 1 of Regulation (EU) 575/2013 is increased to 2.45% to risk-weighted assets, or a minimum total capital adequacy of 10.45%. With the same decision, based on Art. 79c, para. 1 item 3 and art. 79, para. 1 and para. 3 of the LCI, BNB makes a recommendation to BDB to maintain an additional equity capital of 0.25%.

War in Ukraine

In the early hours of 24 February 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.6 External risks

War in Ukraine (continued)

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

It is possible that, depending on the duration and scale of the conflict, and the political and economic measures taken by both Russia, the US and the EU, the Group's management 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 Group

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

Potential effects on clients of the Group

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

- Clients operating in the **Tourism and Hospitality** sector recorded a decrease in visits from Russia and Ukraine, which were partially offset by both domestic tourists and tourists from other destinations. Expectations for 2024 and in the medium term are mixed;
- Clients operating in the **Transport** sector registered a significant increase in energy costs, to which the war in Ukraine contributed. These additional costs were partially offset through various government programs. In 2023 a retention of the rates of increase of prices and partial reversal of the trend were observed. These customers are uncertain about developments in 2024 and the effect on operating results and financial position;
- Clients in the **Construction and Real Estate sector** expect the high prices of materials to persist in the medium term, as the main suppliers of these raw materials - iron, cement, etc. - are Russia and Ukraine. After the increase in 2022-2023 it is expected that the prices will remain steady and in the event of a favourable development of the conflict – to move towards a decline with the corresponding effects on the cost of the end product;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.6 External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Group (continued)

- Customers in the **Trade and Services sector** recorded an increase in costs due to increased energy prices, as well as general inflationary pressures, to which the war contributed. The inflation trends are in the direction of price stability with the corresponding favourable effects on the sector;
- Customers in the **Manufacturing Industry** sector are directly affected by the increased prices of energy carriers and materials, as well as by disrupted supply chains, which continue to create difficulties. With the reorientation of supply and the normalization of energy prices, customers in the sector are expected to recover their normal margins and efficiency;
- The Group's clients in the **Production, transmission, distribution and supply of natural gas and thermal energy** sector were directly affected by the increased prices of energy carriers, with the relevant government programs partially or fully compensating these increases. The finding of alternative natural gas supplies in Europe, combined with warmer winter weather, has resulted in relative stability for these enterprises, with the exception of enterprises with regulatory disbalance. The normalization of supplies, prices and market relations will play a positive role in the activity of these enterprises.

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

As of 30 June 2024, the Group has the following significant exposures⁴ to the potentially affected sectors:

	As of 30.06.2024
Construction and real estate	319,309
Industry	359,669
Trade and services	407,881
Transport	102,940
Production, transmission, distribution and supply of natural gas and thermal energy	118,346
Tourism and hospitality	248,145
	1,556,290

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

⁴ Top 25 clients, including balance sheet debt, off-balance sheet exposures and unutilized credit lines.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.b External risks (continued)

War in Ukraine (continued)

Potential effects on clients of the Group (continued)

The effect of general economic impact 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 Group's management is unable to reliably estimate these effects as events unfold on a daily basis.

Longer-term effects may have an impact on the Group's financial position, results of operations and cash flows. However, at the date of these consolidated financial statements, the Group continues to meet its obligations on time and therefore continues to apply the principle of going concern.

The conflict in the Middle East

On 07 October 2023, the Hamas movement that administers the Palestinian territory of Gaza attacked the State of Israel, killing over 1,200 people and taking 240 hostages. In response, Israel launched a massive military operation against Hamas that continues to this day. In addition, some provocative actions by Israel and Iran create an opportunity for tensions to rise. The mood in both the Middle East and the United Nations is mixed, creating political and economic uncertainty, volatility in energy prices and a diversion of resources to the defence industry.

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

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

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5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy:

As of 31.12.2023		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	-	439,431	-	439,431	423,789	-	15,642	439,431
Financial assets at fair value through other comprehensive income – Equity instruments*	21	-	140,330	-	140,330	119,902	-	19,116	139,018
Assets acquired from collateral foreclosure	27	-	-	38,726	38,726	-	-	38,726	38,726
Investment property	25	-	-	4,908	4,908	-	-	4,908	4,908
		-	579,761	43,634	623,395	543,691	-	78,392	622,083
Financial assets not measured at fair value									
Cash in hand and balances in current accounts with the Central Banks	16	128,665	-	-	128,665	-	128,665	-	128,665
Loans to banks	17	34,690	-	-	34,690	-	36,483	-	36,483
Current accounts and term deposits of banks	17	479,290	-	-	479,290	-	479,290	-	479,290
Financial assets at amortized cost - Loans and advances to customers	18	1,333,532	-	-	1,333,532	-	1,387,478	-	1,387,478
Financial assets at amortized cost - Receivables from the State budget	19	14,262	-	-	14,262	-	14,385	-	14,385
Financial assets at amortized cost - Securities	20	11,671	-	-	11,671	10,049	1,704	-	11,753
Financial assets at amortized cost – Net investment in finance lease	22	75,360	-	-	75,360	-	75,360	-	75,360
Other financial assets		4,362	-	-	4,362	-	4,362	-	4,362
		2,081,832	-	-	2,081,832	10,049	2,127,727	-	2,137,776
Financial liabilities not measured at fair value									
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	209,904	209,904	-	209,904	-	209,904
Deposits from other customers other than credit institutions	29	-	-	539,591	539,591	-	538,587	-	538,587
Borrowings from international institutions	30	-	-	581,931	581,931	-	633,351	-	633,351
Other borrowings and liabilities	31	-	-	90,926	90,926	-	89,892	-	89,892
		-	-	1,422,352	1,422,352	-	1,471,734	-	1,471,734

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5. FAIR VALUE DISCLOSURE (CONTINUED)

As of 31.12.2022

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 not measured at fair value	21	-	538,535	-	538,535	523,850	-	14,685	538,535
Cash in hand and balances in current accounts with the Central Banks	21	-	100,218	-	100,218	81,749	-	16,982	98,731
Loans to banks	27	-	-	37,434	37,434	-	-	37,434	37,434
Current accounts and term deposits of banks	25	-	-	7,759	7,759	-	-	7,759	7,759
Financial assets at amortized cost - Loans and advances to customers		-	638,753	45,193	683,946	605,599	-	76,860	682,459
Financial assets at amortized cost - Receivables from the State budget									
Financial assets at amortized cost - Securities	16	527,924	-	-	527,924	-	527,924	-	527,924
Financial assets at amortized cost – Finance lease receivables	17	51,002	-	-	51,002	-	52,536	-	52,536
Other financial assets	17	88,418	-	-	88,418	-	88,418	-	88,418
Financial assets not measured at fair value	18	1,449,701	-	-	1,449,701	-	1,485,217	-	1,485,217
Cash in hand and balances in current accounts with the Central Banks	19	23,537	-	-	23,537	-	26,846	-	26,846
Loans to banks	20	11,771	-	-	11,771	10,863	1,659	-	12,522
Current accounts and term deposits of banks	22	70,866	-	-	70,866	-	70,866	-	70,866
Financial assets at amortized cost - Loans and advances to customers		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	-	-	87,015	87,015	-	87,980	-	87,980
		-	-	1,727,537	1,727,537	-	1,773,063	-	1,773,063

* The fair value of securities classified as financial assets at fair value through other comprehensive income with carrying amount BGN 1,312 thousand as of 31 December 2023 (2022: BGN 1,487 thousand), which are held at acquisition cost is not disclosed, as according to the Group it cannot be reliably measured.

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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 from collateral foreclosure as of 31 December 2023 and 31 December 2022.

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
	31.12.2023	31.12.2022				
Financial assets at fair value through other comprehensive income - Debt instruments (quoted)	423,789	523,850	Level 1	Quoted market price	N/A	N/A
Financial assets at fair value through other comprehensive income - Debt instruments (unquoted)	15,642	14,685	Level 3	Discounted cash flows	Effective interest rate of the security	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	119,902	81,749	Level 1	Quoted market price	N/A	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	19,116	16,982	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

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5. FAIR VALUE DISCLOSURE (CONTINUED)

Type of asset	Fair value as of 31.12.2023	Fair value as of 31.12.2022	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	4,908	7,759	Level 3	Market analogues method Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of a range of prices of similar property or prices per sq. m. previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough. Currently, investment property is assessed between BGN 121 and BGN 2,382 /sq. m, and adjoining lands – between BGN 1 and BGN 463/sq. m.	Market analogues method: 1. Market realisation coefficient (0.8-0.95) 2. Location coefficient (0.81-1.0) 3. Coefficient of specific features (status) (0.8-1.1) 4. Offer market adequacy adjustment coefficient (from -10% to +5%)	The higher (lower) fair value if: - Higher (lower) market realisation coefficient - Higher (lower) location coefficient - Higher (lower) coefficient of specific features (status) - Higher (lower) offer market adequacy adjustment coefficient - price growth is expected to be higher (lower)) - the levels of unoccupied space are low (high) - discount rate is lower (higher)
Assets, acquired from collateral foreclosure	38,726	37,434	Level 3	Income capitalisation method (revenue method) The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which in turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use. Currently, rental levels of leased investment property vary between BGN 0.7-8.7/sq. m.	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%	

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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 inputs	unobservable	Relationship of inputs to fair value	unobservable
	31.12.2023	31.12.2022						
Loans to banks	36,483	52,536	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	
Current accounts and term deposits at banks	479,290	88,418	Level 2	Discounted cash flows Future cash flows are measured using the published interest rates on new business for December of the respective year by the BNB market statistics, without any correction being made on them.	N/A		N/A	
Provided loans and advances to customers	1,387,478	1,485,217	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	14,385	26,846	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December of the respective year.	N/A		N/A	
Financial assets at amortized cost – Securities (quoted)	10,049	10,863	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 inputs	unobservable	Relationship of inputs to fair value	unobservable
	31.12.2023	31.12.2022						
Financial assets at amortized cost – Securities (unquoted)	1,704	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	75,360	70,866	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	4,362	7,178	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	
Borrowings from international institutions	633,351	824,130	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	
Other borrowings and liabilities	89,892	87,980	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.

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6. NET INTEREST INCOME

	2023	2022
Interest income		
Loans and advances to customers	87,591	67,932
Loans to banks	2,095	1,120
Deposits placed with other banks	22,330	3,010
Receivables from the State budget	825	355
Securities at amortized cost	5,638	303
Financial assets at fair value through other comprehensive income	336	4,421
Other income, incl. effect of negative interest	30	2,362
	118,845	79,503
Interest income on finance lease	5,441	2,848
	124,286	82,351
<i>Incl. Interest income on financial assets at amortized cost classified in Stage 3</i>	12,425	20,778
Interest expenses		
Borrowings from international institutions	(32,054)	(15,996)
Deposits from customers	(6,901)	(1,263)
Other borrowings	(511)	(188)
Deposits from other banks	(11,134)	(146)
Other expenses, incl. expenses for negative interest	-	(1,268)
	(50,600)	(18,861)
Interest expenses on finance lease	(18)	(8)
	(50,618)	(18,869)
Net interest income	73,668	63,482

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.

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7. NET FEE AND COMMISSION INCOME

	2023	2022
Fee and commission income		
Issuance of guarantees and letters of credit	6,135	4,934
Transaction-related services*	710	652
Account maintenance	234	211
Total fee and commission income from contract with customers	7,079	5,797
Other charges	754	918
Total fees and commissions income	7,833	6,715
 Fee and commission expenses		
Co-management fee COVID guarantees	(2,819)	(3,504)
Servicing of accounts with other banks	(49)	(22)
Agent's commissions	(2)	(24)
Transfers and treasury operations in other banks	(7)	(8)
Other charges	(29)	(152)
Total fee and commission expenses	(2,906)	(3,710)
 Net fee and commission income	 4,927	 3,005

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 ON FOREIGN EXCHANGE DEALS

	2023	2022
Net gain on dealing in foreign currencies	260	546
Net loss on foreign currency translation of assets and liabilities	(3)	(22)
	257	524

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

	<u>2023</u>	<u>2022</u>
Net loss from transactions with securities measured at fair value through other comprehensive income	(11)	(851)
	<u>(11)</u>	<u>(851)</u>

10. OTHER OPERATING INCOME

	<u>2023</u>	<u>2022</u>
Income from rent of investment property	495	571
Refunded litigation expenses	222	130
Dividends received	94	127
Proceeds from disposal of FTA (fixed tangible assets)	22,668	818
Income from sale/revaluation of investment properties	3,116	869
Other income	5,436	3,713
	<u>32,031</u>	<u>6,228</u>

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

11. OTHER OPERATING EXPENSES

	<u>2023</u>	<u>2022</u>
Expenses on assets held for sale	(506)	(540)
Direct operating expenses relating to investment property	(238)	(306)
Litigation expenses	(12)	(19)
Expenses on disposal of FTA	(21,210)	(13)
Loss from revaluation of investment properties	(16)	-
Other expenses	(2,956)	(3,258)
	<u>(24,938)</u>	<u>(4,136)</u>

The book value of the building sold on 2, Tsar Liberator Blvd. is the main part of the item Expenses on disposal of FTA.

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12A. NET EXPENSES ON IMPAIRMENT OF FINANCIAL INSTRUMENTS

	2023	2022
Expense for impairment of loans, net	(24,339)	(45,481)
Income from reversed impairment of unutilized loans	12	18
Income from reversed/(expense for) impairment of finance lease	(306)	203
Income from reversed guarantee provisions, net	2,022	46,555
(Expense for)/Income from reversed provision on securities at fair value through other comprehensive income, net	706	(2,860)
(Expense for)/Income from reversed provisions on securities at amortized cost, net	129	(61)
Expense for impairment on other assets	-	(8)
Net expenses for impairment of financial instruments	(21,776)	(1,634)

12B. NET (EXPENSES ON)/REVERSAL OF IMPAIRMENT OF NON-FINANCIAL INSTRUMENTS

	2023	2022
Provisions for lawsuits	73	(4,017)
Expenses for impairment of assets acquired from collateral foreclosure	(448)	(149)
Impairment of subsidiaries	-	13
Impairment of other assets	783	(1,278)
Net (expenses on) reversal of impairment of non-financial assets	408	(5,431)

13A. EMPLOYEE BENEFITS

	2023	2022
Staff remuneration and social security	(19,389)	(18,352)
Remuneration to members of the Management and Supervisory Boards	(2,386)	(2,404)
	(21,775)	(20,756)
	2023	2022
Staff remuneration and social security include:		
Salaries	(16,743)	(15,852)
Social security	(2,386)	(2,329)
Social benefits	(69)	(68)
Amounts accrued on retirement benefits	(191)	(103)
	(19,389)	(18,352)

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13B. GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Hired services	(873)	(1,013)
Communications and IT services	(2,114)	(1,835)
Legal and consulting services	(2,041)	(1,851)
Office and office equipment maintenance	(1,566)	(1,620)
Advertising and entertainment expenses	(828)	(681)
Audit services by the registered auditors	(915)	(757)
Taxes and government charges	(383)	(444)
Advisory services provided by the registered auditors	-	(118)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(87)	(91)
Business trips	(68)	(66)
Rents	(76)	(56)
Contribution to the Bank Resolution Fund (BRF)	(869)	(1,749)
Materials	(15)	-
	(9,835)	(10,281)

The amounts charged for the year for services provided by the registered audit firms of the Group include: independent financial audit: BGN 915 thousand (2022: BGN 757 thousand), as well as agreed-upon procedures for BGN 0 thousand (2022: BGN 118 thousand). The services used in 2022 are mainly the performance of a Pillar assessment for the purposes of awarding funds from the European Commission and a business review of a subsidiary. The Group has not used tax advice or other non-audit services from the registered auditors engaged to perform the audit, other than those described above.

14. TAXATION

	2023	2022
Current tax expense	(7,280)	82
Deferred tax expense due to temporary differences	1,983	305
Tax loss asset not recognized	5,071	(358)
Total (expense for)/benefit from income tax	(226)	29
	2023	2022
Accounting profit	29,172	26,685
Income tax calculated at the effective tax rate (10% for 2023 and 2022)	(2,917)	(2,267)
Expense on non-deductible expenses	(4,596)	(1,212)
Non-deductible income	322	3,866
Tax loss asset not recognized	6,965	(358)
Total (expense)/benefit	(226)	29
Effective tax rate	0.8%	Not applicable

The deadline by which the Group companies could deduct the loss from future profits is 31 December 2026.

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14. TAXATION (CONTINUED)

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	
	2023	2022	2023	2022	2023	2022
Property and equipment	(25)	(3)	1,993	-	(22)	3
Other assets	(417)	(568)	-	-	151	(410)
Other liabilities	-	(7)	-	4	3	(8)
Securities at fair value through other comprehensive income	(7,652)	(11,959)	-	-	4,307	(2,317)
Investment properties	-	130	-	-	(130)	101
	(8,094)	(12,407)	1,993	4	4,309	(2,631)

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.

15. NET CHANGE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET OF TAXES

	2023	2022
Gain/(Loss) on impairment of financial assets measured at fair value through other comprehensive income – debt instruments, arising during the year	15,904	(43,938)
Gain on revaluation of equity instruments arising during the year	27,165	12,346
10% tax	(4,307)	3,110
Other comprehensive income for the year, net of tax	38,762	(28,482)

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16. CASH IN H16. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANKS

	2023	2022
Cash in hand	923	530
Current account with the Central Bank	127,742	527,394
<i>Incl. Minimum statutory reserves</i>	92,516	137,048
Total cash with Central Banks	127,742	527,394
Total cash in hand and in accounts with Central Banks	128,665	527,924

In 2023, the current accounts maintained with Central Banks have an interest rate between minus 0.0% and 4% for the excess over 105% of the minimum reserve requirements (in 2022: minus 0.70% - 2.0%).

17. RECEIVABLES FROM BANKS

	2023	2022
Current accounts with local banks	149	233
Current accounts with foreign banks	19,788	12,292
Total current accounts and demand deposits	19,937	12,525
<i>Current accounts with an original maturity of less than 90 days</i>	8,853	5,528
Term deposits with local banks (incl. repo deals)	97,813	33,048
Term deposits with foreign banks	361,540	42,844
Total term deposits	459,353	75,892
<i>incl. Term deposits with an original maturity of less than 90 days</i>	459,353	75,892
Loans to local banks	35,391	52,387
Total loans granted	35,391	52,387
Allowance for impairment and uncollectability of receivables from banks	(701)	(1,384)
	513,980	139,420

As of 31 December 2023, special-purpose loans, denominated in BGN and EUR, with original maturity of up to 15 years and interest rate levels ranging from 3.50% to 13.12% (2022: 3.85% to 6.25%), were extended with the aim to develop small and medium-sized enterprises.

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

As of 31 December 2023, a loan was provided to a local bank denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand (31 December 2022: BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loan in four instalments. This is a special-purpose loan extended to the Bank for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

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18. LOANS AND ADVANCES TO CUSTOMERS

	2023	2022
Loans (gross amount)	1,573,795	1,698,359
Allowance for impairment and uncollectibility of loans	(240,263)	(248,658)
	1,333,532	1,449,701

	2023	2022
A. Analysis by types of customers		
Private enterprises and sole traders	1,569,979	1,694,009
Municipalities	-	338
Individuals	3,816	4,012
	1,573,795	1,698,359

The table provides an analysis of the customers by sectors.

	2023	2022
B. Analysis by industry sector		
Industry, total	289,890	339,808
<i>Industry – manufacture of plant and equipment</i>	83,197	92,598
<i>Industry – energy generation and distribution</i>	66,632	68,063
<i>Industry – manufacture of foodstuffs</i>	47,319	46,965
<i>Industry – other industries</i>	92,742	132,182
Trade	437,560	458,642
Tourist services	267,246	266,894
Transport	113,129	131,502
Financial services	118,046	119,108
Construction	105,714	129,128
Government sector	126,460	135,871
Real estate transactions	52,443	56,430
Agriculture	33,822	36,289
Waste collection and disposal	-	357
Other industries	29,485	24,330
	1,573,795	1,698,359

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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.

C. Movement in the allowance for loan impairment and uncollectibility

	2023	2022
As of 1 January	248,658	346,369
Impairment costs	68,588	108,277
Reversed impairment	(44,249)	(62,796)
Written-off against impairment	(32,734)	(143,192)
As of 31 December	240,263	248,658

19. RECEIVABLES FROM THE STATE BUDGET

	2023	2022
Energy Efficiency of Multi-Family Buildings National Programme	14,431	23,598
Adjustment for impairment and uncollectibility of loans	(169)	(61)
	14,262	23,537

By Decree No. 18 of 02 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 Group 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).

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20. SECURITIES MEASURED AT AMORTIZED COST

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

2023	Amortized cost	Impairment	Carrying amount
Bonds denominated in BGN	11,792	(121)	11,671
	11,792	(121)	11,671

2022	Amortized cost	Impairment	Carrying amount
Bonds denominated in BGN	11,975	(204)	11,771
	11,975	(204)	11,771

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

	2023	2022
Government securities	393,494	495,551
Corporate bonds	45,937	42,984
Total debt instruments	439,431	538,535
Public companies' shares	79,314	54,274
<i>Incl. shares of First Investment Bank AD</i>	79,314	54,268
Non-public companies' shares	59,887	44,640
Participation in investment program SIA (Note 37)	1,129	1,304
Total equity instruments	140,330	100,218

Movement in financial assets measured at fair value through other comprehensive income:

Debt instruments	2023	2022
As of 1 January	538,535	657,649
Additions (purchases)	209,356	159,712
Disposals (sale and/or maturity)	(324,674)	(234,750)
Net increase/(decrease) due to revaluation of securities at fair value through OCI	16,214	(44,076)
As of 31 December	439,431	538,535

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

	2023	2022
Equity instruments		
As of 1 January	100,218	70,781
Additions (purchases)	12,462	19,846
Disposals (sale)	(7)	(2,650)
Net increase due to revaluation of securities at fair value through OCI	27,657	12,241
As of 31 December	140,330	100,218

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 Group has elected to classify this investment as financial asset measured at fair value through other comprehensive income, since the investment is long-term and strategic, it is not held for trading, and it is not a contingent consideration recognised in accordance with IFRS 3.

As of 31 December 2023, the Group has assessed its participation in the capital of FIB according to the closing price received by the Bulgarian Stock Exchange (BSE) for shares of FIB on the last working day of the month of December 2023: BGN 2.9000 (31 December 2022: BGN 1.9842) per share.

Chimimport AD

In 2023 the Group sold its 9,632 shares of the Chimimport conglomerate and as of the end of 2023 does not possess any shares of the company.

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 02 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 Group revaluates its participation according to it.

As of 31 December 2023, 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 2023, BDB's investment in the Three Seas Fund amounts to BGN 34,539 thousand (as of 31 December 2022: BGN 22,030 thousand), and in 2023 the Group registered additional shares amounting to EUR 4,665 thousand (BGN 9,124 thousand). The commitment for contribution in 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 Group include shares of the European Investment Fund (EIF) amounting to BGN 5,835 thousand (2022: 5,937 thousand). The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

Social Impact Accelerator (SIA)

BDB participates in the EIF initiative Social Impact Accelerator (SIA), providing funding for start-up companies. As of 31 December 2023, thirty-two (2022: twenty-nine) equity contributions were made under the initiative amounting to EUR 755 thousand equivalent to BGN 1,477 thousand (2022: EUR 666 thousand equivalent to BGN 1,129 thousand).

Equity participation of the Capital Investments Fund

Capital Investments Fund owns between 3% and 27% of the share capital of seven non-public companies. The total value of these investments is BGN 19,330 thousand. As of 31 December 2022, CIF owns between 3 and 27% of the share capital of six non-public companies, with the total value of the investments being BGN 16,490 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:

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.

	2023	2022
Gross investment in finance leases	91,116	81,730
Unearned finance income	(14,795)	(10,193)
Net minimum lease proceeds	76,321	71,537
Impairment loss	(961)	(671)
Net investment in finance lease	75,360	70,866

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 2023, a total of 323 lease contracts have been signed, 312 of which are in active portfolio (2022: 251 contracts, 227 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:

	2023	2022
Repayment not later than one year	16,952	18,477
Repayment later than one year and no later than two years	15,235	12,011
Repayment later than two years and no later than three years	14,423	11,660
Repayment later than three years and no later than four years	12,902	11,194
Repayment later than four years and no later than five years	7,962	9,667
Repayment after five years	8,847	8,528
Net minimum lease proceeds	76,321	71,537
Impairment loss	(961)	(671)
Net investment in finance lease	75,360	70,866

22. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

Disclosure required by IFRS 16 (continued)

Movement in the allowance for impairment:

	<u>2023</u>	<u>2022</u>
Balance as of 01 January	(671)	(1,447)
Impairment over the year:		
Charge for the year	(953)	(756)
Reversed for the year	647	959
Written off	16	569
Balance as of 31 December	<u>(961)</u>	<u>(671)</u>

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 2023
Cost	215	215
Accumulated depreciation	(35)	(35)
Net book value	<u>180</u>	<u>180</u>

	Properties	Total as of 31 December 2022
Cost	74	74
Accumulated depreciation	(35)	(35)
Net book value	<u>39</u>	<u>39</u>

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24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Cost						
As of 1 January 2022	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
Revaluation after acquisition	3,296	-	-	-	-	3,296
Additions	-	162	45	-	1,056	1,263
Disposals	(22,310)	(55)	(1)	(49)	(424)	(22,839)
As of 31 December 2023	42,491	7,402	900	2,472	14,785	68,050
Accumulated depreciation/amortization						
As of 1 January 2022	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
Charge for the year	1,253	782	80	514	1,155	3,784
Written off	(1,174)	(55)	-	(29)	(183)	(1,441)
As of 31 December 2023	7,537	4,044	785	1,278	4,254	17,898
Net book value						
As of 1 January 2022	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
As of 31 December 2023	34,954	3,358	115	1,194	10,531	50,152

The fully depreciated/amortized property, plant and equipment still in use at 31 December 2023 amount to BGN 6,213 thousand at cost (2022: BGN 5,536 thousand) of which BGN 3,441 thousand (2022: BGN 3,458 thousand) due to the consolidation of the Roadway Group. The intangible assets amount to BGN 1,405 thousand (2022: BGN 1,226 thousand), respectively. Roadway Group has no fully amortized intangible fixed assets.

25. INVESTMENT PROPERTY

	2023	2022
Carrying amount at the beginning of period	7,759	6,890
Improvements	51	-
Acquisitions/(Sales), net	(2,886)	-
Profit/(Loss) on change in the fair value included in profit and loss for the period	(16)	869
	4,908	7,759

The Group holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2023 amounts to BGN 495 thousand (2022: BGN 571 thousand) (Note 10).

25. INVESTMENT PROPERTY (CONTINUED)

The fair value at 31 December 2023 and 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.

In 2023, the Group sold a property reported as an investment property and realized a profit from the sale in the amount of BGN 3,116 thousand.

26. ASSETS HELD FOR SALE

The movement of assets held for sale in 2023 and 2022 is presented in the following table:

	2023	2022
Carrying amount at the beginning of period	2,569	4,521
Acquired from collateral foreclosure	321	2,561
Reclassified to other assets	(2,841)	(4,107)
Sold	-	(406)
Carrying amount at the end of the period	49	2,569

27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE

	2023	2022
Assets acquired from collateral foreclosure	38,726	37,434
Receivables under accrued or unamortized guarantee fees	4,115	3,959
Prepayments and advances	1,319	2,039
VAT refundable	46	46
Other assets and receivables	4,120	6,982
	48,326	50,460
Corporate tax overpaid	667	827
Total other assets and receivables, acquired from collateral foreclosure	48,993	51,287

Assets acquired from 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.

27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE (CONTINUED)

Receivables for accrued or unamortized guarantee fees include receivables for guarantee fees under the anti-COVID programs at the amount of BGN 2,417 thousand (2022: BGN 2,444 thousand)

The movement in Assets acquired from collateral foreclosure in 2022 and 2021 is presented in the following table:

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

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2023	2022
Deposits from local banks	189,686	974
Deposits from foreign banks	20,218	2,156
	209,904	3,130

Accrued interest payables on deposits from credit institutions as of 31 December 2023 amount to BGN 58 thousand (31 December 2022: no payables).

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2023	2022
Companies and sole traders	468,243	787,991
Special purpose deposits	63,466	63,128
Individuals	7,882	6,776
	539,591	857,895

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 2023 amounts to BGN 1,705 thousand (2022: BGN 198 thousand).

	2023	2022
Term deposits	153,751	27,439
Demand deposits	385,840	830,456
	539,591	857,895

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30A. FUNDING ACTIVITY

Funding activity forms the following cash flows and non-cash changes in 2023 and 2022.

	01.01.2023		Non-cash changes		31.12.2023
			Changes in accrued interests and prepaid commissions	Transition from long- term to short- term	
	Cash flow				
Long-term loans (Notes 30 and 31)	760,821	(95,846)	(22)	(127,308)	537,645
Short-term loans (Notes 30 and 31)	101,614	(101,614)	-	127,308	127,308
Lease liabilities (Note 33)	90	(2)	127	-	215
Total liabilities from funding activity	862,525	(197,462)	105	-	665,168

	01.01.2022		Non-cash changes		31.12.2022
			Changes in accrued interests and prepaid commissions	Transition from long- term to short- term	
	Cash flow				
Long-term loans (Notes 30 and 31)	1,010,524	(148,163)	74	(101,614)	760,821
Short-term loans (Notes 30 and 31)	182,911	(182,936)	25	101,614	101,614
Lease liabilities (Note 33)	345	16	(271)	-	90
Total liabilities from funding activity	1,193,780	(331,083)	(172)	-	862,525

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30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

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

In order to fulfil its mission, the Group attracts funds from various sources, focusing on attracting funds from International Lending Institutions. The effective interest rates on funds attracted from international institutions as of 31 December 2023 are in the range from 4.10%-5.35% (31 December 2022: from 2.03%-4.15%).

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

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

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

China Development Bank

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured. As of 31 December 2023, the loan is fully utilized and used according to purpose.

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

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

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

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

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured. As of 31 December 2023, the loan is fully utilized and used according to purpose.

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

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

European Investment Bank

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

As of 31 December 2023, the outstanding principal under the loan amounted to EUR 16,728 thousand equivalent to BGN 32,717 thousand. The interest rate is floating, based on the 6M EURIBOR plus a margin.

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

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

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

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 BDB, a short-term and mid-term trade financing, trans-border economic and commercial transactions between China and Bulgaria. The loan is unsecured. As of 31 December 2023, the loan is fully utilized, used according to purpose and repaid.

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

On 05 December 2023 the BDB signed a new agreement with Export – Import Bank of China for the amount of EUR 50,000 thousand. The funds can be used to finance the overall lending activity of BDB. The interest rate is floating, based on the three-month EURIBOR plus margin. As of 31 December 2023, no funds have been utilized on the loan.

Council of Europe Development Bank

On 23 February 2016, Bulgarian Development Bank EAD signed a Loan agreement with the Council of Europe Development Bank (CEDB) amounting to EUR 150,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan has a special purpose and will be used for renovation of multi-family buildings. As of 31 December 2023, the loan was fully utilised.

The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between the CEDB and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 03 May 2016. As of 31 December 2023, the loan is fully repaid. As of 31 December 2022, the loan payable amounts to EUR 9,000 thousand equivalent to BGN 17,602 thousand.

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

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31. OTHER BORROWINGS

	2023	2022
Loan financing from the Ministry of Finance with funds from KfW	11,687	11,286
KfW funds provided by the Ministry of Finance for trust management	5,131	5,322
Special-purpose deposits	65,672	65,776
Other	532	554
	83,022	82,938

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

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period.

On 28 April 2017 BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

As of 31 December 2023, the outstanding principal amounted to EUR 5,964 thousand equivalent to BGN 11,664 thousand. The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2022, the outstanding principal on the loan amounts to EUR 5,765 thousand equivalent to BGN 11,275 thousand.

KfW funds provided by the Ministry of Finance for trust management

Since 2001 the Bank has been working on the concluded agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt für Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for financing of small and medium-sized enterprises. The Ministry of Finance bears the risk under the loans to partner-banks. The Bank selects the partner-banks and transfers the funds to those approved; gathers information and performs periodic reviews of the funds' utilisation, monitors the timely interest and principal payments to the special account of the Ministry of Finance.

As of 31 December 2023, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,623 thousand equivalent to BGN 5,131 thousand.

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

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

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Executive Agency on Fisheries and Aquaculture

On 07 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 EAGA and NGF EAD have chosen the financial engineering instrument, provided for under Commission Regulation (EC) No.498/2007 (OB, 10 May 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.

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 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.

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Executive Agency on Fisheries and Aquaculture (continued)

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 2023, 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 2023.

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 01 April 2016.

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.

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Ministry of Agriculture and Food (continued)

The Fund reimbursed to the Ministry BGN 21,881 thousand of the funds provided under Annex from 03 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 2023, 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

	2023	2022
Provisions for anti-COVID credit guarantees	111,845	127,215
Provisions for credit guarantees NGF	6,611	4,101
Provisions for bank guarantees and letters of credit	3,242	1,745
Total provisions for guarantees	121,698	133,061
Litigation provisions	3,950	4,017
Provisions for concession contracts	-	3,917
Provisions for unutilized loans and expenses	51	261
	125,699	141,256

The following table presents the movement in provisions for guarantees:

	2023	2022
Balance as at 1 January	133,061	181,985
Accrued provisions for anti-COVID credit guarantees	20,883	14,029
Accrued provisions for bank guarantees and letters of credit	6,168	3,688
Utilised during the year	(9,341)	(2,470)
Reintegrated during the year	(29,073)	(64,171)
Balance as at 31 December	121,698	133,061

32. PROVISIONS (CONTINUED)

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 credit guarantees of NGF are the expected payments on the issued guarantees to commercial banks and non-banking financial institutions-partners under NGF's programs. 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 relating to labour and commercial disputes.

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

	<u>2023</u>	<u>2022</u>
Liabilities under lease contracts	215	90
	<u>215</u>	<u>90</u>

34. OTHER LIABILITIES

	<u>2023</u>	<u>2022</u>
Accruals for expenses	2,374	2,318
Payables to suppliers and customers	205	4,369
Payables to personnel and for social security	1,059	1,298
Retirement benefit liabilities	705	610
Tax liabilities	274	194
Charges on debenture loans and portfolio guarantees	99	635
Other creditors	4,420	2,217
	<u>9,136</u>	<u>11,641</u>

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.

34. OTHER LIABILITIES (CONTINUED)

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.

On the basis of the calculations made, the amount of BGN 705 thousand was included in the consolidated statement of financial position as of 31 December 2023 (31 December 2022: BGN 610 thousand).

	2023	2022
Present value of the liability as of 1 January	610	754
Current service cost	92	67
Interest expense	37	4
Amounts paid in the period	(57)	(43)
Actuarial loss related to provisions for retirement and sickness	11	-
Actuarial loss/(gain) on changes in demographic and financial assumptions and actual experience	12	(172)
Present value of the liability as of 31 December	705	610
Amounts upon retirement by age and length of service		
	2023	2022
Actuarial gain/(loss) as of 1 January	141	(31)
Actuarial gain / (loss) recognized in other comprehensive income for the period	(12)	172
Actuarial gain/(loss) as of 31 December	129	141

34. OTHER LIABILITIES (CONTINUED)

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

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2020–2022;
- staff turnover rate – from 1 per cent to 10 per cent depending on five age groups formed;
- rate of early retirement due to illness – from 0.027% to 0.3212% depending on five age groups formed;
- effective annual interest rate for discounting – 4.5% (2022–5.5%);
- assumptions for the future level of working salaries in the Group are based on the Group's development plan for 2022–3% compared to the 2022 level and for 2024 and subsequent years – 3% compared to the previous year level.

The effect for 2023 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Increase / (decrease) of liability	61	(54)
	Increase by 1% of interest rate	Decrease by 1% of interest rate
Increase / (decrease) of liability	(53)	61
	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Increase / (decrease) of liability	(59)	67

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35. SHARE CAPITAL

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

As of 31 December 2023, the capital of the Bank consists of 11,355,000 ordinary registered voting shares with par value of BGN 100 each (2022: 14,417,735 shares with par value BGN 100).

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

By virtue of Art. 6 para. 4 of the Law on the Bulgarian Development Bank, the shares of the Bank's capital, apart from the Bulgarian state, may be acquired and held by the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, by development banks from EU member states. In these cases, Art. 31 of the Credit Institutions 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.

	2023	2022
As of 01 January	1,441,774	1,441,774
Decrease of share capital	(306,274)	-
As of 31 December	1,135,500	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.

Capital decrease of Bulgarian Development Bank EAD

By decision of 21 July 2022, the Minister of Innovation and Growth, as the sole owner of the capital of Bulgarian Development Bank EAD, decided to reduce the Bank's capital from BGN 1,441,773,500 to BGN 1,135,500,000 through acquisition and invalidation of 3,062,735 own ordinary registered dematerialized voting shares with a nominal value of BGN 100 each, as well as to amend the Bank's Statute in connection with the capital decrease. By decision of 18 May 2023 Bulgarian National Bank approved the capital decrease of Bulgarian Development Bank EAD and the changes in its Statute based on decision of the Minister of Innovation and Growth of 21 July 2022. The decisions for capital decrease and change of Bank's Statute were 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 2023 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 2023, the Reserve Fund of the Group amounts to BGN 318,418 thousand (31 December 2022: BGN 14,574 thousand) and the difference is due to decision of the Minister of innovation and growth dated 23 May 2022 for partial covering of the losses from prior periods with accumulated reserves, by which they significantly decreased, and subsequently of the reduction of the capital - they significantly increased.

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 Group 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.

	2023	2022
Revaluation reserve as of 01.01.	(106,953)	(78,471)
Impairment	(706)	3,170
Revaluation	43,335	(34,762)
Tax	(4,307)	3,110
Revaluation reserve as of 31.12.	(68,631)	(106,953)

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37. CONTINGENCIES AND COMMITMENTS

	2023	2022
Contingent liabilities		
Anti-COVID guarantees	373,894	403,208
Bank guarantees and letters of credit	396,359	267,334
Bank guarantees and letters of credit with cash collateral	(2,742)	(9,081)
Letters of credit, incl. borrowings – reported as loan commitment	1,101	-
Guarantee provisions, recognized in the statement of financial position (Note 32)	(121,698)	(133,061)
Incl. provisions under guarantees for Anti-Covid programmes (Note 32)	(111,845)	(127,215)
	646,914	528,400
Irrevocable commitments		
Unutilized amount of approved loans	159,903	178,510
Provisions for expenses	-	(47)
Unpaid portion of shares of Three Seas Initiative	7,788	17,970
Participation in the SIA investment program	479	652
	168,170	197,085
	815,084	725,485

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.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

Measures for individuals and households (continued)

Term for application was extended until 31 August 2021, or until the guarantee limits are exhausted. These changes became effective in January 2021.

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

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

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

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

Measures for micro, small and medium-sized enterprises

By Decision No 310 of 07 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

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

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

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

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

- To be micro, small and medium-sized enterprises, as determined in the manner specified in the Law on small and medium-sized enterprises or large enterprises-commercial companies, whose indicators for personnel and assets and/or turnover exceed the indicators specified in the Law on small and medium-sized enterprises
- That the enterprises were not in a difficult situation as of 31 December 2019, which is established by checking pre-set, normative criteria. Recent changes to the programme introduce a relief from the "Temporary Framework for State Aid" for micro and small enterprises. It is sufficient for them not to have been the subject of insolvency proceedings, under national law and have not received rescue or restructuring aid (meaning rescue or restructuring aid).

In addition, if the BDB guarantee includes existing loans, they must not have been non-performing, and the borrower must not be overdue for more than 90 days – in 2019. For existing loans, the borrower must have submitted to the commercial bank -partner forecast estimates and forecast plan for resumption of its activities, which does not require a strictly defined form and details;

Funding and guarantee can be used by companies that have encountered difficulties or have fallen into difficulty after 31 December 2019 due to the outbreak of the COVID-19 epidemic. The difficulty is identified by the borrower himself, and it is sufficient to describe one of the following reasons that led to 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 01 March 2020 (based on financial statements and documentation of the company);
- Terminated import deliveries necessary for the activities of the enterprise – after 01 January 2020, cancelled export contracts (based on documents submitted by the company);
- Cases of illness and self-isolation of employees, total reduction of the number of employees, closed production facilities, premises and offices (based on documents submitted by the company);
- Existence of other circumstances, establishing the difficulties experienced by enterprises due to COVID-19, according to methodology adopted by the commercial banks, which is provided to BDB.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

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

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

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

New loans, as well as existing loans, could 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 granted had a maximum amount of BGN 300,000 and the BDB covered up to 80% of the loans.

The banks themselves determined 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;

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Anti-COVID programmes (continued)

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

- A reduction of at least 80 basis points on loan interest rates is required;
- The term of the guarantee provided by BDB has been extended from 5 to 6 years;
- The guarantee coverage will cover investment loans granted by the banks;
- The limit of the guarantee payments by the BDB AD has been extended from 30% to 50%.

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

The formation of portfolios under the Program ended on 30 June 2022, and according to final data from the commercial banks - partners in the scheme, 2,892 loans were guaranteed, the original amount of the loans being BGN 630,349 thousand, for which a guarantee was provided by BDB in the amount of 80% or for BGN 504,279 thousand.

The portfolio status is updated on a quarterly basis. As of 31 December 2023, portfolio guarantees were issued for BGN 238,742 thousand, and 2,184 loans with a total amount of BGN 427,042 thousand were guaranteed. Approved requests for payment of guaranteed sums under the Program amount to BGN 7,741 thousand, and those reimbursed to BDB at the end of 2023 are in the amount of BGN 225 thousand.

SIA

On 17 July 2015, Bulgarian Development Bank EAD signed a funds management contract with EIF for accession to the SIA (Social Impact Accelerator) investment program of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. In 2018, a Consent for extending the investment period of the SIA Fund by 1 year.

The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program.

As of 31 December 2023, thirty-two equity contributions were made under the initiative amounting to EUR 755 thousand equivalent to BGN 1,477 thousand (2022: EUR 660 thousand equivalent to BGN 1,304 thousand) (Note 21), and the carrying amount as of 31.12.2023 amounts to EUR 577 thousand (BGN 1,129 thousand) (as of 31 December 2022: EUR 666 thousand with the BGN equivalent of BGN 1,304 thousand) (Note 21)

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

Guarantee programmes for small and medium-sized businesses

In 2015, the Group 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 2023, the Bank has active agreements with three partner banks and the size of the portfolio of guarantees is BGN 646 thousand (31 December 2022: three partner banks and a portfolio of guarantees worth BGN 816 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)

As of the end of 2023 BDB continues to implement the agreements under BDB Programme for Indirect Financing of SMEs with Guarantee Facility and Counter-Guarantee under the COSME + Programme of the European Investment Fund with the support of the European Fund for Strategic Investments with two commercial banks and six non-banking financial institutions with permitted amount of BGN 51,143 thousand. The programme is implemented with the support of European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guaranteed facility and counter-guarantee.

The COSME Programme implemented by the EIF upgrades the Entrepreneurship and Innovation Program (EIP) established in the period 2007-2013. Its total budget is EUR 2.3 billion for the period 2014-2020. It covers four areas of support - improving access to financing for SMEs in the form of equity and debt instruments; improving market access for SMEs worldwide; improvement of the framework conditions for competitiveness of enterprises and promotion of entrepreneurship.

Requests received in 2023 for payment under guarantee commitments made by the BDB were satisfied, in the amount of EUR 103 thousand (COSMEE and NAPRED), for which the BDB received a corresponding payment under the counter-guarantee given by the EIF under the COSME Programme.

As of 31 December 2023, the BDB has concluded contracts under the Programme with 8 financial institutions in the total amount of EUR 26,149 thousand, of which two commercial banks and six non-banking financial institutions, entered in the register of the BNB.

As of 31 December 2023, the value of the guaranteed by the BDB sub-loans is BGN 21,014 thousand (EUR 10,774 thousand), and the guaranteed amount – BGN 6,452 thousand (EUR 3,299 thousand).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

BDB's programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME

In November 2016, BDB signed a counter-guarantee agreement with limited payments with the European Investment Fund (EIF) under the COSME (Competitiveness of Small and Medium-sized Enterprises) program to support small and medium-sized businesses. The COSME programme is supported by EFSI (European Fund for Strategic Investments). The Bank has the opportunity to cover up to 60% of the risk of loans to SMEs granted by commercial banks and non-bank financial institutions with which it partners. Half of this risk is counter-guaranteed by EIF, with the total amount of the counter-guarantee being EUR 10 million. With the resources guaranteed under the COSME program, BDB's partner banks can grant investment and working capital loans, bank guarantees, as well as revolving loans. The maximum amount of loans granted is EUR 150,000. The repayment period is from 1 to 10 years.

The portfolio size as of 31 December 2023 is EUR 13.6 million, including 294 loans to micro, small and medium-sized enterprises. As of the same date, BDB has submitted four claims for payment under the counter-guarantee and has received EUR 92 thousand from EIF.

Leasing line programme

In 2023 three new on lending agreements were signed amounting to EUR 7.0 million under the Lease Line programme, which is for non-banking financial institutions partners – lessors, registered at the BNB, carrying out financial lease. The programme is intended for lending to lease companies, in order to facilitate the access to resources for purchase and leasing of assets, used in the business activity of small and medium-sized enterprises.

BROD programme

The BDB's implementation of the latest product for indirect financing of small and medium-sized enterprises "BROD Programme" continues. The budget of the Programme is EUR 20 million. The cost of financing is up to 6 months. EURIBOR + 3.5% and at 3.5% as a minimum. The partners under the BROD Programme finance SMEs subject to a certain ceiling of interest rate and total annual appreciation, which are in line with the changes in the value of EURIBOR. In 2023, one agreement was concluded in the amount of EUR 1.2 million euros.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 for and was approved as a financial intermediary under the guarantee program** of the Pan-European Guarantee Fund, under which its new product was created. From the end of September 2021 through financial instruments of the Pan-European Guarantee Fund, BDB will present 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 in volume, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB will be able to grant direct loans under easier loan terms.

As of 31 December 2023, the portfolio guaranteed under the agreement amounted to EUR 18.5 million and includes 51 transactions of micro small and medium-sized enterprises (as of 31 December 2022: EUR 21.17 million and 52 transactions). As of the same date the BDB has requested payments on the guarantee for three transactions in the total amount of EUR 203 thousand.

BDB's programme to support households by financing investments in energy from renewable sources, in implementation of the National Recovery and Sustainability Plan of the Republic of Bulgaria (Framework Conditions)

By decision of the Management Board of BDB EAD with Protocol No 57 dated 13 July 2023, a portfolio guarantee with loss-ceiling was approved for partial coverage of credit risk in bridge financing provided by commercial banks for investments in RES, in support of households under the National Households Support Scheme in The Field of Energy from Renewable Sources of the Ministry of Energy (the Scheme). The initial budget of the Programme is BGN 56 million.

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

Limit on guarantee payments (Loss-ceiling)

The maximum amount of covered losses under the Portfolio Guarantee under the programme amounts to BGN 16,800 thousand, with the limit of guarantee payments being the maximum amount to which BDB's obligation to pay to each commercial bank is limited, calculated on a portfolio basis by applying the Guaranteed Payment Limit percentage to the Guaranteed Portfolio multiplied by 70%.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK (CONTINUED)

BDB's programme to support households by financing investments in energy from renewable sources, in implementation of the National Recovery and Sustainability Plan of the Republic of Bulgaria (Framework Conditions) (continued)

Conditions for eligibility of Borrowers and financing under the Programme

Eligible Borrowers:

Applicants approved for funding under the Scheme who have signed a contract under the Scheme with the Monitoring and Reporting Structure (MRS). The borrower under the Programme is allowed to be different from the grant recipient under the Scheme if due to objective circumstances for the financing bank (e.g. old age, reduced working capacity, significant indebtedness, weaker creditworthiness, or other), the Applicant would not receive a bridging loan for financing the investment in RES under the Scheme. In such cases, the applicant approved for financing under the Scheme is jointly and severally liable with the Borrower for the repayment of the loan, and the grant is paid to the recipient's account in the financing bank and should provide collateral for the loan as if the Applicant were the recipient of the loan. Commercial banks should indicate to the BDB the objective circumstances that prevent the provision of credit under the Program in favour of the Applicant.

Type and purpose of financing

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

Credit amounts: up to BGN 3,000 for investments in DHW installations; up to BGN 22,000 for investments in systems, loan term - up to 5 years.

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

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.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND

Guarantee scheme 2009-2013

In 2023 there are active agreements for portfolio guarantees with 6 banks to which the Fund is a party. 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. In the period of inclusion, 2,748 loans for the amount of BGN 360,000 thousand were guaranteed and 2,471 SMEs were supported.

As at 31 December 2023, the approved amount of the guarantees included in the partner-banks' portfolio amounts to BGN 614 thousand (2022: BGN 614 thousand), and the amount of the guaranteed debt is BGN 189 thousand (2022: BGN 213 thousand).

The guarantee expiration date is 16 November 2027.

Guarantee scheme 2017

Guarantee scheme 2017 is a continuation of the NGF 2015. The total funds made available to banks to include loans in the portfolio amount to BGN 416,131 thousand. The guarantee expiration date is 30 June 2022. In the period of inclusion, 3,400 loans for the amount of BGN 846,000 thousand were guaranteed and 3,000 SMEs were supported.

As at 31 December 2023, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 0 thousand (2022: BGN 526 thousand) and the amount of the guaranteed debt is BGN 0 thousand (2022: BGN 501 thousand). The scheme ended In 2023.

Guarantee scheme 2019-2020

In early 2019, NGF EAD launched a procedure for selecting partner banks under the new guarantee scheme NGF 2019. 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. In the period of inclusion, 1,486 loans for the amount of BGN 450 million were guaranteed, 1,350 SMEs were supported.

As at 31 December 2023 agreements were signed with 6 banks with a maximum guaranteed portfolio amount of BGN 244,000 thousand.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme 2019-2020 (continued)

As at 31 December 2023, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 119,357 thousand (2022: BGN 138,764 thousand) and the amount of the guaranteed debt is BGN 82,757 thousand (2022: BGN 108,796 thousand).

The guarantee expiration date is 31 December 2024.

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 December 2023, 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, Eurobank Bulgaria AD, UniCredit Bulbank AD. Maximum amount of the guaranteed portfolio in the amount of BGN 629,000 thousand. As of 31 December 2023, 2,038 loans amounting to BGN 453,000 thousand were guaranteed, 1,753 SMEs were supported.

As of 31.12.2023, the approved amount of guarantees included in the portfolios of partner-banks is BGN 213,192 thousand (2022: BGN 9,041 thousand) and the amount of the guaranteed debt is BGN 194,620 thousand (2022: BGN 8,949 thousand).

The guarantee expiration date is 30 June 2028.

Guarantee scheme 2022 – Leasing

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 31 December 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.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme 2022 – Leasing (continued)

Under this scheme, portfolio guarantee agreements are in force with Eurobank Bulgaria AD, OTP Leasing EOOD, UniCredit Leasing EAD and BDB Leasing EAD. In the period of inclusion, 262 loans for the amount of BGN 32,000 thousand were guaranteed, 219 SMEs were supported.

As of 31 December 2023, the approved amount of guarantees included in the portfolios of partner- banks is BGN 12,563 thousand (2022: BGN 6,585 thousand) and the amount of the guaranteed debt is BGN 9,788 thousand (2022: BGN 5,995 thousand).

The guarantee expiration date is 31 December 2028.

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. In the period of inclusion, 484 loans for the amount of BGN 87 million were guaranteed, 444 SMEs were supported.

As at 31 December 2023, 236 loans for the amount of BGN 31,160 thousand (2022: BGN 41,543 thousand). The current guaranteed debt as at 31 December 2023 is BGN 15,480 thousand (2022: BGN 20,772thousand).

The guarantee expiration date is 31 December 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.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee programme to support beneficiaries under Operational Programme Fisheries Sector Development 2007–2013 (OPFSD) (continued)

As of 31 December 2023, applying a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for the Company on loans issued to partner banks for the financing of approved projects under the Operational Program Fisheries Sector Development 2007-2013, at the amount of BGN 20,780 thousand with a total value of loans/bank guarantees - BGN 30,551 thousand (2022: BGN 20,780 thousand of guarantees with a total value of loans/bank guarantees - 30,551 thousand BGN).

The amount of guaranteed debt as at 31 December 2023 is BGN 78 thousand (2022: BGN 137 thousand).

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 December 2023, 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 (2022: BGN 185,606 thousand) with a total value of loans – BGN 238,112 thousand (2022: BGN 238,112 thousand).

The carrying amount of the guaranteed debt at book value as of 31 December 2023 is BGN 474 thousand (2022: BGN 1,365 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 2023, 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 138,700 thousand (2022: BGN 122,736 thousand) with a total amount of loans amounting to BGN 279,200 thousand (2022: BGN 247,209 thousand).

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

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 (continued)

448 SMEs (2022: 357 SMEs). have been supported under the programme. The maximum guarantee limit under the program is BGN 50,000 thousand.

The carrying amount of the guaranteed debt as of 31 December 2023 is BGN 21,449 thousand. (2022: BGN 17,416 thousand).

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

	2023	2022
Cash in hand (Note 16)	923	530
Current accounts with the central bank (Note 16)	127,742	527,394
Receivables from banks with original maturity up to 3 months (Note 17)	468,206	81,420
	596,871	609,344

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 KABYUK 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

BULGARIAN DEVELOPMENT BANK GROUP
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All amounts are in thousand Bulgarian Levs, 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	2023	2022
Ministry of Finance	Financial assets at fair value through other comprehensive income	280,165	316,849
Ministry of Finance	FA at amortized cost – debt securities	10,049	10,026
Companies under joint control with the State	Loans and advances to customers	221,003	261,411
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	21,201	19,875
		532,418	608,161
Liabilities			
Entity/party	Type of balance	2023	2022
Ministry of Finance	Other borrowings	16,817	16,608
Ministry of Agriculture	Other borrowings	65,672	65,776
Companies under joint control with the State	Liabilities to customers on deposits and other borrowings	145,968	191,872
		228,457	274,256

Transactions with related parties:

Entity/party	Type of relation	2023	2022
Ministry of Finance	Fee and commission income	13	55
	Interest income	2,381	2,218
	Interest expenses	(506)	(159)
		1,888	2,114
Companies under joint control with the State	Interest income	14,092	13,967
	Fee and commission income	218	180
	Interest expenses	(150)	(27)
		14,160	14,120

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

Commitments and contingencies with related parties:

Entity/party	Type	2023	2022
Companies under joint control with the State	Unutilized amount of a loan approved	19,558	20,532
Companies under joint control with the State	Bank guarantees issued	15,398	17,360
		34,956	37,892

Relations with key management personnel:

Balances with key management personnel	2023	2022
Payables to customers on deposits	-	183
Remuneration payable	33	26
Transactions with key management personnel	2023	2022
Remuneration and social security contributions	(2,386)	(2,404)

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"), totaling as of 30 September 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 December 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 shares of 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 Public Works Infrastructure and Systems Kardzhali

DZZD Aquaprovidi 2015

DZZD Kardzhali-Podkova

DZZD European Roads

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

DZZD Minstroy-Patstroyengineering

DZZD Infra Krumovgrad 2017

DZZD PK Next

DZZD Eastern Rhodopes 3

DZZD Infra Construction Group

DZZD Next Engineering

DZZD III Most-2018

DZZD PK Light

PSI has a controlling share in DZZD Next Engineering (60%), DZZD III Most-2018 (65%) and DZZD PK Light (70%), which are within the scope of the consolidation of the Roadway Group.

In 2022, 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 was made in 2023, as permitted by IFRS 3. For the purposes of preparing the consolidated financial statements as of 31 December 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 consolidated financial statements as of 31 December 2023 is BGN 3,817 thousand (31 December 2022: BGN 7,031 thousand) formed on the basis of an assessment of the company's assets as of 30 September 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 Frakzii 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.

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Assets and liabilities (continued)

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 bank, and the other liabilities on its balance sheet. As of 31 December 2023 and 31 December 2022 the auditor of Roadway's annual financial statements expressed reservations about the company's status as a going concern.

For the purposes of the business combination, the Group has adopted the values of assets and liabilities, according to an external consultant's report on the allocation of the purchase price as of 30 September 2022, presented below:

	30.9.2022 Before adjustments	Adjustments	30.9.2022
Assets			
Cash in a cash desk	10	-	10
Receivables from banks	970	-	970
Property, plant and equipment, intangible assets	8,833	3,297	12,130
Deferred tax assets	79	-	79
Goodwill	151,006	(149,143)	1,863
Other assets	2,506	-	2,506
Total assets	163,404	(145,846)	17,558
Liabilities			
Deposits from customers other than credit institutions	11,818	(11,818)	-
Loans from credit institutions	160,400	(157,638)	2,762
Provisions	4,026	(4,026)	-
Other liabilities	1,573	1,201	2,774
Liabilities to suppliers and customers	4,991	-	4,991
Total liabilities	182,808	(172,281)	10,527
Equity			
Share capital	18,050	-	18,050
Current profit	(12,138)	-	(12,138)
Retained earnings	(25,306)	26,435	1,129
Minority participation	(10)	-	(10)
Total equity	(19,404)	26,435	7,031
Total liabilities and equity	163,404	(145,846)	17,558

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Assets and liabilities (continued)

As the purchase price allocation was made after finalizing the Bank's and Group's financial statements for 2022, the adjustments have been reported in 2023 without adjusting the 2022 financial statements.

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.

Property, plant and equipment are land, buildings, construction equipment and facilities for carrying out the main activity of PSI. They were measured at fair value as of 30.09.2022, and the valuation was made by an independent appraiser.

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 realizable 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 as of 30 September 2022 represent:

- a loan from the Bulgarian Development Bank EAD with a repayment term until 2029 amounting to BGN 157,638 thousand.
- financing for equipment from a financial institution, with a repayment term until 10.09.2024 – BGN 2,762 thousand.

Deposits from customers other than credit institutions represent a subordinated loan granted by a trade company, with a repayment term of 24 June 2024. Given the subordination and high indebtedness of the Roadway Group, the company is not expected to generate sufficient funds to repay this loan in full or partially.

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Assets and liabilities (continued)

As a result of the consolidation, BDB Group formed a goodwill from the business combination as of 31 December 2023 amounting to BGN 1,254 thousand (31 December 2022: BGN 23,745 thousand. The Group does not foresee goodwill or a change in its value having tax effects. In the assessment for the purposes of allocation of the purchase price, a deferred tax liability at the amount of BGN 1,993 thousand was reported due to the increased price of fixed assets.

For 2023, Roadway Group's results are fully consolidated in BDB Group's consolidated financial statements.

The effect of Roadway Group's consolidation on the balance sheet as of 31 December 2023 is as follows:

	Roadway - consolidated			Roadway – effect of consolidation in the BDB Group
	31.12.2023	Revaluation according to allocation of the purchase price as of 30.09.2022	Consolidation adjustments in 2023	31.12.2023
Assets				
Cash on hand and in current accounts with the central bank	-	-	-	-
Receivables from banks	113	-	(1)	112
Financial assets at amortized cost - Loans and advances granted to customers	56	-	(3,817)	(3,761)
Property, plant and equipment, intangible assets	7,384	3,296	-	10,680
Deferred tax assets	92	-	-	92
Goodwill	139,984	(151,006)	12,276	1,254
Other assets	980	-	-	980
Total assets	148,609	(147,710)	8,458	9,357

40. DISCLOSURE OF A BUSINESS COMBINATION IN ACCORDANCE WITH IFRS 3 (CONTINUED)

Assets and liabilities (continued)

	Roadway - consolidated			Roadway – effect of consolidation in the BDB Group
	31.12.2023	Revaluation according to allocation of the purchase price as of 30.09.2022	Consolidation adjustments in 2023	31.12.2023
Liabilities				
Deposits from customers other than credit institutions	13,061	(12,610)	-	451
Deposits from credit institutions	171,652	(157,638)	(14,014)	-
Other borrowings	-	-	-	-
Provisions	3,756	(4,026)	270	-
Deferred tax liabilities	-	1,993	-	1,993
Other liabilities	3,096	-	-	3,096
Total Liabilities	191,565	(172,281)	(13,744)	5,540
Equity				
Share capital	18,050	-	(18,050)	-
Current profit	(22,827)	-	22,555	(272)
Retained earnings	(38,181)	-	53,179	14,998
Reserves	-	24,571	(35,480)	(10,909)
Minority participation	2	-	(2)	-
Total equity	(42,956)	24,571	22,202	3,817
Total equity and liabilities	148,609	(147,710)	8,458	9,357

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 December 2022 (as referred to in point B64(q)(i)) and for 2023 are as follows:

	For the period 01.01.2023 – 31.12.2023	For the period 01.10.2022 – 31.12.2022
Revenue	4,580	2,563
Expenses	(4,852)	(3,342)
Result	(272)	(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 DATE OF THE FINANCIAL STATEMENTS

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

New strategy of BDB

Decision No. 389 of the Council of Ministers dated 07 June 2024 approved the Strategy for the activities of the Bulgarian Development Bank EAD for the period 2024-2026.

Changes in BDB's Articles of Association

By decisions of the Minister of Innovation and Growth dated 07 June 2024 and 18 June 2024, amendments to the Articles of Association of Bulgarian Development Bank EAD were adopted. The amendments were approved by the Bulgarian National Bank and registered in the Commercial Register and the Register of Non-Profit Legal Entities and are effective from 12 July 2024. The changes in the Articles of Association are in accordance with the Strategy for the activity of the Bulgarian Development Bank EAD for the period 2024-2026, approved by the Council of Ministers.

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

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

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

By decision of the Supervisory Board with Protocol No 22 dated 28 May 2024, Ivan Valentinov Cerovski was dismissed as member of the Management Board of BDB and an Executive Director. This circumstance was registered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024.

Changes in the Board of Directors of National Guarantee Fund EAD

By decision of the Management Board of Bulgarian Development Bank EAD, as the sole owner of the capital, according to Protocol No. 32 of 28 May 2024, Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of the National Guarantee fund EAD. This circumstance was entered in the Commercial Register on 10 June 2024.

By decision under Protocol No. 34 dated 30.05.2024 of the Board of Directors of BDB, as the sole owner of the capital of National Guarantee Fund EAD, Mr. Iliya Zapryanov Karanikolov 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 10 June 2024. Mr. Iliya Zapryanov Karanikolov was elected Chairman of the company's Board of Directors.

Changes in the Board of Directors of BDB Leasing EAD

By decision of the Management Board of Bulgarian Development Bank EAD, as the sole owner of the capital, according to Protocol No. 32 of 28 May 2024, Mr. Ivan Valentinov Cerovski was dismissed as member of the Board of Directors of the BDB Leasing EAD. This circumstance was entered in the Commercial Register on 10 June 2024.

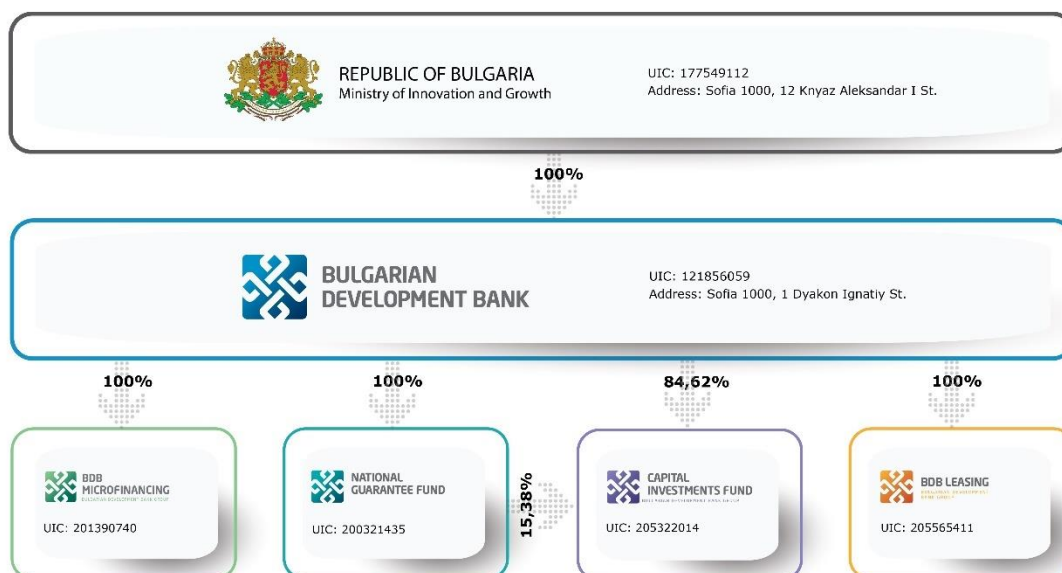
By decision under Protocol No. 34 dated 30 May 2024 of the Board of Directors of BDB, as the sole owner of the capital of BDB Leasing EAD, Mrs. Teodora Petrova Pesheva was elected as a member of the Board of Directors of the company. This circumstance was entered in the Commercial Register and the Register of Non-Profit Legal Entities on 10 June 2024. Mrs. Teodora Petrova Pesheva was elected Chairwoman of the company's Board of Directors.

INFORMATION UNDER ART. 70, PARA. 6 OF THE LAW ON CREDIT INSTITUTIONS

This appendix on a consolidated basis has been prepared in accordance with the requirements of Art. 70, para. 6 of the Law on Credit Institutions (LCI).

1. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION

The Bulgarian Development Bank Group consists of the Bulgarian Development Bank EAD (BDB) and four companies controlled by it. The ownership structure is presented below.



In addition, Bulgarian Development Bank holds 100% of the shares of TC Maritsa EOOD and exercises control over the Roadway Group, consisting of Roadway Construction AD and Patstroyengineering AD. These companies are not part of the strategic planning framework of the BDB Group.

BDB

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

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

1. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION (CONTINUED)

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

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

The Bank's lending activity includes:

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

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 imbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;

1. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION (CONTINUED)

- financing of priority sectors of the economy, in line with the government policy for economic development;
- Financing of companies operating in priority sectors of the economy, in accordance with the adopted government economic development policy, as well as such implementing strategic projects and/or projects of national and/or regional importance.

The bank operates on the territory of the Republic of Bulgaria.

As of 31 December 2023, Bulgarian Development Bank EAD operates from a registered address in the city of Sofia, 1 Dyakon Ignatij Str.

National Guarantee Fund

National Guarantee Fund EAD (NGF) is a company established on 12 August 2008 according to the Bulgarian Development Bank Act and was registered in the Commercial Register on 22 August 2008 with UIC 200321435. The company is 100% owned by the Bulgarian Development Bank EAD (BDB). Pursuant to the Law on Credit Institutions (LCI), National Guarantee Fund EAD is a financial institution registered in 2009 by the BNB in the Register under Art. 3, para. 2 of the Law on Credit Institutions (LKI) under number BGF00052. The fund has no branch network. As of 31 December 2023, the Company has 10 employees.

National Guarantee Fund EAD's main objective is to provide guarantees for the benefit of small and medium-sized entities (SMEs), thus facilitating their access to financing.

The guarantees issued by the Fund for its own risk can cover up to 50% of the liability. With an amendment of the BDB Act, promulgated in the State Gazette, No. 102 from 21 December 2012, the guarantees issued by NGF EAD with regard of guarantee schemes under the Rural Development Program 2007-2013 and under the Operational Programme Fisheries Sector Development 2007-2013 can cover up to 80% of the liability.

BDB Microfinancing

BDB Microfinancing EAD (BDBM) was renamed to BDB Microfinancing EAD on 12 April 2021. Its former name before this date was Microfinancing Institution Jobs EAD, a sole owned joint-stock company, registered in the Commercial Register and the Register of Non-Profit Legal Entities on 14 January 2011 with seat and management address in Sofia, 1 Dyakon Ignatij Str. The scope of activity is microfinancing, including, but not limited to, granting of microcredits, acquisition from third parties and leasing of industrial equipment, cars and other vehicles, as well as other items /finance lease/, 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.

1. NAME, DESCRIPTION OF THE ACTIVITY AND LOCATION (CONTINUED)

BDB Leasing

The scope of activity of BDB Leasing EAD includes finance lease, granting loans with funds that are not raised through public solicitation of deposits or other recoverable funds, all additional activities servicing leasing and crediting.

BDB Leasing EAD offers finance lease of production machinery and equipment, transport vehicles, construction and agricultural machinery, medical equipment, energy equipment, real estate. The assets must be used for the economic activity of the lessee companies.

The company's short- and medium-term strategy is to gradually increase the lease portfolio, while observing a conservative approach when approving new leases and offering individual financing solutions for small and medium-sized enterprises.

The company's mission is to support Bulgarian companies to develop their business, especially in priority sectors and regions, to be an active supporter of the community, to create an environment of sustainable development. The development of the company is also related to supplementing the portfolio of products offered by the companies in the BBR Group.

The company's focus is on the financing of production assets for Bulgarian legal entities, and the financing can be provided at any stage of the development of the companies or their respective business direction.

Capital Investments Fund

The Fund's scope of activity includes:

- participation in the capital of small and medium-sized enterprises;
- equity investments and other financial instruments issued by small and medium-sized enterprises;
- provision of consulting services regarding the capital structure of small and medium-sized enterprises, consulting and other services related to the transformation of enterprises under Art. 261 of the Commerce Act;
- investment advisory services;
- consulting services on the management of pools of securities of small and medium-sized enterprises;
- participation in the management of companies in which the Fund has invested;
- other activities not expressly prohibited by law.

The fund participates in the capital of small and medium-sized enterprises aiming to increase their competitiveness, to provide capital for research and development, to increase production capacity, to provide financing before raising capital on a regulated market and to utilise funds from European Union funds. Priority is given to small and medium-sized companies in the growth stage, start-up entrepreneurs, innovations.

2. VOLUME OF THE TURNOVER

For the year ended 31 December 2023, the Bank realised turnover as follows:

	2023	2022
Interest income (note 6)	124,286	82,351
Fee and commission income (note 7)	7,833	6,715
Other operating income	32,277	5,901
Total income	164,396	94,967

3. AVERAGE NUMBER OF FULL-TIME EMPLOYEES

As of 31 December 2023, the Group has 248 employees (31 December 2022: 276).

4. FINANCIAL RESULT OF THE ACTIVITY BEFORE TAX

For the year ended 31 December 2023, the Group's financial result before tax amounts to BGN 29,172 thousand (for the year ended 31 December 2022: BGN 26,685 thousand).

5. TAX ON THE FINANCIAL RESULT OF THE ACTIVITY

For the financial year 2023, the taxes accrued on the financial result of the activity amount to BGN 226 thousand (for the financial year 2022: tax revenue at the amount of BGN 29 thousand). See note 14 to the annual consolidated financial statements.

6. RETURN ON ASSETS AS A RATIO OF NET PROFIT TO TOTAL BALANCE

The realized net profit (after tax) for 2023 amounts to BGN 28,946 thousand (for 2022: BGN 26,714 thousand).

The total assets of the Group as of 31 December 2023 are BGN 2,770,861 thousand (as of 31 December 2022: BGN 3,030,553 thousand).

The return on assets as a ratio of net profit to the total balance for 2023 is 1.04% (for 2022: 0.88%).

7. GOVERNMENT SUBSIDIES RECEIVED

The Bank and the companies of the Group did not receive government subsidies in 2023.