

BULGARIAN-AMERICAN CREDIT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
APPROVED BY EU
ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES

FOR THE YEAR ENDED 31 DECEMBER 2023

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Name	BULGARIAN-AMERICAN CREDIT BANK AD
Change of name	No change
Country of incorporation	Bulgaria
Legal form	Joint-stock company
Address	2 Slavyanska Str., Sofia 1000
Principal place of business	Bulgaria
Principal activities	Banking
Name of parent entity	No parent entity

Management Board

Mr. Ilian Georgiev – Member of the Management Board and Chief Executive Officer;
Mrs. Loreta Grigorova – Member of the Management Board and Executive Director;
Mr. Alexander Dimitrov - Member of the Managing Board and Executive Director;
Mrs. Silviya Kirilova – Member of the Management Board and Chief Legal Officer.

Registration number

UIC 121246419

Joint Auditors

Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., floor 4
1124 Sofia, Bulgaria

BDO AFA OOD
38, Oborishte Str.
1504 Sofia, Bulgaria

**Annual Report on the Activity
of Bulgarian-American Credit Bank AD
on a Consolidated Basis
for 2023**

Approved on 21 March 2024

The Bulgarian-American Credit Bank AD (BACB, the Bank) continued to operate in 2023 as a universal bank offering a full range of banking services, aimed at the green economy, incl. financing small and medium-sized enterprises and expanding the services in retail banking by offering a variety of products in the field of housing and consumer lending and transaction banking. The bank strives to meet its clients’ needs by offering a comprehensive range of banking services and providing modern banking technologies and thereby to expand its customer base.

Economic overview

External environment

Over the past year, the outlook for the global economy was characterised by increased geopolitical uncertainty, high inflation, and tighter financing conditions. According to the World Bank, global real GDP growth in 2023 is expected to reach 2.6%. In 2024, growth is anticipated to slow to 2.4%, followed by a gradual recovery to 2.7% in 2025. Global price pressures remain heightened amid relatively stable demand, tight labour market conditions, and high food prices, but are expected to decrease as commodity markets stabilize and growth weakens.

The European Central Bank (ECB) expects real GDP growth to significantly slow to 0.6% in 2023 (down from 3.4% in 2022), then to marginally rise to 0.8% in 2024, and to stabilize at a level of 1.5% in 2025 and 2026.

Despite the economic slowdown, labour market conditions in the Eurozone have remained relatively unchanged, with the unemployment rate dropping to 6.4% by the end of November 2023, and overall employment increasing by 0.2% in the third quarter of 2023. The unemployment level is expected to remain around the end-of-year levels, with potential for slight fluctuations.

According to the World Bank’s latest forecasts, inflation is expected to reach 3.7% in 2024, with a subsequent decrease to 3.4% in 2025. The decrease in inflation over the forecast period reflects the gradual impact of the ECB's monetary policy to increase interest rates, which began in December 2022, the outlook for weaker growth, and the expected reduction in energy and food prices in line with futures prices, as well as the assumption that long-term inflation expectations will remain stabilized.

Bulgaria

In its January forecast for the global economy, the World Bank raised its expectations for Bulgaria's real GDP growth for 2023 by 0.2% to 1.7%, compared to its June 2023 forecasts. At the same time, the Bank revised down its expectations for the country's economic activity next year to 2.4%, from 2.80% in its previous forecast. In its updated forecast for the economy of the Old Continent from November 2023, the European Commission expects inflation in Bulgaria to continue its downward trend, decreasing from 8% in 2023 to 4% in 2024, and to 2.9% in 2025.

Economic Growth Forecast for 2023:

Institution	New forecast	Previous forecast
BNB	1,8*	1,9
MF	1,8**	1,8
EC	2,0***	1,5
IMF	1,7	1,4
World Bank	1,7****	1,5
European Bank for Reconstruction and Development	1,6	1,3
Average	1,77	1,55

*- January 2024; **-October 2023; ***-November 2023; ****-January 2024

In their updated economic forecasts, the European Commission and the World Bank have improved their estimates for the growth of the Bulgarian economy, while the Bulgarian National Bank revised down its forecast for the country's economic activity by 0.1% to 1.8%. The Ministry of Finance maintained its forecast for the outlook unchanged from its Spring forecast.

In the first nine months of 2023, real GDP growth reached 1.8%. Indicators for the fourth quarter of the year suggest some increase in real GDP compared to the previous quarter, with expectations for economic activity in Bulgaria in 2023 to increase by 1.8% (compared to 3.9% in 2022), with private consumption and net exports making the most positive contributions to real GDP growth, while the contribution of inventory changes is expected to be negative. In 2024, economic activity is expected to accelerate further to 2.5% as a result of a significant reduction in the negative contribution of inventory changes, combined with an increase in goods and services exports and rising domestic demand. Domestic consumption will be stimulated by credit activity, wage growth, and increasing consumer confidence. Investments in fixed capital are expected to increase significantly, influenced by the

assumption of the absorption of funds from the National Recovery and Resilience Plan (NRRP) by both the private and public sectors. Investments in the private sector will be supported by the expected increase in demand for Bulgarian goods and services, as well as by the decrease in prices of primary commodities and materials used in the industrial and construction sectors.

Government consumption is also expected to increase in real terms following the decline this year, primarily due to an increase in healthcare spending and higher labour costs in the public sector. Economic activity growth is expected to further accelerate to 3.4% in 2025, mainly due to expectations for dynamics in capital investment and the maintenance of government consumption growth.

The labour market is on an upward trend with a steadily decreasing unemployment rate following the peak in the second quarter of 2020. In the first nine months of 2023, labour market conditions remained tight amid increasing economic activity but with limited opportunities for increasing employment. Employment is expected to increase by 0.6% in 2023, while employment growth is expected to slow to 0.3% in 2024, despite the projected increase in economic activity in the country. Unemployment remains at historically low levels of 4.4% in 2023, in line with tight labour market conditions and a continuing trend of demand exceeding supply. The unemployment rate is expected to continue to decrease in 2024 and 2025 to levels of 4.1% and 3.6%, respectively. Real labour productivity growth is expected to reach 1.1% in 2023 and gradually increase to 2.2% in 2024 and further to 3.4% in 2025, in line with the acceleration of GDP growth. Tight labour market conditions combined with a strong increase in consumer prices contributed to a significant increase in compensation per employee – by an average of 13.8% for 2023. The growth in compensation per employee is expected to slow to 8.6% in 2024 and to 8.8% in 2025, in line with the forecasted slowdown in inflation.

In 2023, there is a tendency for a slowdown in the annual pace of change in consumer prices. The annual inflation, measured by the Harmonised Index of Consumer Prices (HICP) at the end of the year, fell to 5.0% compared to 14.3% at the end of the previous year, as a result of the downward dynamics of energy commodity prices (natural gas, electricity, and oil) on international markets. Annual inflation is expected to slow down to 3.1% at the end of 2024 and to remain at this level in 2025. The expected downward dynamic is a result of the deflationary external environment in accordance with assumptions for a decrease in the prices of oil and agricultural commodities on international markets in 2024. Meanwhile, the continuing high growth in labour costs and the forecasted increase in private consumption will have an inflationary influence on consumer prices and could be a premise for the limited transfer of reduced commodity prices onto the final consumer prices in the country.

Forecast for the main macroeconomic indicators for the period 2023-2025

	2022	2023	2024	2025
<i>Annual rate of change</i>				
GDP at constant prices	3,9	1,8	2,5	3,4
Private consumption	3,8	5,8	3,7	4,2
Government consumption	5,5	-0,6	2,9	2,7
Gross fixed capital formation	6,5	1,0	5,3	8,2
Export of goods and services	11,6	-1,5	3,4	3,6
Import of goods and services	15,0	-6,3	5,4	5,2
HICP at the end of the period	14,3	5,0	3,1	3,1
Core inflation	11,9	5,3	4,9	4,0
Energy products	15,9	-0,6	-4,0	-0,8
Food	25,0	6,0	2,5	3,3
Goods and services at administratively determined prices and tobacco products	6,9	5,4	3,1	2,4
Employment	-0,3	0,6	0,3	0,0
Labor costs per unit of output	9,5	12,6	6,2	5,2
Labor productivity	4,3	1,1	2,2	3,4
Unemployment rate (share of labor force, %)	4,2	4,4	4,1	3,6
Receivables from the non-governmental sector	12,5	11,7	7,4	6,0
Receivables from enterprises	10,2	7,1	4,9	4,1
Receivables from households	14,6	15,4	10,0	8,5

Deposits by the non-government sector	14,3	8,9	8,0	7,2
<i>Percentage of GDP</i>				
Payment balance current account	-1,4	0,0	-0,5	-1,3
Trade balance	-5,9	-3,8	-5,0	-5,6
Services, net	6,1	7,0	7,0	7,1
Primary income, net	-3,2	-4,4	-4,1	-4,0
Secondary income, net	1,6	1,2	1,6	1,2
<i>Annual rate of change</i>				
External assumptions				
External demand	7,2	0,8	2,6	3,2
Average annual Brent oil price (in US dollars)	41,7	-17,1	-8,3	-3,1
Average annual price of non-energy products (in US dollars)	4,6	-4,8	2,1	2,6
Brent oil price at the end of the period (in US dollars)	11,0	-4,3	-11,0	-3,5
Price of non-energy products at the end of the period (in US dollars)	-3,7	1,5	3,5	3,3

Source: BNB

The geopolitical situation on a global scale remains volatile, with potential significant adverse effects on the European Union's and Bulgaria's economy, posing substantial risks to the execution of the macroeconomic forecast. There's a risk of a limited supply of certain raw materials, which could serve as a catalyst for their price increases or cause further disruptions in the global supply chains. These risks, if realized, could lead to higher inflation in the country over the medium term, weaker growth in real disposable income for households, and, combined with the increasing cost of borrowing, could restrict the growth of consumption.

BACB – Business Overview

At the end of the fourth quarter of 2023, the bank's lending portfolio increased by 8.35%, or BGN 116.109 million (EUR 59.366 million), compared to the end of 2022. The total of newly granted loans saw a net increase of BGN 126.593 million (EUR 64.726 million), or 8.88%.

For SMEs and corporate loans to legal entities, the bank noted a net increase of BGN 40.188 million (EUR 20.548 million) or 4.32%, with their share of the bank's total lending portfolio standing at 64.44%, down from 66.93% at the end of 2022. The market share for legal entities reached 2.08% in the fourth quarter of 2023, against a strategic goal of 2–2.5%.

Regarding the funds borrowed from SMEs and corporate clients by the end of the fourth quarter of 2023, the total borrowed resources amounted to BGN 415.502 million (EUR 212.443 million), marking a 4.55% increase (BGN 18.075 million, EUR 9.242 million in absolute terms) compared to the end of 2022, when the total resources borrowed for these segments stood at BGN 397.423 million. There was an increase of BGN 47.970 million (EUR 24.527 million) in term deposits compared to 31.12.2022, while the funds available on demand decreased by BGN 29.891 million (EUR 15.283 million). BACB's market share in borrowed resources from legal entities reached 3.05% as of 31.12.2023, compared to the strategic target of 2–2.5%.

In line with the Bank's strategy, the old "legacy" corporate lending portfolio was reduced by BGN 3.790 million (EUR 1.938 million) or 20.36% compared to the end of 2022, totaling BGN 14.825 million (EUR 7.580 million) in balance sheet exposure, with its share in the total portfolio decreasing from 1.28% at the end of 2022 to 0.95% as of 31.12.2023.

Despite challenging economic conditions marked by inflation and slowed economic growth, BACB has successfully managed its portfolio, noting a 6.81% decrease in problematic exposures to legal entities by the end of 2023 compared to 31.12.2022, amounting to a reduction of BGN 8.551 million (EUR 4.372 million) in absolute value. The proportion of problematic exposures in the total lending portfolio decreased by 1.18% to 7.47% compared to 31.12.2022, thanks to proactive collection efforts and the growth of the performing new lending portfolio outpacing it.

Throughout 2023, in relation to BACB's activities associated with the EU Taxonomy, including the introduction of ESG (Environmental, Social, and Governance) risks and sustainable development, the following initiatives were undertaken and achieved:

- A preliminary assessment for the bank's credit portfolio's eligibility under the Taxonomy as of 31.12.2022 was conducted.
- Following Article 8 of Regulation (EU) 2020/852 for facilitating sustainable investments and Delegated Regulation (EU) 2021/2178, the bank analyzed its clients and credit portfolio to identify exposures to economic activities that are either eligible or ineligible under the EU Taxonomy, focusing on the environmental objectives for mitigating climate change and adaptation.
- The first sustainability report for the period 2021-2022 was prepared and published.
- A "Sustainable Development Strategy for BACB AD for the period 2024-2026" was developed.
- Templates for collecting data related to the Taxonomy were created.

The following initiatives carried out by BACB also helped expanding credit operations for Corporate clients:

- Since 2018, the Bank has implemented the agreement concluded with "Bulgarian Development Bank" EAD for financing of small and medium-sized enterprises with a guarantee facility and counter-guarantees under the "COSME" Program of the European Investment Fund, with the support of the European Fund for Strategic Investments - "COSME+" European Fund for Strategic Investments in the amount of EUR 10,000,000. As of 31.12.2023, the total number of active loans is 47, with a total principal of BGN 4,794,402.99 (EUR 2,451,339.32) and guarantees in the amount of BGN 2,876,641.79 (EUR 1,470,803.59). This program supported 126 SMEs employing more than 1,505 people and holding total assets of BGN 192,094,998.63 (EUR 98,216,613.22);
- BACB operates under a guarantee scheme, aimed at facilitating the access of SMEs to financing from commercial banks, through a risk sharing scheme by the National Guarantee Fund EAD and the Ministry of Agriculture and Food, and a 10-year extension of the program has been agreed. As of 31.12.2023 there are 13 active loans with principals in the amount of BGN 752,691.05 (EUR 384,844.82) and guarantees for BGN 376,345.52 (EUR 192,422.41). Since the beginning of the program, 77 SMEs clients have been supported, with a total amount of assets of BGN 48,784,000 (EUR 24,942,863.13);
- BACB implements a Guarantee scheme for supporting SMEs by the NGF /SMEs 2019/ - revolving and investment loans, as well as counter-guarantees under bank guarantees. As of 31.12.2023, there are 43 active deals under the program for BGN 14,717,825.29 (EUR 7,525,104.58), with guarantees amounting to BGN 6,063,773.85 (EUR 3,100,358.34). This program supported 80 SMEs employing more than 1,073 people and holding total assets of BGN 216,810,000 (EUR 110,853,193);
- BACB implements the COSME Guarantee Scheme of the NGF and the European Fund for Strategic Investments (EFSI). As of 31.12.2023 there are 14 active loans with principal amounting to BGN 2,491,065.73 (EUR 1,273,661.68) and guarantees in the amount of BGN 1,245,532.87 (EUR 636,830.84). In total, the scheme has supported 32 SMEs employing more than 741 people and has granted loans in the amount of BGN 12,834,222 (EUR 6,562,033.51);
- BACB also applies the guarantee schemes of the Municipal Guarantee Fund for Small and Medium-Sized Enterprises at the Sofia Municipality. As of 31 December 2023, under the guarantee scheme of the MGFSME, there is an active guarantee portfolio amounting to BGN 881,603.87 (EUR 450,756.90), or loans totaling BGN 2,910,037.00 (EUR 1,487,878.29). In total, under the MGFSME program, 138 SMEs have been supported with loans totaling over BGN 49,365,000 (EUR 25,239,923.72);
- BACB applies a Guarantee Scheme to support SMEs affected by the Covid-19 crisis, in collaboration with BDB EAD. Since the start of the scheme on 1 June 2020, until 31 December 2023, 195 loans totaling BGN 42,648,104.63 (EUR 21,805,629.65) have been realized for companies with a total of over 4,175 employees and total assets of BGN 942,767,962 (EUR 482,029,604.82). As of 31 December 2023, there are 141 active loans with principal balances amounting to BGN 21,259,025.62 (EUR 10,869,567.20) and guarantees totaling BGN 17,511,434.37 (EUR 8,953,591.56);
- BACB implements a Guarantee scheme under the "Recovery" Program to support business through guarantees by BDB EAD in the amount of 80%. The loans have a maximum amount of BGN 3,000,000 (EUR 1,533,875) and are provided without collateral, with shortened approval periods. Since the start of the program, 61 loans totaling BGN 26,109,580.23 (EUR 13,349,616.39) have been granted to clients with a total of over 563 employees and total assets of BGN 277,264,042 (EUR 141,762,853.6), where active loans are 56 and have a total principal of BGN 19,629,086.25 (EUR 10,036,192.43) and guarantees in the amount of BGN 16,104,437.44 (EUR 8,234,068.11);
- BACB applies a guarantee scheme with the Financial Instruments Portfolio Manager in Bulgaria - a Portfolio Guarantee with a ceiling on losses to overcome the consequences of the COVID-19 pandemic amounting to BGN 19,230,953.50 (EUR 9,832,630.39), with guarantees at 80%. As of 31 December 2023, there are a total of 14 loans amounting to BGN 12,475,350 (EUR 6,378,545.17), with principal balances of BGN 11,273,219.91 (EUR 5,763,905.81), and guarantees totaling BGN 11,058,219.91 (EUR 5,653,978.06);

- BACB AD also applies a Guarantee Scheme with the Financial Instruments Portfolio Manager in Bulgaria - a Portfolio Guarantee with a ceiling on losses to overcome the consequences of the pandemic - the "Recovery" Program. As of 30 September 2023, an additional guarantee limit allowing for the disbursement of new loans amounting to BGN 3,400,000 (EUR 1 738 392.39) has been agreed upon. As of 31 December 2023, there are a total of 15 loans amounting to BGN 5,839,921.90 (EUR 2,985,904.65), with principal balances of BGN 5,048,688.15 (EUR 2,581,353.26), and guarantees totaling BGN 4,038,950.52 (EUR 2,065,082.61);
- The Bank also implements a Guarantee Program for unsecured loans in collaboration with the Financial Instruments Portfolio Manager in Bulgaria - a Portfolio Guarantee with a ceiling on losses named "Recovery 2" - an additional guarantee limit allowing for the disbursement of new loans amounting to BGN 3,370,000 (EUR 1,723,053.63) has been agreed upon. As of 30 September 2023, an additional guarantee limit allowing for the disbursement of new loans amounting to BGN 3,370,000 (EUR 1,723,053.63) has been agreed upon. As of 31 December 2023, there are a total of 20 loans amounting to BGN 16,220,535.74 (EUR 8,293,428.23), with principal balances of BGN 13,835,640.65 (EUR 7,074,050.74), and guarantees totaling BGN 11,068,512.52 (EUR 5,659,240.59);
- The Bank applies a Guarantee scheme for the support of SMEs by the NGF /SME 2022/ with a total guaranteed portfolio of BGN 50,000,000 (EUR 25,564,594), which enables BACB to provide loans of more than BGN 110,000,000 (EUR 56,242,107). As of 31.12.2023, there are a total of 63 active transactions under the program for BGN 32,989,673 (EUR 16,867,351.97), principals in the amount of BGN 27,762,001.55 (EUR 14,194,485.99) and with guarantees amounting to BGN 15,586,822.99 (EUR 7,969,416.05). As a result of this program, a total of 68 SMEs were supported, employing more than 940 people and holding assets totaling BGN 128,896,548 (EUR 65,903,758.50).

In the fourth quarter of 2023, the Retail Banking business line, which manages the Individuals segment at BACB, reported very good results in its lending activities, with the highest growth belonging to low-risk mortgage loans - an increase of BGN 21.86 million (EUR 11,176 million) or 7.02% compared to the end of the previous quarter. The growth in mortgage lending is conditioned by the excellent price terms, clear and transparent parameters, and the Bank's individualized, customer-oriented approach. Consumer loans, on the other hand, were reduced by BGN 0.3 million (EUR 0.153 million) or 0.31% compared to the previous quarter.

The market presence of the two product segments in the banking system at the end of September 2023 was respectively 1.09% for mortgage loans and 0.82% for consumer loans, while the Bank expects them to continue their upward trend by the end of 2024. According to the strategy set, the target in the Retail Banking business segment is for additional significant growth and reaching a 2% market share over the next years.

Given the high results achieved, the Bank managed to fulfill yet another main goal laid down in its strategy for Retail lending development relating to the share of loans to individuals in the total loan portfolio, which at the end of the reporting period was 29.10% compared to 28.47% at the end of the previous quarter.

In order to develop its business with individuals, BACB carried out the following activities:

- The offering of the "Clean account" payment product for individuals with the new VISA card, online management using BACB Online and with a new functionality for digital payments through Google Pay and Apple Pay, also continues. The product has been enhanced with a scale for differentiated interest rates on funds and the removal of ATM withdrawal fees in Bulgaria, continuing to be a leading factor in attracting new clients to the Bank.
- A new Cash Back functionality has been added to the VISA debit card of the daily banking product "Clean Account."
- A successful advertising campaign was conducted for the 24-month deposit product "Growing Interest."
- The development of the "Just Now" credit product continues - a fully online consumer loan combining speed, convenience, and security, thanks to automatic approval and disbursement of funds without visiting a bank office.
- The Bank continues its collaboration to offer pension products from Pension Insurance Company Doverie AD in its office network and at BACB Express sales points.
- We are also continuing the enhancement of the deployed digital assistant "Bianca", based on artificial intelligence, providing information to clients 24/7, by adding new functionalities and integrating with the VIBER communication platform.
- A successful Online Account Opening process for legal entities was developed and launched entirely remotely with remote identification through a leading provider of authentication services, accompanied by an advertising campaign.
- BACB is actively working to lend to students under the Lending to Students and PhD Students Act with a total state guarantee limit of BGN 5,000,000 (EUR 2,556,459.41). The credit scheme of the Ministry of Education and Science allows BACB AD to expand and further develop its cooperation with state

institutions in the country, as well as to attract new clients - individuals (students and PhD students) in compliance with the Bank's development strategy. There are 101 active loans under the scheme with an approved amount of BGN 3,224,983 (EUR 1,648,907.62) with a 100% guarantee.

The opportunity for fully online banking services – online application and opening of a "Clean Account" with a debit card, online opening of deposits "It's All Good" and "Online Deposit," instant online credit "Just Now," and the BACB Pay digital wallet. Efforts are underway to digitize processes related to consumer lending and mortgage loan applications, as well as the creation of a completely virtual office.

During the fourth quarter of 2023, the Bank processed a total of 407,796 transfers amounting to BGN 5.7 billion (EUR 2.914 billion), representing a 10% increase in the number of transfers and an 18% decrease in the transfer amount compared to the same period of the previous year. Compared to the previous quarter of 2023, there was a 10% increase in the number of transfers and a 14% increase in the transfer amount. In 2023, the Bank processed a total of 1,508,740 transfers amounting to BGN 22.4 billion (EUR 11.452 billion) – an 8% increase in the number of transfers and a 21% decrease in the transfer amount compared to the previous year. During the reporting period, 21 new documentary operations amounting to BGN 21 million (EUR 10.737 million) were processed, and 27 changes were made to guarantees. Throughout 2023, a total of 85 new documentary operations amounting to BGN 55 million (EUR 28.121 million) were processed, and 62 changes were made to bank guarantees, representing a 35% increase compared to the previous year. In the fourth quarter of 2023, the total fees and commissions collected (excluding those from loans and cards) amounted to BGN 2.6 million (EUR 1.329 million), representing a 4% decrease compared to Q4 2022 and a 1% increase compared to Q3 2023. In 2023, the total fees and commissions collected amounted to BGN 10.4 million (EUR 5.317 million), representing a 4% increase compared to the previous year. 48% of the revenues were from transactions (BGN 5 million), 26% from accounts (BGN 2.7 million), 20% from cash transactions (BGN 2 million), 5% from documentary operations (BGN 0.5 million), and 1% from others (BGN 0.2 million).

The Bank also serves the customer payments of 5 electronic money institutions (EMIs). In the fourth quarter of 2023, the Bank processed 385,939 customer transfers to EMIs amounting to BGN 1 billion (EUR 0.511 billion), a 25% increase in the number and a 37% increase in the amount compared to Q4 2022, and collected fees amounting to BGN 78 thousand (EUR 39,8 thousand), a 5% increase compared to Q4 2022. In 2023, the Bank processed a total of 1,397,692 customer transfers to EMIs amounting to BGN 3.2 billion (EUR 1.636 billion), a 25% increase in the number and a 43% increase in the amount compared to 2022, and collected fees amounting to BGN 330 thousand (EUR 169 thousand), a 16% increase compared to 2022.

In line with the Bank's strategy, active work is being done on implementing optimizations, automations, digitalization, and other processes.

During the reporting period, the revenues from the card business amounted to BGN 439,274.97 (EUR 224,597.73), and the expenses amounted to BGN 425,834.73 (EUR 217,725.84), resulting in a net positive result of BGN 13,440.24 (EUR 6,871.76). Compared to the third quarter of 2023, BACB recorded a 91.7% decrease, attributed to losses from fraudulent transactions at BACB's POS terminal. During the period, the Bank issued and renewed a total of 2,463 debit and 263 credit cards.

In the fourth quarter of 2023, BACB installed 12 new ATMs with deposit functions. During the reporting period, the Bank successfully launched a new Cashback functionality for debit cards linked to the Clean Account, with the first payment being made in December 2023. On 30 November 2023, the BACB Plus electronic banking platform was taken down from public websites, and client access was discontinued. As of 1 December 2023, "BACB Online" became the remote banking platform serving all Bank clients – individuals and legal entities. During the reporting period, many new functionalities and improvements were implemented on the platform.

Bulgarian – American Credit Bank AD
Consolidated Activity Report
As at 31 December 2023

In EUR '000	2023	20212	2021
consolidated	(audited)	(audited)	(audited)
Net interest income	47 797	26 668	22 841
Fees and commissions, net	6 990	7 594	5 976
Total operating income	56 007	44 154	30 965
Total operating expenses	-19 948	- 17 366	- 16 153
Operating profit/(loss)	36 059	26 788	14 812
Impairment of financial assets (provision allowance)	-4 302	- 2 839	- 4 403
Revaluation of non-financial assets	-88	- 7	- 124
Impairment of equity investment	-51	-	-
Profit/(Loss) before tax	31 618	23 942	10 285
Profit/(Loss) for the period	28 442	21 549	9 241
Total assets	1 427 198	1 358 652	1 125 065
Loans to customers, net	767 175	704 995	637 444
Deposits from customers	1 227 577	1 178 454	975 815
Shareholders' equity	166 932	138 497	118 245
Capital Adequacy Ratio	20.91%	18.00%	17.11%

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF BULGARIAN-AMERICAN CREDIT BANK 2023

The following is a discussion of the results of operations and financial condition of the Bulgarian-American Credit Bank (BACB or the Bank) and its subsidiaries (“the Group”) for the year ended 31 December 2023. Investors should read this discussion together with the Bank’s historical financial statements and the related notes and should not rely just on the key summarized information contained in this document. The Bank has prepared its financial statements for the year ended 31 December 2023 in accordance with IFRS. The financial information in this section has been extracted without material adjustment from the Group’s financial statements for the years ended 31 December 2023 and 2022 and the related notes there to or from the Group’s accounting records that formed the underlying basis of the financial information in those financial statements.

This section contains forward looking statements. These statements are subject to risks, uncertainties and other factors that could cause the Group’s future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward looking statements. Save for the discussion contained herein management is not aware of any other trends, circumstances or risks for which there is a significant chance to affect the financial position and the results from operation of the Group.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

I. Overview and selected financial information

The following section contains a review that presents honestly and truly the development and the financial results of the Group and its condition, together with a description of the main risks the Group faces.

The following section contains an analysis of the main financial and non-financial activities results with regard to the economy activities of the companies in the Group, including information on the matters of ecology and employees.

The Bank is specialized in providing of secured finance to small- and medium-sized businesses in Bulgaria and at the same time searches for diversification of its portfolio through exposures to corporate customers and other sectors of strong fundamentals such as renewable energy as well as financing of projects that are contracted under the EU operational programs and last but not least - by expanding the range of services and products offered in the retail banking segment.

At 31 December 2023 the Group employed 369 people compared to 357 people on 31 December 2022.

The Group reports its results of operations in BGN and EUR

The constituent meeting of the shareholders of the Bank was held on 22 December 1995. The Bank is established and exists in compliance with the laws of the Republic of Bulgaria. The existence of the Bank is not limited in time. The Bank was registered with Sofia City Court on the grounds of a court decision of 3 December 1996 under Company Case No. 12587/1996, Lot No. 35659, Volume 397, Register I, Page 180, as a joint stock company under the 1991 Commerce Act after obtaining a license issued by BNB for performing banking activities. The Bank is registered with the Commercial Register and the Register of Non-Profit Legal Entities at the Registry Agency under UIC 121246419. The Bank is registered as an issuer of publicly offered bonds with the Register of Public Companies and Other Issuers of Securities, maintained by the Financial Supervision Commission ("FSC") under Lot No. 05-1082 according to decision No. 296-E/2001.

The Bank has the status of a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia (BSE-Sofia code: BACB).

The seat and registered office of the Bank is at: 2, Slavyanska Str., Sredets District, Sofia Municipality, Sofia 1000, telephone: +(3592) 9058 377, fax: +(3592) 9445 010, email: bacb@bacb.bg and website: www.bacb.bg.

BACB operates through a head office in Sofia and operational offices in Sofia, Plovdiv, Varna, Burgas, Stara Zagora, Ruse, Pleven, Kardzhali, Veliko Tarnovo, Kozloduy, Chepelare, Pamporovo and Petrich. All offices offer the full scope of banking services, provided by the head office.

The Bank operates in compliance with Regulation (EU) 575/2013 regarding the prudential requirements, applicable to credit institutions and investment firms, the Credit Institutions Act and the regulations of BNB for its implementation, the Public Offering of Securities Act ("POSA") and the regulations of the FSC for its implementation, as well as the Commerce Act.

Important issues for investors in connection with the status of the Bank as a public company are regulated in the following regulatory instruments:

- Regulation (EU) № 597/2014 of the European Parliament and of the Council on market abuse;
- Corporate Income Tax Act;
- Income Taxes on Natural Persons Act; Foreign Exchange Act;
- Application of Measures Against Market Abuse of Financial Instruments Act;
- Markets in Financial Instruments Act;
- Ordinance No. 2 of the Financial Supervision Commission (FSC) on initial and subsequent disclosure of information in public offering of securities and admission of securities to trading on a regulated market;

The provisions of Section I, Chapter Eleven of POSA and the Ordinance on the disclosure of shareholdings in public and investment companies govern the requirements for disclosure of significant interest in the Bank. The Bank's transactions in treasury shares are regulated by Art. 111 (2) and (5) POSA and the Commerce Act. The mandatory auctions are regulated by Art.149, Art. 150-157A POSA, the Ordinance on the requirements for the content of the justification of the price of shares of a public company, including the application of valuation methods in the cases

of transformation, joint venture agreement and a tender offering, as well as in Ordinance 13 of 22 December 2003 on tender offering for the purchase and exchange of shares.

The conditions for the deregistration of the Bank from the Register of Public Companies and Other Issuers of Securities under Art. 30 (1) (3) of the FSC Act are regulated in APOSA and in Ordinance No. 22 of the FSC on the terms and conditions and the procedure for registration and deregistration of public companies, other issuers of securities and securities issues with the register of the FSC.

The Banks's accounting policies are similar to the ones implemented through the previous reporting period. There are no significant changes in the accounting policy, with the exception of the "Basic Elements of Accounting Policies" referred to in item 3 of the Annual Consolidated Financial Statements.

- **OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS ON CONSOLIDATED BASIS**

Results of Operations for the Years Ended 31 December 2023 and 2022

The following table sets out the Group's net profit for the year and the principal components thereof for the years ended 31 December 2023 and 2022, as well as the percentage variation within each line item.

	As of December 31		Change 2023/2022 %
	2023	2022	
	(' 000 EUR)		
Data from the Consolidated Statement of Income			
Interest income	51 157	28 748	77.9
Interest expense	-3 360	-2 080	61.5
Net interest income	47 797	26 668	79.2
Fees and commission income, net	6 990	7 594	-8.0
Other non-interest income, net	1 220	9 892	-87.7
Operating Income	56 007	44 154	26.8
Operating expenses	-19 948	-17 366	14.9
Impairment of financial assets	-4 302	-2 839	51.5
Impairment of non-financial assets	-139	-7	-2000
Profit/(Loss) before tax	31 618	23 942	32.1
Tax income / (expense)	-3 176	-2 393	32.7
Profit/(Loss) from continuing operations	28 442	21 549	77.9
Profit/(Loss) from discontinued operations			
Profit/(Loss) for the year	28 442	21 549	133.2
Data from the Consolidated Cash Flows Statement			
Net cash provided by (used in) operating activities	38 343	143 327	-73.2
Net cash provided by (used in) investing activities	-61 608	-22 864	169.5
Net cash provided by (used in) financing activities	-7 643	6 854	-211.5
Net change in cash and cash equivalents	-31 294	130 069	-124.1

	As of December 31	
	2023	2022
Key Ratios		
Return on average total assets, %⁽¹⁾	2.04	1.74
Return on average total equity, %⁽²⁾	18.62	16.79
Earnings per share, in €⁽³⁾	2.25	1.71
Shares Outstanding	24 691 313	24 691 313
Registered capital (in EUR)	12 624 468	12 624 468
Declared dividend (EUR per share)^(4.1 ; 4.2)	Refer to ^(4.2)	Refer to ^(4.1)
Cost/income ratio, %⁽⁵⁾	35.62	39.33
Shareholders' equity/Total assets, %⁽⁶⁾	11.7	10.19
Tier 1 capital ratio	20.91	18.00

(1) Return on average total assets is calculated by dividing net profit/(loss) for the year by the average of total assets at the end of the period and at the end of the previous period.

(2) Return on average total equity is calculated by dividing net profit/(loss) for the year by the average of total shareholders' equity at the end of the period and at the end of the previous period.

(3) Earnings-per-share is calculated by dividing net profit/(loss) for the year by the average number of shares outstanding during the period.

(4.1) At the date of this report no dividend payment has been proposed to the Annual General Meeting of the Shareholders for Y 2022.

(4.2) At the date of this report, there is a decision of the General Meeting of Shareholders that has been adopted from May 23, 2023 for dividend distribution and a dividend has been paid in the amount of EUR 1,262,446.79. (0.10 lv. dividend per 1 share)

(5) Cost/income ratio is calculated by dividing operating expenses for the period by operating income for the period (excluding any losses or gains from foreign currency revaluation).

(6) Shareholder equity/Total assets is calculated by dividing total shareholders equity at the end of the period by total assets at the end of the period.

Among other things, the discussion below addresses the requirements of Appendix 10 of Ordinance No.2 of the Financial Supervision Commission, taking into account the specific activities of the Bank as a lending institution.

Net Interest Income

A number of factors affect the Group's net interest income. It is primarily determined by the volume of interest earning assets, such as loans and advances to customers, interest-earning securities which the Bank holds and loans to other credit institutions, and the volume of interest bearing liabilities, such as debt securities issued, loan facilities from international financial institutions, deposits from other credit institutions and customer deposits, as well as the difference between rates earned on interest earning assets, on the one hand, and rates paid on interest-bearing liabilities on the other.

Note 4 to the Consolidated Financial Statements for 2023 contains detailed breakdowns of the principal components of net interest income for the years ended 31 December 2023 and 2022.

Interest income is comprised of interest on loans and advances to customers paid to the Bank (80.6% of interest income for 2023), as well as these from „deposits from banks“ (11.1% of interest income for 2023), as well as these from "recognized at fair value through other comprehensive income" (4.2% of interest income for 2023) and interest on "measured at amortized cost" (4.0 % of interest income for 2023).

Interest income increased by EUR 22 409 thousand, or 77.9%, from EUR 28,7 million in the year ended 31 December 2022 to EUR 51,2 million in the year ended 31 December 2023. This increase was primarily a result of the loan portfolio dynamics during the year ended 31 December 2023, which registered progress to the expected recovery.

During the year ended 31 December 2023, interest income from loans and advances to customers report an increase and reach EUR 41.2 million or an increase by 51.7%, from EUR 27,2 million as at the end of 2022.

Interest income from banks increased by EUR 4,9 million, and from EUR 790 thousand in the end of 2022 to EUR 5,7 million in the year ended 31 December 2023 with share 11.1% of interest income for 2023.

The interest income from "recognized at fair value through other comprehensive income" has traditionally not significantly affected total interest income, although investments in these instruments increased significantly during the accounting year. In 2023 BACB reported an increase in the positions in its portfolio of government securities of Bulgarian government securities and corporate securities debt and the interest income generated from financial assets "recognized at fair value through other comprehensive income" increased – from EUR 361 thousand as at the end of 2022 to EUR 2 155 thousand as at the end of 2023 and form income in the total amount of interest income with a share of 4.2% in 2023 compared to 1.3% in 2022. The formed a portfolio of debt securities "measured at amortized cost" generated interest income in the amount of EUR 2 056 thousand which represents 4 % of the interest income for 2023 (2022 - EUR 414 thousand and 1.4%).

Interest expense comprises amounts paid by the Bank as interest on funds deposited by customers and banks, interest on debt securities issued and other attracted funds.

Interest expense increased by EUR 1 280 thousand, or 61.5%, from EUR 2,1 million in the year ended 31 December 2022 to EUR 3,36 million in the year ended 31 December 2023.

Interest expense on deposits from customers increased by EUR 1 517 thousand, or 217%, from EUR 0.697 million in the year ended 31 December 2022 to EUR 2.214 million in the year ended 31 December 2023. The increase resulted mainly from the significant increase of the interests on deposit products repeatedly throughout the year, despite the reported increase of the total amount of the deposits from clients at the end of the year.

At the year ended 31 December 2023 the Bank registered interest expense on other borrowed funds in the amount of EUR 294 thousand, while for 2022 the reported expense was EUR 222 thousand (increase by EUR 72 thousand or 32.5%). These interest expenses are mainly under the credit line from the Bulgarian Development Bank under the NAPRED program for BGN 35 million (EUR 18 million) low-interest resource and signed in November 2018 a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria to 10 million EUR for a 10 year period.

On 23 December 2022 BACB issued an unsecured bonds issue in the amount of EUR 15 million. The bonds are issued to satisfy equity and eligible liabilities requirements in accordance with the provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The type of bonds issued – ordinary, interest-bearing, book-entry, registered, freely transferable, unsecured, non-convertible bonds. Maturity of the bonds issued is seven years and the total principal is payable at maturity. The interest rate is fixed and the interest amount is payable on six-month coupon payments. The issue is expected to be registered for trading on the Bulgarian Stock Exchange within 6 months after issuance.

As of 31 December 2023 the Bank reports interest on issued debt securities in the amount of EUR 750 thousand (2022: EUR 16).

Interest expense on lease agreements reported under IFRS 16 amounted to EUR 102 thousand at the end of 2023, or EUR 39 thousand more than a year ago (2022: EUR 63 thousand).

For the reported period the Group registers a significant increase of the net interest income (increase by EUR 21.129 million or 79.2%) on an annual basis or total amount of EUR 47.8 million. This is a result of increase of the interest income by EUR 22 409 thousand or 77.9% and increase of interest expenses by EUR 1 280 thousand (61.5%) with increase by EUR 49.1 million of the deposit basis. For the reported period the determining factor for the formation of the net interest income remain the income from the credit activities. Reported income from interbank deposits amounted to EUR 5 704 thousand in Y 2023 against EUR 790 thousand for the previous year. Interest income from security portfolios amounted to EUR 4 211 thousand at the end of the year 2023. In line with the trend of increasing the interest on deposit products in the banking system, BACB also decreased the interest on deposits levels several times over the past year, which nevertheless remain at attractive levels for the Bank's customers. **Net fees and commissions income**

Fees and commission income is composed of fees in connection with current accounts, such as maintenance and money transfer fees; loan fees, such as prepayment, appraisal and guarantee fees; asset servicing fees and fees and commissions on settlement and brokerage operations.

Note 5 to the Consolidated Financial Statements for 2023 contains detailed breakdowns of the principal components of fees and commission income, and fees and commissions expense, for the years ended 31 December 2023 and 2022.

For the twelve months of 2023 Group reports net fees and commissions income in the amount of EUR 6.990 million. This result is EUR 0.604 million or 8% lower than and is mainly due to lower revenues from fees and commissions in cash storage.

With the greatest contribution of this income are the fees and commissions under payment services which report EUR 5.3 million compared to EUR 5.2 million in 2022 (increase by 1.9%) and share of 69.3% (2022 – 64.2%). The fees and commissions under deposit accounts decreased from EUR 2.01 million in 2022 to EUR 1.226 million in 2023 and form 16.1% of the total amount of the fees and commissions income. The fees and commissions income under guarantees and letters of credit decreased their volume by EUR 240 thousand in 2023 and share decrease from 3.4% in 2022 to 3.2%. The fees and commissions income under loans and advances to clients reached to EUR 790 thousand and form 10.4% of the total fees and commissions income and report an increase by 50.7% compared to those reported in 2022, amounting to EUR 524 thousand. Other fees and commissions reached to EUR 78 thousand – share 1%.

The positions forming the Group's expenses for fees and commissions report an increase EUR 151 thousand or 33.4% from EUR 451 thousand in 2022 to EUR 602 thousand in 2023. The fees and commissions under bank cards report EUR 448 thousand with share of 74.4%, compared to EUR 364 thousand in 2022 with share 80.6%. The fees and commissions expenses under payment and other services in 2023 report EUR 154 thousand or an increase 77% (2022: EUR 87 thousand) and form 25.6% of all fees and commissions expenses (2022 – 19.4%).

Other non-interest income

Other net non-interest income decreased on net basis by EUR 8.7 million from EUR 9,9 million in Y2022 to EUR 1.2 million in the end of Y 2023 or -88 %.

The profit from financial assets carried at fair value through profit or loss in 2023 reached EUR 147 thousand compared to EUR 82 thousand for the previous year. The position reflects the net change in fair value of the investment in preferred stock of Visa Inc.

In 2023 and in 2022 the Bank does not report a result of debt securities reported at FVOCI.

The net income from foreign exchange transactions decrease by 2.9% - from EUR 1,8 million in 2023 to EUR 1,9 million in 2022.

In 2023 a loss of EUR 51 thousand was reported from the revaluation of assets and liabilities in foreign currency (2022: gain of EUR 323 thousand).

As of 31.12.2022, other operating revenues reached a significant growth due to the positive result from sold assets classified as held for sale. As a result, at the end of 2023 the Group reported EUR 0.896 million on this item vs.

EUR 9.2 million a year earlier or a decrease of 90.3%.

The direct administrative costs of investment properties and assets held for sale, as well as the generated revenue from the management of these properties, also affect the result.

Notes 6, 7 and 8 to the Consolidated Financial Statements for 2023 contain detailed breakdowns of the principal components of other non-interest income.

Operating Income

At the year ended 31 December 2023 the operating income (net) of the Group reach EUR 56 million compared to EUR 44.2 million in 2022. A number of factors affect the Group's operating income. The net interest income has the highest weight in total operating income for 2023 with share of 85.3%, followed by other non-interest income (net) with 12.5% and net fees and commissions income with 2.2%.

Operating Expenses

Operating expenses consist of administrative costs, incl. contributions to the Bank Deposit Guarantee Fund (BDIF) and the Bank Restructuring Fund (BRF), salaries and benefits and depreciation and amortization. Total operating expenses increased by EUR 2.582 million, or 14.9%, from EUR 17.4 million during the year ended 31 December 2022 to EUR 19.9 million during the year ended 31 December 2023.

Personnel cost, incl. social security cost, increased by EUR 1.117 thousand (15.2%) compared to 2022 and represent 42.4% of the administrative expenses. The expenses to the Guarantee Insurance Fund and the Restructuring of Banks Fund amounted EUR 1,51 million. The total amount of these costs decreased by EUR 62 thousand on an annual basis compared to the expenses in 2022. The share of these expenses is 7.6% of the total administrative expenses in 2023. Rent cost decreased by 1.6%, from EUR 194 thousand reported at the end of 2022 to EUR 191 thousand as at December 31st 2023.

Advertising expenses increased by EUR 141 thousand - from EUR 450 thousand in 2022 to EUR 591 thousand in 2023.

For further analysis of administrative expenses please refer to Note 9 of the consolidated financial statements.

The Group's depreciation and amortization expenses retain the amount of EUR 2.290 million.

Expenses for Impairment

The annual expense accrued for impairment of loans and advances to customers and financial assets (provisions) increased by EUR 1.463 million from EUR 2.8 million in 2022 to EUR 4.3 million in 2023.

In 2023, the 'Impairment of financial assets' item in the statement of comprehensive income includes the recognized effect on modification of loans and advances of EUR 22 thousand (2022: EUR 241 thousands).

In 2023 the Bank has written off from the balance sheet unrecoverable receivables against allocated impairment provisions in the amount of EUR 4.3 million. The write-offs relate to loans, which the Bank believes are non-recoverable.

The total amount of provisions at 31 December 2023 was EUR 30,6 million compared to 30.8 million as at 31 December 2022, which is a decrease by 0.7%.

The NPLs with overdue more than 90 days decreased from 9.3% of the gross loan portfolio as at December 31, 2022 to 8.2% as at December 31, 2023.

The share of classified loans vs the gross loans is above the bank system average, with a downward trend from the end of 2011, but the aggregate amount of all classified loans, decreased from 10.8% of the Bank's gross loan portfolio at 31 December 2022 to 9.4% at 31 December 2023.

As a percentage to the gross amount of loans to customers, the provisions for impairment decreased from 4.2% at December 31, 2022 to 3.8% at December 31, 2023.

For further details, please, refer to *Selected Statistical Information* below.

Taxes

Tax expenses comprises the current tax expense and income or the deferred tax expense and income.

In 2023 the Bank reported profit before tax in the amount of EUR 31.6 million, current tax expense in the amount of EUR - 3 176 thousand and there are no deferred tax expenses reported during the year.

A pretax profit of EUR 23.9 million was recorded in 2022 and a current tax expense in the amount of EUR 2 378 thousand and deferred tax income of in the amount of EUR 15 thousand or total tax expenses EUR 2.393 million.

Net financial result for the year

The Group reported net profit of EUR 28 442 thousand for 2023 in comparison to net profit of EUR 21 549 thousand for the previous financial year or increase 32%.

The net profit for the year ended 31 December 2023 was caused by a combination of the factors discussed above in details.

• **CAPITAL RESOURCES**

Liabilities and Shareholders' Equity

The following table sets out the structure of liabilities and equity of the Bank at 31 December 2023 and 2022.

	As of December 31		Change
	2023	2022	2023/2022
	(' 000 EUR)		%
Liabilities			
Deposits from banks	177	39	353.8
Deposits from customers	1 227 577	1 178 454	4.2
Other borrowed funds	4 641	9 176	-49.4
Debt securities in issue	15 016	15 016	0.0
Other liabilities	12 855	17 470	-26.4
Total Liabilities	1 260 266	1 220 155	3.3
Shareholders' Equity			
Share capital	12 624	12 624	0.0
Share premium	18 944	18 944	0.0
General reserve	106 550	86 604	23.0
Current year profit	28 442	21 549	32.0
Revaluation reserve	372	-1 224	-130.4
Total Shareholders' Equity	166 932	138 497	20.5
Total Liabilities and Shareholders' Equity	1 427 198	1 358 652	5.0

In 2023 the liabilities structure of the Bank remains the same as in the previous period.

The Bank continued the successful implementation of its funding strategy with a focus on building a diversified customer deposit base. In the reporting period the deposits from customers increased by 4.2% to reach EUR 1 227,58 million (2022 – EUR 1 178,45million) and were the major funding source for the Bank accounting for 98.4% of total attracted funds at the year-end (2022– 98%).

Since July 2015 the Bank has an effective agreement with the Bulgarian Development Bank for participation in the BDB Napred program for indirect financing for micro, small and medium business enterprises. The main goal of the program is the financing of the Bulgarian business under competitive terms and conditions the development of the economy, creating new jobs and investing in regions with high unemployment. Under the agreement BACB utilizes a line of credit in the amount of BGN 35 million for financing projects in compliance with the program's aims.

In November 2018 The Group signed a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria. COSME+ Program is implemented with the support of the European Fund for Strategic Investments. Its purpose is to facilitate the access to long-term and cheap financing for SME companies while reducing the requirements towards the collateral under the loans. Under the agreement the Group will receive up to 10 million EUR for a 10 year period for providing investment loans, working capital and guarantees to its clients.

On 23 December 2022 BACB issued an unsecured bonds issue in the amount of EUR 15 million. The bonds are issued to satisfy equity and eligible liabilities requirements in accordance with the provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The type of bonds issued – ordinary, interest-bearing, book-entry, registered, freely transferable, unsecured, non-convertible bonds. Maturity of the bonds issued is seven years and the total principal is payable at maturity. The interest rate is fixed and the interest amount is payable on six-month coupon payments. The issue is expected to be registered for trading on the Bulgarian Stock Exchange within 6 months after issuance.

As of 31 December 2023 the Bank's obligation related to debt securities in issue, including accrued interest, amounts to EUR 15.016 million (2022: EUR 15.016 million).

The share of other attracted funds in the BACB liabilities decreased by 49.4% compared to the reported at the end of 2022 - from EUR 9.2 million to EUR 4.6 million.

As of 31.12.2023 the funds attracted from banks amount to EUR 177 thousand (2022 – EUR 39 thousand).

The Bank started accepting institutional deposits in 2000 and retail deposits in 2001. The level is kept in 2014, reporting and increased from EUR 317 million to EUR 1 227.6 million in 2023. Aiming to achieve independence and diversification of the sources for financing in 2015 the Bank began presenting deposit products for persons and households on the German market, and from beginning Q2 2017 began presenting deposit products for persons and households on the Spanish market. At Y/e 2023 the deposits from Germany represent 0.1% and deposits from Spain represent 0.03% of the total deposit base, banks excluded. Due to the large number of clients, there is no separate client with a share of BACB's expenses larger than 10%.

As at Dec 31, 2023 the Bank had no loans from international financial institutions or international banks.

As a result of the changed liabilities structure, as discussed above, the Bank's average cost of funding decreased from 0.19% for 2022 to 0.29% for 2023.

The Bank is subject to, and is in compliance with, the capital adequacy requirements of the BNB. The minimal levels of capital adequacy in Bulgaria are set forth in Regulation 575/2013, as per which the institutions in any moment have to qualify the following capital requirements:

- Ratio of the basis Tier 1 capital 4.5%;
- Ratio of Tier 1 capital 6%;
- Total capital adequacy ratio 8% (before buffers);

As at 31 December 2023 the Group's total capital adequacy ratio amounts to 20.91% (above the requirements of BNB) despite of the additional provisions for credit risk (Y2022 – 18.00%).

Management believes that the high capital ratio of the Bank is consistent with the risk profile of its assets.

• LIQUIDITY

As of 01.01.2018 the Liquidity Asset Ratio (under BNB Ordinance 11) was replaced by a Liquid Coverage Ratio (LCR), which was 168.30 % as at 31.12.2023.

The Group follows the principles of diversification of sources of financing and optimization of interest costs in pursuance of the strategy for securing its liquidity needs.

At the end of 2023, the Group maintained a stable deposit base and reported an increase in customer deposits of 4.2% compared to the end of 2022. The Bank's active deposit activity contributed to a reduction in its dependence on external financing. The Bank continues to carry out deposit-taking of individuals from Germany and Spanish market.

The ratio of gross customer loans to customer deposits is 65% at December 31, 2023.

The liquidity position of the bank remains strong as the liquid assets (cash and balances and funds on accounts with BNB, short-term loans and advances to banks and liquid securities - government and corporate) amounted to EUR 564.6 million. The ratio of the liquid assets to the total deposit amounts (clients and banks) is 45.81% at December 31, 2023.

In 2023 the Group formed a debt securities portfolio, accounted with fair value in other comprehensive income in the amount of EUR 68,1 million (2022: EUR 42,1 million) or an increase by 61.5%. The cash and advances with BNB and other banks decreased by EUR 48.1 million. As stated in the table above, as at 31 December 2023, debt instruments with a carrying amount of EUR 3.65 million, measured at fair value in OCI (2022: EUR 6.08 million) are pledged in connection with the statutory requirement for banks to secure government bonds with the funds attracted on budget accounts.

As of 31 December 2023 and 31 December 2022 the Group reports a portfolio of debt instruments at amortized cost the amount of EUR 102.7 million (2022: EUR 65.8 million) which consists of Bulgarian and Foreign government securities with fixed payments and a certain maturity. As at 31 December 2023 the Bulgarian Government bonds of EUR 12.710 million (2022: EUR 12.069 million) are fully pledged as collateral for attracted funds from the state budget counterparties.

Since the beginning of 2023, the Bank has made new investments in government securities in the amount of EUR 267.9 million in the "held for collection of contractual cash flows" portfolio and in the "held for collection of contractual cash flows and sale" portfolio.

As at 31 December 2023 the government bonds portfolio is with balance value of EUR 162.3 million (2022: 103 million), from which financial assets, appraised by fair value in other comprehensive income of EUR 60.6 million and financial assets, accounted by amortization value of EUR 101.7 million (2022: EUR 37.2 million and EUR 65.8 million).

Since the beginning of the period in connection to completed investments in debt securities accounted with fair value in other comprehensive income there are no reported gains or losses in connection with completed investments. The unrealized profits and losses from reappraisal of the financial assets, accounted with fair value in other comprehensive income, are deferred in equity account, net of taxes.

• **SELECTED STATISTICAL INFORMATION**

Average Balances and Related Interest Rates: Assets

	As of December 31					
	2023			2022		
	Average Balance (1)	Interest income	Average interest rate (2)	Average Balance (1)	Interest income	Average interest rate (2)
	000 EUR	000 EUR	%	000 EUR	000 EUR	%
Due from other banks	16 475	5 703	3.14	54 758	791	0.72
Loans and advances to customers, net	736 085	41 242	5.76	671 219	27 183	4.12
Investment securities-available-for-sale	55 107	2 155	3.27	40 281	361	0.89
Investment securities-hold-to-maturity	84 236	2 056	2.66	51 391	414	0.98
Total interest earning assets	891 903	51 156	4.91	817 649	28 749	3.37
Non interest earning assets	501 022	0		424 210	0	
Total Assets	1 392 925	51 156	4.01	1 241 859	28 749	2.35

- (1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial;
- (2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Average Balances and Related Interest Rates: Liabilities

	As of December 31					
	2023			2022		
	Average Balance (1)	Interest expense	Average interest rate (2)	Average Balance (1)	Interest expense	Average interest rate (2)
	000 EUR	000 EUR	%	000 EUR	000 EUR	%
Deposits from banks	108	-	0.01%	67	-	0.00
Deposits from customers	1 203 015	2 214	0.20%	1 077 135	697	0.06
Other borrowed funds	6 909	294	4.85%	12 656	222	1.93
Debt securities outstanding	15 016	750	5.00%	7 508	16	5.00
Interest bearing liabilities	1 225 048	3 258	0.30%	1 097 366	936	0.09
Interest bearing liabilities	4 727	102		4 628	63	1.44
Non interest bearing liabilities	10 435	-	-	11 494	1 082	-
Shareholders' Equity	152 715	-	-	128 371	-	-
Total Liabilities and Shareholders' Equity	1 392 925	3 360	0.29%	1 241 859	2 080	0.19

- (1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.
- (2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Volume and Rate Analysis

	As of December 31					
	2023			2022		
	Net Change Due to			Net Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
(1)	(2)		(1)	(2)		
	(€ 000)			(€ 000)		
Due from other banks	2 236	2 677	4 913	211	571	782
Loans and advances to customers	3 258	10 802	14 060	1 788	373	2 161
Investment securities- available-for-sale	827	967	1 794	51	-42	9
Investments securities – hold-to-maturity	927	715	1 642	131	148	279
Change in interest income	7 248	15 161	22 409	2 181	1 050	3 231
Deposits from banks	0	0	0	0	0	0
Deposits from customers	57	1 459	1 516	122	-795	-673
Other borrowed funds	-257	368	111	-109	103	-6
Debt securities outstanding	746	0	746	16		16
Change in interest expense	546	1 827	2 373	29	-692	-663
Net change in interest income	6 702	13 334	20 036	2 152	1 742	3 894

- (1) The net change due to a change in volume is the change in the average monthly outstanding balance multiplied by the average interest rate for the current period;
- (2) The net change due to a change in interest rate is the change in the average interest rate multiplied by the average monthly outstanding balance for the prior period.

Average Interest Earning Assets, Yields, Margins and Spreads

	As of December 31	
	2023	2022
	(€ 000, except in %)	
Average Interest Earning Assets	891 903	817 649
Interest Income	51 156	28 749
Net Interest Income	47 797	26 668
Average Yield ⁽¹⁾	4.91%	3.37%
Average Margin ⁽²⁾	5.36%	3.26%
Average Spread ⁽³⁾	4.61%	3.28%

- (1) Average yield is interest income expressed as a percentage of average monthly interest earning assets for the period.
- (2) Average margin is net interest income divided by average monthly interest earning assets for the period.
- (3) Average interest spread is the spread between average interest on assets and average interest on liabilities, the latter presented as a percentage of the interest expenses to interest on liabilities

Loan Portfolio: By Currency

	As of December 31			
	2023		2022	
	000 EUR	%	000 EUR	%
EUR	268 030	33.6	276 612	37.6
USD	16 104	2.0	23 579	3.2
BGB	513 522	64.4	435 528	59.2
Total	797 656	100	735 719	100

Loan Portfolio: By Size

	As of December 31					
	2023			2022		
	No. of loans	(€ 000)	% of LP	No. of loans	(€ 000)	% of LP
Under 10,000	11 239	17 337	2.2	11 277	14 713	2.0
10,000 - 100,000	3 847	138 708	17.4	3 499	124 972	17.0
100,000 - 1,000,000	878	210 617	26.4	725	175 534	23.8
Over 1,000,000	141	430 994	54.0	134	420 500	57.2
Total	16 105	797 656	100	15 635	735 719	100

Loan Portfolio: Diversification under Industry Sectors

Industry Sector	2023		2022	
	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net
Real estate construction	101,954	95,392	83,206	75,445
Wholesale distribution	69,592	68,449	67,233	66,186
Hotels	67,012	65,469	61,069	59,400
Electricity production	47,198	45,973	40,985	40,422
Primary agriculture and farming	43,516	42,271	37,510	36,732
Real estate investment&Land development	37,416	32,503	29,199	23,763
Transportation	19,307	19,161	28,721	28,031
Food processing	13,885	13,382	27,329	26,630
Furniture and wood products	21,764	20,048	22,981	20,566
Financial services	26,931	26,472	22,571	22,235
Light industry	18,833	16,493	19,402	17,414
Chemical industry	18,094	18,060	17,332	17,307
Retail	19,405	18,992	16,163	16,068
Production of metal products and equipment	11,300	10,873	15,313	15,074
Waste collection and recycling	13,737	13,718	15,290	15,272
IT services	6,632	6,618	10,297	10,289
Entertainment and Recreation	8,977	8,448	9,450	8,955
Other	35,497	32,756	39,953	37,296
Exposures to corporate customers	581,050	555,078	564,004	537,085
Mortgage loans to individuals	171,490	171,184	132,460	132,134
Consumer loans to individuals	45,116	40,913	39,255	35,776
Loans and advances to customers	797,656	767,175	735,719	704,995

Credit portfolio analysis: Large exposures

Large Exposures (Including Unutilized Loan Commitments) before impairment

	2023		2022	
	(€ 000)	% of capital base	(€ 000)	% of capital base
Largest exposure to a single client group	23,682	16.6	20,280	17.7
Aggregate of five largest exposures	92,766	64.9	91,269	79.5
Aggregate of all exposures-over 10% of capital base	79,589	55.7	182,765	159.3

Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage

	As of December 31			
	2023		2022	
	(€ 000)	% of Total	(€ 000)	% of Total
Deposits from Banks	177	0.0	39	0.0
Deposits from Customers	1 227 577	98.4	1 178 454	98.0
Other attracted funds	4 641	0.4	9 176	0.8
Debt Securities	15 016	1.2	15 016	1.2
Total Funding	1 247 411	100	1 202 685	100

Non-Equity Funding: Deposits by Type and Currency

	As of December 31	
	2023	2022
	000 EUR	000 EUR
Demand deposits		
in EUR	236 770	194 195
in BGN	589 505	578 724
in USD	30 775	47 611
in GBP	0	0
Total	857 050	820 530
Term deposits		
in EUR	158 453	188 884
in BGN	166 587	127 181
in USD	45 664	41 898
Other	0	0
Total	370 704	357 963

Non-Equity Funding: Deposits by Type and Customer group

Bulgarian – American Credit Bank AD
Consolidated Activity Report
As at 31 December 2023

	As of December 31	
	2023	2022
	000 EUR	000 EUR
Demand deposits		
Bank	177	39
Institutional	722 782	698 772
Individual	134 091	121 719
Total	857 050	820 530
Term deposits		
Bank	0	0
Institutional	89 652	74 066
Individual	281 052	283 897
Total	370 704	357 963

Off-Balance Sheet Liabilities: By Type

	As of December 31			
	2023		2022	
	(€ 000)	%	(€ 000)	%
Bank Guarantees	20 140	17.5	11 007	13.1
Letters of Credit	2 293	2.0	284	0.3
Unutilised Loan Liabilities	92 415	80.5	73 044	86.6
Total	114 848	100	84 335	100

Off-Balance Sheet Liabilities: By Maturity

	As of December 31, 2023				
	Maturity within 1 month	Maturity after 1 month but before 3 months	Maturity after 3 months but before 6 months	Maturity after 6 months but before 12 months	Maturity after 1 year
	000 EUR				
Bank Guarantees	1 623	815	3 822	1 696	12 184
Letters of Credit	0	1 760	0	533	0
Unutilised Loan Liabilities	1 438	1 823	22 693	37 875	28 586
Total	3 061	4 398	26 515	40 104	40 770

- **ECOLOGY and EMPLOYEES**

Ecology

In 2023, the Bank continued to pursue its objective to reaffirm its position as a bank supporting initiatives in the field of "green economy" and sustainable development, offering its clients quality and reliable financial services and ensuring profitability for its shareholders.

In its credit policy the bank continues to put an emphasis on projects for the development of green economy, financing of business ventures related to energy saving and renewable energy sources, projects under European funds in the field of energy efficiency and environmental protection, as well as providing innovative solutions for business.

In 2023, the Bank participated in the following initiatives and programs with an environmental focus:

- **Bianca Virtual Assistant** - In sync with the accelerated digitization strategy of recent years, which began with the launch of the Virtual Bank and continued with fully online processes for opening deposits, loans, and Clean Account, the Bank introduced the digital assistant Bianca at the beginning of April. Bianca is available to assist anyone with questions related to banking products. She can help with difficulties in BACB Online, as well as with the BACB Pay mobile wallet. Providing a new way of communicating with the bank's clients, Bianca offers real-time information and saves time and resources that would otherwise be spent visiting bank branches.
- **Agricultural Loan Campaign** - From 09.05. to 11.06.2023, a campaign was conducted for the "Agricultural Loans" category offered by BACB, presenting loans for modern agriculture and land acquisition. The advertising campaign was digital, focused on specialized media for agribusinesses. The campaign period was planned during the BATA AGRO exhibition - the largest specialized exhibition in the country in this segment, at which the bank consistently participates.
- **BACB's participation in the "ESG Strategy" event** organized by "24 chasa";
- **Books for trash" campaign – return plastics, choose a book"** together with the "Credo Bonum" foundation - sponsorship of BACB AD in the amount of BGN 6 000 including VAT. The initiative is dedicated to recycling plastics and reading books in Bulgaria. In 2023, the event was held for the 11th consecutive year. Due to the scale of the event, it was held in 2 stages – spring in April and May and autumn in September and October in more than 10 cities and enjoyed lots of attendance and activity.
- **Eco Exhibition** - Once again, in partnership with the "Credo Bonum" foundation, BACB sponsored the amount of BGN 13 000. With the "Eco Exhibition" campaign "You Don't Need a Meteorologist to Know Which Way the Wind Blows - 2023," the "Credo Bonum" foundation and gallery, in partnership with BACB, initiated a series of exhibitions and events dedicated to fast fashion and climate change. These events aim to acquaint the public with possible solutions and build partnerships between businesses and artists, with the goal of a more sustainable future and attitude change. The project is also supported by the National Culture Fund, TexCycle, and the Nomura Foundation, Japan.
- **Media Business Breakfast on the topic "Presentation of the ESG Strategy and BACB Sustainability Report"** - A special event organized for the presentation of the first published BACB Sustainability Report for 2021-2022. The event took place on 12 December 2023, one week after Banker's Day, at the InterContinental Hotel Sofia. The event, especially the first Sustainability Report for 2021-2022 and BACB's ESG strategy, received significant coverage and positive feedback.
- **Clean Account Online** – BACB's current account for individual clients, which can now be opened online, without visiting an office, and managed entirely online. This digital product saves printing paper for standard forms for opening a current account. Since the launch of the digital platform at the end of 2022, BACB has saved 25 440 pages of paper or 2 trees. Throughout the year, the Bank continued to develop the product by adding new benefits alongside the main advantage of "no service fee" - profitability, cashback loyalty program, and free ATM withdrawals nationwide. These advantages provide additional value to the bank's clients and make the product unique.
- **Together with Online loan "Just Now"**: launch of a fully digital consumer loan, with remote application, evaluation and utilization, without visiting a bank office. The service saves our clients time and protects nature, avoiding the printing of 140 pages when signing a standard consumer loan contract. Since the launch of the digital platform, around 890 000 pages of paper have been saved, along with more than 54 trees.

In 2023, the "Sustainability Report of BACB for the period 2021-2022" was drafted and published. This is the first document in which BACB transparently presents its impacts on the environment, society, and corporate governance issues. The report covers the financial years of 2021 and 2022 and aims to inform stakeholders - clients and partners - about the Bank's management of and commitments regarding sustainability topics. The content of the report follows the GRI guidelines, and the assessment of topic significance follows the principle of double materiality according to CSRD.

Employees and staff management

The Bank's strategy for human resource management is aimed at increase the employees' efficiency and improve the performance.

The professional development program of the Bank's employees provides an opportunity for professional development according to the individual capabilities, knowledge, experience, competence, interests and motivation of the employees. The human resource management framework regulates working conditions and improving the working environment, stimulates building and maintaining relationships of honesty, justice, trust, teamwork and continuity, provides an objective assessment of the employment and workload of individual employees and structural units.

In 2023 the Group incurred expenses for trainings, seminars and enhancing the qualification of the employees in the amount of EUR 18 thousand.

- **RISK FACTORS/ DESCRIPTION OF THE MAIN RISKS FACED BY THE BANK**

Risks related to the Bank

The Bank's operations are subject to risk factors that may affect its future results or its ability to continue to operate as a going concern. Certain risks can be mitigated by safeguards, through the implementation of control mechanisms, appropriate systems. However, some risks are beyond the Bank's control and cannot be mitigated. The main factors related to the Bank are mentioned herein below. The listing of factors shall not be considered an exhaustive and comprehensive disclosure of all possible risks and uncertainties because there may be risks and uncertainties that are not known to the Bank or that BACB considers immaterial but may prove to be material in the future.

The Bank's development and success depend to a large extent on the state of the Bulgarian and global economy, and the Eurozone, in particular

Banking activity in Bulgaria is dependent on the general level of economic activity in the country and on a global scale, and the Eurozone, in particular. As a result of this dependence, the Bank's activities, its operating results and its financial condition largely depend on the state of the global, European and Bulgarian economies, which in turn affects the growth of lending, interest income and costs and the ability of borrowers to pay their debts in due time. Any negative change in one or multiple macroeconomic factors, such as interest rates, inflation, wage levels, unemployment, foreign investment, international trade, etc., may have a material adverse effect on the Bank's activities, operating results and its financial situation.

The bank is exposed to the risk of a sudden deterioration in the economic environment due to the war in Ukraine and the growth global geopolitical pressure resulting from the Middle Eastern conflict

The consequences of the continuing war between Russia and Ukraine, the sanctions imposed by the European Union, the UK and the USA 2023, led to high volatility on the energy markets, disruption of the supply chains of basic raw materials for industry and high uncertainty for the development of global economy. Despite the fact energy markets experienced a normalization of prices and a retreat of instability in 2023, prices were increased in October 2023 due to concerns relating to the Middle Eastern war. Even though large stocks in the EU and the unusually warm weather lower risks for supplies in the short-term, the dependence of the Bulgarian energy market on the supply of Russian gas and the existing possibilities of providing alternative sources put pressure on prices and contribute to the retention of high inflation rates and the slowdown of economic growth.

BACB has no significant direct exposures to counterparties from Russia, Belarus or Ukraine. As of 31 December 2023, less than 2% of the borrowed funds were from citizens of these countries and less than 0.1% of loan exposures were granted to individuals – citizens of these countries permanently residing in Bulgaria.

The Bank is indirectly exposed to the risks arising from the military conflict due to their influence on the prices of energy carriers, potential difficulties in the supply chains and a slowdown in external demand - factors that can have a negative impact on the economic activity and financial condition of companies and households in Bulgaria, which in turn may have a direct negative impact on the quality of the Bank's assets and financial results.

BACB AD has taken all necessary measures to comply with the sanctions imposed by the competent authorities. The Management closely monitors any developments and periodically assesses the impact they may have on the operations of the Bank and its clients, including retail and corporate clients and more broadly on the macroeconomic outlook.

Continued inflationary pressures, combined with the aggressive financial policy of central banks and expectations of a significant slowdown in economic activity worldwide, may have an adverse effect on the Bank's operations

The Bank's business and operations may be affected by the high inflation rates reached following the lifting of COVID-19 restrictions, the outbreak of the crisis in Ukraine and the subsequent shock on energy and non-energy commodity markets.

Inflation in Bulgaria started to rise more noticeably in the second half of 2021, mostly under the influence of the prices of energy resources and food on international markets, and as of 31 December 2022, the harmonized index of consumer prices (HIPC) reached 14.3%. In 2023 Inflation growth experienced some decline in 2023 but remained above the European average values and reached 5.0% as of 31 December . (Source: NSI - Infostat, HIPC).

The drastic acceleration of inflation rates in Europe and the US has necessitated aggressive action by central banks after a long period of financial easing and liquidity facilities. In 2023, the ECB suspended its asset purchase program and initiated a gradual increase in key interest rates, which after a series of increases resulted in a base interest rate of the ECB of 4.50% as of 31 December 2023 – the highest level since the Global financial crisis 2007 – 2008. ECB continues to underline its determination to combat persistent inflationary pressures and its intention to keep base interest rates at levels, which upon being maintained for a sufficient period of time, would significantly contribute to achieving the middle-term objective of 2%, even at the risk of a sharp slowdown in economic activity.

The exact impact of inflationary pressures on the Bank's operations depends on the duration and rate of inflation in the future and is therefore difficult to predict. If inflation remains at high levels or grows over the next months, this could bring further increases in key interest rates and adversely affect households, businesses, banks and the public sector. Reduced household purchasing power and increased costs to businesses could reduce the size and/or quality of the pool of potential borrowers and/or increase defaults on existing loans, which in turn could have a material adverse effect on business operations and the Bank's financial results. In addition, inflation may put pressure on the Bank's costs.

The degree of diversification of funding sources and changes in the regulatory framework may require changes in the choice of strategies in terms of resource and credit policy.

BACB AD is dependent on its deposit base as an external source of funding to maintain its liquidity. The Bank's ability to finance its core business by attracting deposits under reasonable economic conditions, depends on the economic conditions of the markets where BACB operates, as well as on the confidence of the depositors in the Bank and/or the banking system in general.

As of 31.12.2023, BACB AD financed its banking operations mainly with deposits from individuals and legal entities, which represent approximately 98.4% of the Bank's total deposit portfolio. At the end of 2023, the funds borrowed from clients amounted to 97.4% of the Bank's liabilities.

As a result of worsening economic conditions or for any other reason that would reduce depositors' confidence in the banking sector in general or in the Bank in particular, there may be an outflow of funds deposited with the Bank. In this case, BACB AD may not be able to maintain the current levels of cash security for its activity or it may be required to dispose of its assets or to seek other sources of external financing.

Shocks on the interbank credit market, which would significantly increase the cost of financing between banks or make it unavailable, could cause liquidity difficulties for the Bank, which would result in higher than anticipated interest costs.

The price of the Bank's borrowed resources at present depends mainly on the competitive conditions of the local market, and the amount and price of institutional financing also depends on the Bank's rating/profile.

On 21 April 2023 "BACR - Credit Rating Agency" AD maintained and confirmed the ratings assigned to BACB AD.

Financial strength rating	Primary Rating	Updated Rating	Updated Rating	Updated Rating	Updated Rating	Updated Rating	Updated Rating	Updated Rating	Updated Rating
	July 27, 2016	July 26, 2017	July 30, 2018	April 17, 2019	April 17, 2020	April 20, 2021	September 13, 2021	April 21, 2022	April 21, 2023
Long-term rating	B	B+	B+	BB-	BB-	BB-	BB	BB	BB
Outlook	stable	Stable	positive	stable	stable	positive	stable	stable	positive
Short-term rating	B	B	B	B	B	B	B	B	B
National-scale long-term rating	B+ (BG)	BB- (BG)	BB (BG)	BB+ (BG)	BB+ (BG)	BBB- (BG)	BBB (BG)	BBB (BG)	BBB+ (BG)
Outlook	stable	Stable	positive	stable	stable	positive	stable	stable	stable
National-scale short-term rating	B (BG)	B (BG)	B (BG)	B (BG)	B (BG)	A-3 (BG)	A-3 (BG)	A-3 (BG)	A-2 (BG)

Increased competition in the Bulgarian banking sector may reduce the interest margins of market participants or otherwise affect the Bank's competitive position

The markets where the Bank operates are highly competitive. The Bank faces significant competition in all business aspects, "competing" with a number of subsidiary banks of major international financial institutions and some domestic competitors. The main competitors have lower funding costs due to lower dependence on local depositors and the support of parent companies - mainly Eurozone banks. We are entering a period of increasing prime rates, which poses an additional challenge.

In order to cope with the increased competition, the Bank relies on knowledge of the specifics of the domestic market, on its established relations with clients, on increasing the quality of the services offered, as well as on the development of digital banking services. However, if the Bank is unable to provide competitive product and service, it may fail to attract new and/or retain its existing clients, may lose its market share, its net interest margin and fee and commission income may decrease. Any of these events could have a significant adverse impact on the Bank's operations, financial condition and operating results.

The bank has significant concentration towards certain economic sectors

The credit portfolio structure by industry reflects the Bank's strategy to diversify its credit activity by expanding its market positions in the "retail" segment and investments in sustainable and "green" sectors of the economy such as: energy efficiency and electricity production from renewable energy sources, processing and light industry, wholesale and retail trade, agriculture and animal breeding, transport. In order to achieve better diversification in the risk management policy, the bank has set a maximum total exposure in a certain industry of up to 15% of the total credit portfolio.

Notwithstanding the limitations, a sustained downturn in any of the major sectors to which BACB actively lends, could result in lasting financial difficulties for the Bank's clients in those sectors and an increase in the risk of credit losses, which could have a material adverse impact on the Bank's operations, its operating results and financial condition.

A significant share of the Bank's credit portfolio is concentrated in a limited number of clients

The bank limits credit risk and concentration risk by setting limits on credit exposures in relation to an individual borrower or a group of related borrowers. Adherence to these limits is monitored on an ongoing basis, and the adequacy of the limits set is reviewed periodically. By the end of 2023, part of the Bank's credit portfolio is concentrated in a limited number of borrowers. The activities of the Bank, its financial condition and the results of

its activities might be negatively affected in the event of a prolonged deterioration of business climate, which may lead to default on the part of some its largest borrowers. As at Y/E 2023 and 2022 the twenty largest exposures (including loans, bank guarantees and other credit forms) represent 28.3% and 31.5% of the loan portfolio respectively.

Risks related to the creditworthiness of borrowers and counterparties are inherent in the Bank's activities

The ability of clients to repay their loans can be affected by the general economic developments in the country, incl. unemployment and inflation rates and access to finance. In the event of a prolonged slowdown in economic growth, persistence of high inflation rates, accompanied by an increase in interest rates and tightening of financing conditions, the share of non-performing loans may increase, and the resulting impairments will reduce the bank's profits, which in turn may have a negative impact on its capital adequacy levels.

Although the Bank sets aside provisions for potential credit losses in accordance with the applicable requirements, the expected credit losses are determined based on the available information, estimates and assumptions, which by definition contain a certain level of uncertainty. Therefore, there can be no assurance that the provisions made by the Bank are or will be sufficient to cover potential future losses. In addition, a deterioration in the credit quality of loans granted by the Bank or the financial condition of any of its borrowers may require the Bank to set aside additional provisions for impairment, which could have a material adverse effect on its operations and results.

For 2023 the Bank accrued provisions for impairment of loans and advances to customers in the amount of EUR 4 342 thousand compared to EUR 6 219 thousand in 2022. The impairment costs in 2023 report EUR 4,3 million (2022 – EUR 2,8 million)

Any failure by the Bank failure to adequately manage and control its credit portfolio could have a material adverse effect on its operations

Since 2014, there has been an increase in the gross loan portfolio, which has continued in the last two years with growth of 9.5% and 8.4%, respectively. The bank constantly monitors the quality of loans granted and the adequacy of its provisions. This process is coupled with continuous development of risk management strategies and systems. The bank actively seeks diversification of its portfolio through exposures to corporate clients and economic sectors with sustainable indicators, as well as through further development of retail banking. A failure in the management and maintenance of the Bank's credit portfolio or asset growth could have a material adverse effect on the Bank's business, operating results and financial condition.

The Bank is exposed to risks that may adversely affect its operations and results if the Bank's risk management policy is unsuccessful

Just like any other bank, BACB faces various types of risk that may adversely affect it. This includes, but is not limited to: credit, market, currency, interest rate, liquidity, investment and operational risk. Although the Bank invests considerable time and effort in developing risk management systems and strategies, these systems and strategies may fail under certain circumstances, in particular when the Bank is faced with a risk that it failed to identify correctly or in a timely manner. Moreover, risk methodologies and techniques may not cover the entire range of risks faced by the Bank. If such risks materialize, losses therefrom may be higher than anticipated by the Bank, which may have a material adverse impact on the Bank's business, operating results and financial condition

The bank operates in a highly regulated environment. The complexity and frequent amendments in the applicable legislation may adversely affect the Bank's activity, in the context of timely adaptation of processes and fulfillment of increased requirements

The Bank is subject to numerous regulations designed to maintain the safety and stability of banks by ensuring compliance with economic and other obligations and limiting their risk exposures. As part of the Bulgarian banking system, we are subject to the international regulatory framework - Basel III in the European Union, part of which is directly applicable to the member states, and part of which is transposed into Bulgarian legislation, through the Credit Institutions Act (CLI) and its implementing acts. The Bank's activity is also regulated by directives and regulations adopted by the European Parliament and the Council, delegated regulations of the European Commission and guidelines and recommendations issued by the European Banking Authority.

There are numerous ongoing initiatives to develop new, implement and amend existing regulatory requirements applicable to European credit institutions. Many of these initiatives, aimed at continuously improving the regulatory framework of the banking sector, are being currently further developed and discussed, and no firm conclusions can be drawn about their potential effect. Any amendments to the laws and regulations or in their interpretation or implementation may expose the bank to additional costs and liabilities, may require a change in business strategy or have a negative impact on the business, the products and services offered, and the value of its assets. If BACB is unable to sufficiently or timely increase its capital ratios and/or comply with (other) regulatory

requirements, the competent authorities may impose restrictions, fines, sanctions or other regulatory measures. Such events could have a significant adverse effect on the Bank's business, financial condition and operating results. Apart from the specific banking legislation, the Bank's activity also depends on the general corporate legislation in Bulgaria (tax and accounting regulations, laws on measures against money laundering, personal data protection, etc.), and any amendments therein may have a significant impact on the operating results and the Bank's financial position. For example, the introduction of IFRS 9 "Financial Instruments" led to significant changes in the classification and measurement of the quality of financial assets, as well as to the introduction of a new impairment model based on expected credit losses.

The bank may need a future capital increase

The Bank's equity (capital base) requirements depend on numerous factors, including asset and profit growth, regulatory capital adequacy requirements and potential asset acquisitions. Any deterioration in the quality of the Bank's credit portfolio may exceed the expectations and result in a requirement for additional capital. The effective Bank capital management is essential to its ability to operate, grow organically and pursue its strategy. Any change that limits the Bank's ability to manage its assets and capital effectively (including, for example, a decrease in profit and reinvested profit as a result of impairment charges or for other reasons, an increase in risk-weighted assets, a delay in the sale of certain assets, etc.) or gain access to sources of financing may have a material adverse effect on the Bank's financial condition or capital position in compliance with the regulatory requirements. The Bank's management cannot accurately predict the amount and the time when the Bank would need more equity.

The minimal levels of capital adequacy in Bulgaria are set forth in Regulation 575/2013, as per which the institutions in any moment have to qualify the following capital requirements:

- Ratio of the basis Tier 1 capital 4.5%;
- Ratio of Tier 1 capital 6%;
- Total capital adequacy ratio 8%;

In addition, Ordinance 8 of BNB stipulates additional capital buffers that banks have to keep above the minimum capital requirements and which as at December 31 2023 and December 31 2022 are the following:

- Precautionary capital buffer equal to 2.5% of the amount of the total risk exposure of the Bank;
- Anti-cycle capital buffer – 2% of the amount of the total risk exposure of the Bank;
- System risk buffer – 3% of the amount of the total risk exposure of the Bank;
- A buffer for a global systemically important institution;
- A buffer for another systemically important institution.

The Bank rigorously tracks and evaluates its capital position on a monthly basis and compiles quarterly reports for supervisory purposes, which are submitted to the Bulgarian National Bank (BNB) to comply with regulatory standards. Regular stress tests are conducted to assess the potential impact of portfolio deterioration or devaluation of existing collateral on the bank's financial performance and capital reserves. Furthermore, strategic measures are implemented to maintain and bolster capital buffers as necessary.

The Group's capital adequacy ratio as at 31 December 2023 of 20.91% is above the minimum levels set by Regulation 575/2013. The bank's capital resilience is influenced by various factors, including the growth of its credit portfolio, revenue streams, and regulatory capital requirements. Any adverse developments that impede the bank's ability to actively manage its balance sheet and capital resources, such as deterioration in credit portfolio quality, diminished profitability due to increased impairment provisions, heightened risk-weighted assets, or delays in asset realization, could erode capital buffers and necessitate additional capital infusion. Moreover, external factors beyond the bank's control, such as shifts in regulatory capital mandates or worsening global economic and financial conditions, may further impact the demand for supplementary funding.

Any additional financing of the Bank through an increase in its share capital could have a "dilutive" effect for the Bank's shareholders, and possible debt financing or other forms of resource borrowing, if such are possible, may reduce the Bank's profitability and lead to restrictions on its future financing and operating activities. In addition, if it does not have the necessary equity, the Bank may be subject to increased regulatory supervision and intervention, and its business, operating results and financial condition may be adversely affected.

The Bank is dependent on its experienced employees, and competition for such employees on the labour market may be quite significant

The Bank's success depends, to a significant extent, on its ability to recruit, retain and incentivize its senior management and other qualified and experienced employees at an expert or managerial level. If the Bank is unable to solicit, promote and retain qualified personnel, this could have a material adverse effect on the Bank's business, operating results and financial condition. The successful implementation of the Bank's business plan to a certain extent depends on its ability to hire and retain qualified operational, financial and technical specialists from the Bulgarian labor market.

The Bank's system aimed at ensuring compliance of its activities with the legislation and internal regulations may not be fully effective

The Bank's ability to comply with the requirements of all applicable laws and regulations is largely dependent on the establishment and maintenance of compliance, auditing and reporting systems, as well as its ability to retain qualified personnel competent with regards to the applicable legislation, control, auditing and risk management. Although the Bank's management believes that it has adequate systems and procedures in place, there is no assurance that they would be fully effective on the background of a shifting market environment. The bank is subject to intensive supervision by regulatory authorities, including regular inspections. The risk of actual or suspected non-compliance with the rules, respectively the probability of the launch of administrative proceedings, initiation of court proceedings against the Bank with a significant cost of the claims, incl. on client claims for compensation, is limited by the Bank through a regular internal review of its internal regulations and control procedures.

The Bank is dependent on complex information systems

The Bank is dependent on complex information systems, including a management information system, and any failure, inefficiency or disruption of these systems could have a significant adverse impact on the Bank. Information systems are generally exposed to numerous problems such as computer viruses, hacker attacks, software and hardware malfunctions. Any failure, disruption or breach in the security of these systems could result in problems or disruptions of our client relations, risk management, accounting and deposit and loan servicing systems. If the Bank's information systems cease to function normally, even for a short period of time, the Bank may be temporarily unable to serve its clients and lose them. In addition, any temporary suspension of information systems may result in extraordinary costs for restoring and confirming lost information. In addition, any failure by the Bank to update and develop its existing information systems as effectively as the Bank's competitors, could result in it falling behind its competitors. Although the Bank's management believes that it has an adequate security and contingency plan, including a fully equipped backup information center, there can be no assurance that they will be sufficient to prevent such issues or to ensure that the Bank's operations are not be significantly hindered. Any of these or other issues related to the Bank's information systems may have a significant negative impact on the Bank's activities, operating results and financial condition.

Risk Management

Review

The Bank has developed and introduced rules and procedures for risk management and control in order to determine, manage and control the degree of risk for the Bank in its operations. The risk management and control policy is adopted by the Management Board and approved by the Supervisory Board. The document regulates the organization for implementation of the strategic goals, the risk management framework and the risk tolerance adopted by the Supervisory and Management Board of the Bank. The risk policy and the rules for risk management and control define the methods for evaluating various types of risk to which the Bank is exposed (including credit risk, liquidity risk, interest rate risk, currency risk and credit risk from the counterparty), define the relationships between the individual structural units in risk management and establish a system of limits and early warning indicators that reflect the risk tolerance adopted by the Bank. The main objective of the Risk Management Policy is to impose clearly defined parameters for the Bank's operations, so as to limit as much as possible the potential negative impact of risks on the Bank's financial results. Compliance with risk management rules and procedures is monitored regularly, depending on the level of risk and its potential impact on the Bank's operations. Any deviation from the Bank's accepted internal standards is reported to the Bank's management and appropriate measures are taken. The Risk Management Policy is reviewed annually in order to implement adequate and effectively functioning risk management and control systems. In addition, the internal control unit conducts an independent review of the state of risk management and compliance with the adopted policies.

For a detailed discussion on the financial risks relating to the Bank please see Note 32 to the Bank's consolidated financial statements for the year ended 31 December 2023.

Strategic risk

The sustainable development of the Bank is directly dependent on the success and fulfillment of the goals set within the provided terms. The strategic choice, based on an adequate assessment of the accompanying risks and economic conditions, ensures its proper management, and the regular review and evaluation of the implementation, generate the required prerequisites for the relevant addition to or modification of the goals. The Bank's policy requiring it to have sufficient capital to cover the risks associated with its ordinary functioning, as well as any unforeseen risks, has a positive effect.

Credit risk

Credit risk is the current or potential risk for the income and capital, arising from the inability of the debtor to fulfill the requirements of the contract concluded with the Bank or the inability to act in compliance with the contractual conditions. Credit risk for the Bank arises from its lending activities, deposits made in other banks, as well as investing in securities. Credit risk is decisive for the Bank's financial profile, which is why the management manages and monitors its exposure to credit risk very carefully. The Bank's credit activity policy and lending instructions are developed by the structural units involved in credit activity management, credit risk and the Legal department and are adopted by the Management Board.

The system of internal rules, procedures and standardized credit products reflects the organization of the Bank's activity and strategy, regulates the process of performing credit analysis and the process of credit approval, defines the persons authorized to approve credits, defines the rules for preparing, maintaining and storing credit documentation, procedures for granting funds and defines the activities for exercising appropriate current and subsequent control, the type and amount of collateral accepted, the necessary insurances and other risk reduction techniques.

The Bank conducts regular stress tests to assess exposure to credit risk, assess the effect on the Bank's capital position, identify critical exposures and identify measures to mitigate credit risk and preserve the capital position. As disclosed above, there is a concentration of risk in the credit portfolio both with respect to a limited number of borrowers and to a limited number of economic sectors that may be adversely affected if economic growth slows down or inflation accelerates.

Liquidity risk

Liquidity risk is the danger of shortage of sufficient cash resources, in case of withdrawal of funds from deposits or fulfillment of other obligations, which may arise from a discrepancy in cash flows.

The main objectives of the Bank's liquidity management are to ensure the Bank's constant ability to meet its financial obligations, to provide a resource that meets the demand for loans and to achieve positive financial results from the management of own and borrowed funds. The Bank's goals and strategy in this direction are also tied to the development of a sustainable financing structure and adequate fulfillment of liquidity standards.

The Bank's liquidity management principles include:

- Centralized control over the Bank's liquidity exercised by the liquidity management body;
- Constant monitoring and assessment of the necessary cash by time ranges in the future, assessment of the adequacy of the Bank's liquid assets;
- Diversification of funding sources;
- Adequate planning of actions in extraordinary circumstances

The Bank has adopted internal rules for determining and monitoring liquidity buffers in order to maintain additional liquidity immediately available for use in the event of a liquidity shock for a short period of time. The rules define the composition of the liquidity buffer, the characteristics and periodicity of the applied stress scenarios and the sources of funding in going concern scenarios and liquidity crisis scenarios.

The framework for managing the liquidity position is supplemented by internal limits to ensure adequate coverage of borrowed funds with liquid assets, regular stress tests to assess the quality and stability of the liquidity buffer as well as indicators corresponding to the requirements of the regulatory framework - leverage, stable funding ratio, liquidity coverage ratio.

Upon managing its liquidity position, the Bank uses interbank deposits primarily to cover short-term liquidity shortages, rather than to finance loans.

In order to optimize sources of liquidity and at the same time achieve better profitability, the Bank invests in government securities issued by the Republic of Bulgaria or government securities of issuers with a first-class sovereign rating such as Germany, France, the USA. Investments in corporate bonds and shares issued by Bulgarian companies are approved by the Assets and Liabilities Management Committee on an individual basis. Securities acquired by the Bank for liquidity purposes are currently classified as "investments held for cash flow collection and sale" or "investments held to collect cash flows".

As part of the liquidity risk management system, the Bank has introduced additional internal thresholds to limit concentration risk and support liquidity buffers.

Interest rate risk

Interest rate risk is related to the potential adverse effect on the Bank arising from fluctuations in interest rates on BACB's net income and equity value. BACB's policy is to reduce interest rate risk by granting loans with a floating interest rate combined with the application of fixed floor thresholds, so as to limit the potential negative impact resulting from non-parallel or time-varying changes in interest rates on assets and liabilities.

In addition, in order to limit the interest rate risk by reducing the probability of prepayments on business loans (loans to small and medium-sized enterprises, corporate clients and municipalities), the Bank deducts a prepayment fee on business loans granted as a percentage of the prepaid principal. However, this does not apply to consumer and mortgage loans granted to consumers-individuals, where the Bank applies the relevant provisions of the Consumer Credit Act and the Consumer Real Estate Credit Act and does not deduct a prepayment fee.

The bank does not trade in derivatives on interest rates. This policy means that the risk of the Bank incurring significant losses even with large movements in market interest rates is relatively limited.

The Bank's interest rate position is monitored by the Markets and Liquidity Department and is reported monthly to the Assets and Liabilities Management Committee. The Asset and Liability Management Committee assesses the interest rate risk for the Bank in the general context of all banking operations and activities. The Operational, Market and Other Risks Department with the Risk Management Directorate makes periodic assessments of the exposure to interest risk, including stress tests and calculations for the changes in economic value of equity and revenue in various scenarios, monitors risk indicators regarding interest imbalance and prepares quarterly reports to the management.

The Bank measures the risk of negative changes in net interest income and the financial result by an analysis of selected interest scenarios for a one-year horizon. The effect on capital is based on a standardized methodology of the Basel Committee and interest rate scenarios according to the Guidelines of the European Banking Authority (EBA) EBA/GL/2018/02, on the management of interest rate risk arising from non-trading book activities, reflecting the absolute values of the sensitivities in all maturity intervals to a yield curve shift.

Currency risk

The Bank is exposed to the impact of fluctuations in exchange rates in terms of open currency position and cash flows.

The Bank operates in Euro, US dollars and Leva, and in limited cases carries out operations in British pounds and Swiss francs. It is exposed to a relatively limited currency risk, since the BGN has been pegged to the German mark since 1997, and subsequently to the euro, through the introduction of the Currency Board system in the country. The Markets and Liquidity Department continuously monitors the compliance with the limits regarding currency risk and reports to the Asset and Liability Management Committee on a monthly basis.

The currency risk management policy aims to maintain open positions in USD as close as possible to a neutral level by attempting to balance the amounts and maturities of its liabilities denominated in USD with its receivables denominated in that currency. The Bank maintains a limit of open positions in US dollars in the amount of up to 1% of its capital base and this limit was not exceeded during the reporting periods ending on 31 December 2023 and 2021. The Bank maintains a long EUR/BGN position (i.e. its assets denominated in euro have a higher value than its liabilities in euro). The bank does not trade on the foreign exchange market for its own account. The bank offers its clients currency trading services. The limit for overnight maximum open currency position in connection with operations with clients is EUR 100 000. There is no limit for the Euro position due to the presence of the Currency Board. Under certain circumstances the above open position limits may be exceeded with the approval of the Executive officers.

In the course of its operations, the Bank may enter into short-term currency swaps in order to manage its currency flows and as a tool to reduce the cost of borrowed funds in certain relevant currencies, taking advantage of existing differences in their interest rates.

At 31 December 2023 there are no active contracts for foreign currency swaps.

Counterparty risk

BACB has established interbank limits with banks operating in Bulgaria and also with its main foreign correspondent banks. Counterparty limits are approved by the Asset and Liability Management Committee.

Counterparty limits are approved based on a review of the capital adequacy, liquidity and shareholder structure of the counterparty banks. The list of approved counterparties and limits is reviewed and updated at least once a year.

Investment Risk

The investments are approved by the ALCO after a review of the credit risk of the issuer. The total amount of the securities portfolio at 31 December 2023 is EUR 162.3 million (2022: EUR 103 million), divided in two sections - Financial assets, appraised by fair value in other comprehensive income in the amount of EUR 60.6 million and Financial assets, accounted by amortization value - in the amount of 101.7 million. As of the same date, EUR 9.7 million of the securities in the Bank's portfolio are corporate bonds and equity securities, incl. EUR 7.4 million corporate debt securities and EUR 2.3 million - equity securities.

Operational risk

Operational risk management is an important component of the proper and sound risk management in any modern financial institution. Operational risk is the risk of loss arising from inappropriate or faulty processes, people or systems, or from external events. In this context, the most important operational risks are those related to breaches in internal control and corporate governance. Such breaches may result in financial losses due to errors, abuses or untimely action or inaction or may otherwise endanger the interests of the Bank. BACB has adopted internal operational risk management rules regulating the risk management and control processes. The organizational model for operational risk management is based on the principle of responsibility allocation between risk management and control and includes three main pillars:

- identification and management of risks by individual business lines;
- independent review, assessment and reporting of risk by the operational risk management function;
- independent verification of controls, processes and systems used to manage operational risk by internal and/or external auditors.

The operational risk management and mitigation is facilitated by internal control mechanisms, risk transfer, risk assumption and monitoring or risk avoidance by suspending a certain activity or process. The main internal control mechanisms include defining and delegating clearly defined powers and responsibilities to officials and ensuring an ethical organizational culture, adopting rules and procedures for approving, executing and reporting operations, including exceptions, analysis of factors contributing to the occurrence of operational risk and taking measures to limit it, etc.

The Bank has adopted a Disaster and Accident Action Plan to ensure business continuity

Custodian activities

The bank holds assets on behalf of its clients in its capacity as an investment intermediary. As disclosed in Appendix 3 (Basic Elements of the Accounting Policy) to the Group's consolidated financial statements, such assets are not presented in the statement of financial position because they do not represent assets of the Group. In Appendix 32.5 to the consolidated financial statements, it is stated that the bank conducts custodian activities in accordance with the requirements of Regulation 38 of the FSC.

Hedging

For a short summary of hedging instruments and the types of risks being hedged, please refer to the Notes to Bank's Consolidated Financial Statements for 2023.

Recovery Plan/Directive 59/15.05.2014

In pursuant of the requirements of Directive 59/15.05.2014 of the European Parliament to create a framework for the recovery and restructuring of credit institutions, art. 6 of the Recovery and Restructuring of Credit Institutions and Investment Intermediaries Act, Art. 73d of the Credit Institutions Act and Art. 25 of Ordinance No. 7 of the BNB on the organization and management of risks in banks, all banks are obliged to develop a recovery plan, containing actions and measures to restore their financial condition in the event of financial difficulties.

The recovery plan adopted by the Bank consists of four main sections, describing the process of plan development, the procedure for its activation, the recovery options in individual scenarios and the procedure for internal and external communication in case of plan activation.

The recovery plan contains an analysis of the impact of adverse events that may strongly affect the Bank's financial condition, including crises affecting the entire financial market and the Bank itself. The processes of action development and activation are described, along with the limits and indicators used, related to the preventive assessment of the vulnerability of the Bank's liquidity and capital position, profitability and risk profile, and targeted actions. The plan also describes and analyzes the structure and key activities of the Bank, as well as the key points in its strategy. A major part of the plan is devoted to recovery options - the selected recovery measures, assessment of the quantitative/qualitative effect, implementation period and probability of implementation, as well as evaluation of the results of applied stress scenarios. A plan for communication with the Bank's internal structures and external organizations was also developed, as well as the stages, sequence and scope of actions related to recovery plan activation.

II. INFORMATION UNDER ART. 247 OF THE COMMERCE ACT

- **Participation by the members of the Supervisory Board and the Management Board of the Bank in other companies**

None of the members of the Bank's Management and control bodies participates in trade companies as a partner with unlimited liability.

The members of the Supervisory Board and the Management Board of the Bank have shareholdings in the amount of more than 25% of the capital or are members of the Management and control bodies of the following companies as of 31 December 2023:

Members of the Supervisory Board:

1. Tzvetelina Borislavova Karagyozeva - Data on shareholding and/ or participation in management and control bodies of companies other than the Bank:

Company name	Direct shareholding of more than 25% of the capital or indirect control	Participation in management and control bodies
„CSIF“ AD	Direct shareholding – 99,997% of the capital are property of Tzvetelina Borislavova Karagyozeva and indirect shareholding through the Credo Bonum Foundation, which has 0,003% direct shareholding;	Member of the Board of Directors and CEO
„ITP-Bulgaria“ OOD	Direct shareholding – 57,5% of the capital are property of Tzvetelina Borislavova Karagyozeva and indirect shareholding through the controlled company „CSIF“ AD, which has 43,5% direct shareholding;	
„IDS Fund“ AD	Indirect shareholding through the controlled company „CSIF“ AD, which has 50% direct shareholding and through the controlled company „BACB Finance“, which has 50% direct shareholding.	
„ORK Consult“ OOD	Indirect shareholding through the controlled company „IDS Fund“ AD, which has 75% direct shareholding;	
„Vital Concept“ OOD	Indirect shareholding through the controlled company „CSIF“ AD, which has 36% direct shareholding and through the controlled company „IDS Fund“ AD which has 44% direct shareholding.	
„CSIF Hydro“ EAD	Indirect shareholding through the controlled company „CSIF“ AD, which has a 100% direct shareholding	
„HPP Stankova Reka“ EOOD	Indirect shareholding through the controlled company „CSIF Hydro“ EAD, which has 100,00% direct shareholding	
„Disib“ OOD	Indirect shareholding through the controlled company „CSIF“ AD, which has 87,43% direct shareholding	
„Windex“ OOD	Indirect shareholding through the controlled company „CSIF Hydro“ EAD, which has 66.4% direct shareholding	

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	and through the controlled company „CSIF“ AD, which has 33.6% direct shareholding;	
„Providenti“ AD	Indirect shareholding through the controlled company „Disib“ OOD, which has 35,70% direct shareholding	
„Pamporovo Gas“ EAD	Indirect shareholding through the controlled company „CSIF Energy“ EAD, which has a 100% direct shareholding	
„CSIF Energy“ EAD	Indirect shareholding through the controlled company „CSIF“ AD, which has a 100% direct shareholding.	-
„Green Power Group Bulgaria“ OOD	Indirect shareholding through the controlled company „CSIF“ AD, which has 50% direct shareholding.	
„Green Power Group Bulgaria-2“ OOD	Indirect shareholding through the controlled company „CSIF“ AD, which has 50% direct shareholding.	
Bio Power Solar EOOD	Indirect shareholding through the controlled company „Green Power Group Bulgaria“ OOD, which has 100% direct shareholding.	
Sport Box EOOD	Indirect shareholding through the controlled company „CSIF“ AD, which has 100% direct shareholding.	
Trade Consult International EOOD	Indirect shareholding through the controlled company „CSIF“ AD, which has 100% direct shareholding.	
„Libera Estate“ OOD	Direct shareholding – 50,33% of the capital is property of Tzvetelina Borislavova Karagyozeva and indirect shareholding through the controlled company „CSIF“ AD, which has 49,77% direct shareholding	
„Sunny Apple“ OOD	Indirect shareholding through the controlled company „CSIF“ AD, which has a 78.57% direct shareholding and the controlled ITP – Bulgaria OOD, which has a 21.43% direct shareholding	
„Sunny Fruits Bulgaria“ OOD	Indirect shareholding through the controlled company „ITP-Bulgaria“ OOD, which has a 10% direct shareholding, through the controlled company „Sunny Apple“ OOD, which has a 10% direct shareholding and through the controlled company „Libera Estate“ OOD, which has a 20% direct shareholding	
„Rival 5“ EOOD	Indirect shareholding through the controlled company „CSIF“ AD, which has a 100% direct shareholding	
„Pamporovo“ AD	Indirect shareholding through the controlled company „CSIF“ AD, which has 88,39% direct shareholding and through the controlled company	

	„Despred“ AD, which has 11,44% direct shareholding	
„Monek-Bulgaria“ AD	Indirect shareholding through the controlled company „CSIF“ AD, which has 98,07% direct shareholding	
„Port Bulgaria West“ EAD	Direct shareholding – 61.61% of the capital is property of Tzvetelina Borislavova Karagyozeva and indirect shareholding through the controlled company „CSIF“ AD, which has 23.02% direct shareholding, through the controlled company „Despred“ AD, which has 12,61% shareholding and through „Buljack“ EAD, which has 2,77% shareholding;	
„PB Management“ EOOD	Indirect shareholding through the controlled company „Port Bulgaria West“ EAD, which has a 100% direct shareholding	
„Morska Mechta“ EOOD	Indirect shareholding through the controlled company „Port Bulgaria West“ EAD, which has a 100% direct shareholding	-
„Buljack“ EAD	Indirect shareholding through the controlled company „CSIF“ AD, which has a 100% direct shareholding	-
„Sea Food“ EOOD	Indirect shareholding through the controlled company „CSIF“ AD, which has a 100% direct shareholding	-
„PB Shipping“ OOD	Direct shareholding – 5,25% of the capital is property of Tzvetelina Borislavova Karagyozeva and indirect shareholding through the controlled company „CSIF“ AD, which has 0,21% direct shareholding and through the controlled company „Port Bulgaria West“ AD, which has 94,54% direct shareholding	
„Despred“ AD	Indirect shareholding through the controlled company „CSIF“ AD, which has 93,78% direct shareholding	
Credo Bonum Foundation	-	Chairman
Association Global Bulgaria Initiative	-	Chairman
Association Bulgarian Sustainable Development Board	-	Member of the Management Board
Digitalization and New Technology Implementation Foundation	-	Chair of the Management Board
National Tourism Board Association	-	Member of the Management Board
Bulgarian Ski School Association	-	Chairman

2. Petar Georgiev Atanasov has no shareholding and/ or participation in management and control bodies of companies other than the Bank.

3. Martin Boychev Ganev - Data on shareholding and/ or participation in management and control bodies of companies other than the Bank:

Company name	Direct shareholding of more than 25% of the capital or indirect control	Participation in management and control bodies
1. „Terra Way Industrial Innovation“ AD	Direct shareholding – 90,00% of the capital are property of Martin Boychev Ganev	
2. „Pasat Bulgaria“ AD	Direct shareholding – 26,16% of the capital are property of Martin Boychev Ganev	
3. „Papia 1“ EOOD	Direct shareholding – 100,00% of the capital are property of Martin Boychev Ganev	Manager
4. „Green Strandzha“ EOOD	Direct shareholding – 100,00% of the capital are property of Martin Boychev Ganev	Manager
5. „DK-Domostroene“ AD	-	Member of the Board of Directors
6. „Ansa Borima“ OOD	Direct shareholding – 50% of the capital are property of Martin Boychev Ganev	
7. „Terra Way Investment Group“ AD		Member of the Board of Directors

* The companies under items 3-5 form a common group of companies within the meaning of §1, item 13, letter (c) of the additional provisions of the Act on the Additional Supervision of Financial Conglomerates and are accordingly considered a single participation.

Members of the Management Board:

1. Mr. Ilian Petrov Georgiev (Chief Executive Officer) – Data on shareholding and/ or participation in management and control bodies of companies other than the Bank:

Company name	Direct shareholding of more than 25% of the capital or indirect control	Participation in management and control bodies
„BACB Trade“ EAD	-	Chairman of the Board of Directors
„BACB Finance“ EAD		Member of the Board of Directors
„IDS Fund“ AD		Member of the Board of Directors
„Paynetix“ AD		Member of the Board of Directors
„Nivel Group“ OOD	Direct shareholding in the amount of 50% of the company shares	
„Stana Vinyard“ OOD	Direct shareholding in the amount of 98,00% of the capital;	
International Bank Institute EOOD		Manager

2. Mr. Aleksandar Dimitrov Dimitrov (Executive officer) – Data on shareholding and/ or participation in management and control bodies of companies other than the Bank:

Company name	Direct shareholding of more than 25% of the capital or indirect control	Participation in management and control bodies
„LAX Investments“ EOOD	Direct shareholding - 100% of the capital is owned by Aleksandar Dimitrov Dimitrov	
„Fire“ AD		Member of the Board of Directors
Tixi AD		Member of the Board of Directors

3. Mrs. Loreta Ivanova Grigorova (Executive officer) – she has no shareholding and/ or participation in management and control bodies of companies other than the Bank.

4. Mrs. Silvia Kirilova Kirilova (Member of the Management Board) – Data on shareholding and/ or participation in management and control bodies of companies other than the Bank:

Company name	Direct shareholding of more than 25% of the capital or indirect control	Participation in management and control bodies
Kirilov & Kirilova Law Firm		Managing partner

- **Conflict of Interest (art. 240b of the Commerce Act)**

In pursuance of Art. 116b, para. 1, item 2 of POSA and based on the Bank's Statute, the members of the Management Board and the Supervisory Board should avoid any direct and indirect conflicts between their interest and the interests of the Bank, and if such conflicts arise - promptly and fully disclose them in writing to the relevant body and shall not participate or influence the other board members in the process of taking decisions in such cases.

None of the members of the Bank's Supervisory or Management Board has a potential conflict of interest between their duties to the Bank, on one side, and their personal interests, on the other.

None of the members of the Supervisory and Management Board of the Bank or any person related thereto has entered into any transactions with the Bank outside of its ordinary activities. All transactions between the Bank and members of the Supervisory and Management Board, to the extent that there are such, were concluded under market conditions and after receiving approvals according to the Bank's Statute and its operational rules, taking into account and applying the requirements of the internal rules for disclosure and avoidance of conflicts of interest and ensuring confidentiality.

- **Shares acquired, owned and transferred by members of the Supervisory Board and the Management Board**

In 2023, no other member of the Supervisory Board or the Management Board acquired or transferred shares of the Bank's capital.

- **Rights of the members of the Supervisory Board and the Management Board to acquire shares and bonds of the Bank**

The members of the Bank's Management and Supervisory Board do not have special rights and privileges for buying securities issued by the Bank. The bank does not have a bonus plan for granting options on its own shares.

III. SIGNIFICANT EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

As of 31 December 2023 no significant events have been identified.

IV. EXPECTED FUTURE DEVELOPMENT AND PLANS FOR 2024

BACB's 2024 financial plan:

- Is based on the approved strategic goals for the period 2024-2026 and the updated guidelines of the Management Board for 2024;
- Determines the short-term development goals of the institution and the resources required to achieve them in 2024, taking into consideration the external and internal factors at the time of its development, competitive environment, dangers/risks and new development opportunities;
- Contains a brief analysis and assessment of the external and internal environment, forecast and expectations for development within a one-year horizon;
- Determines the main objectives and tasks of the main structural units and activities;
- Outlines a financial framework and a forecast for changes in the balance sheet and performance indicators;
- Includes an assessment of capital adequacy and its distribution by business lines;
- It was developed in compliance with the current and upcoming regulatory requirements regarding the activity of credit institutions for the period

The geopolitical situation relating to the war in Ukraine and events in the Middle East remains unstable, with possible significant negative effects on the EU and Bulgarian economy. There is a risk of restricting the supply of certain raw materials, which may lead to an increase in international prices and/or further disruption of global supply chains. This would maintain higher inflation rates and a more prolonged restrictive monetary policy by leading central banks than expected, negatively affecting both external trade and domestic demand in Bulgaria.

The upcoming period is expected to be significantly influenced by a geopolitical crisis. Extraordinary risks from recent years and resulting market condition changes, as well as adverse effects on economies, will continue to increase the requirements and challenges for business and the financial sector. In this regard, the uncertainty of fulfilling forecasts remains high, and factors with a major impact on performance over a three-year period are expected to be related to controlling inflation, respectively the degree of economic recovery; the transfer of higher interest rates to the local market and the impact on financing conditions, profitability, and asset quality, political stability, and the possibility of stimulating domestic and external investments, including the utilization of funds under the Recovery Plan, and the introduction of the single European currency.

The strong economic recovery since 2021 has been hampered by supply constraints - bottlenecks in global supply chains, shortages of raw materials, and ultimately by the spike in energy and other goods costs due to the Russian aggression against Ukraine. Fiscal policies began with the gradual removal of general pandemic support and a gradual shift to targeted and temporary measures, strengthening investments and maintaining medium-term sustainability. The ECB began to normalize its monetary policy, adopting a rapid increase in interest rates of 425 basis points over 12 months.

In response to the increased (or persistently high) inflation in the Eurozone, the ECB will have to further raise its key interest rate in 2024, and keep it higher than expected in 2025. This will also result in an increase in the interbank interest rate EURIBOR.

Forecasts suggest that in 2024, euro prices of important raw materials for Bulgaria will stabilize, and in 2025, they will grow by just over 2.0% under the influence of dynamics in non-energy raw materials. Real GDP growth is expected to accelerate to 3.2% in 2024, mainly due to the contraction of the negative contribution of inventory changes, and to 4.0% in 2025 due to an expected significant acceleration in investment growth as a result of the implementation of projects under the National Recovery and Resilience Plan (NRRP). Annual inflation, measured by the harmonized index of consumer prices (HICP), is expected to slow down to 5.7% by the end of 2023 due to a drop in energy product prices and weaker rates of price increase for other goods and services due to the formation of a base effect compared to the previous year. Average annual inflation is expected to reach 8.7%, with consumer price pressure remaining significant in the short term due to limited pass-through by companies of the decreasing international prices of key agricultural and energy raw materials to the final consumer prices in an environment of strong consumer demand.

The key objectives in the 2024 Budget cover:

- Effective management and utilization of capital resources by reducing non-earning assets, active management of loan quality, emphasis on loan protection techniques combined with preferential expansion of the credit portfolio with exposures to micro companies, SMEs and individuals, optimal placement of free funds.
- Improving the sustainability of the financing model by increasing the share of the small segment and the local market, extending the maturity structure, including by forming the necessary volume of acceptable liabilities.
- Effective management of interest rate risk with interrelated transfer of increased interest rates on active and passive operations and reduction of the share of non-earning assets.

V. RESEARCH AND DEVELOPMENT ACTIVITY

BACB is a credit institution and as such it does not have a dedicated R&D unit.

The bank provides financing tailored to the specific needs of each client. As early as 2012, the Bank started offering standardized loan products to its clients under its programs for lending to individuals and Small and Medium Enterprises (SMEs). BACB prioritizes the financing of projects with approved financial assistance under EU operational programmes. The Bank has a specialized department working with European programmes and financial institutions, with the aim of providing a full range of services to BACB's clients at all stages of the project implementation process under European programmes.

VI. TREASURY SHARES AND SHARE REPURCHASE (Art. 187e of the Commerce Act)

The Bank does not hold any treasury shares and has not bought or sold its treasury shares for its own account.

As of 31 December 2023, the Bank has two 100% subsidiaries - BACB Finance EAD and BACB Trade EAD. As of the same date, the Bank has indirect shareholding in the amount of 50% of the capital of IDS Fund AD. The financial results of these companies are included in the consolidated financial statements of the Group as of 31 December 2023. BACB Finance EAD, BACB Trade EAD and IDS Fund AD do not hold treasury shares, have not bought or sold their treasury shares for their own account. None of the companies included in the consolidation holds any Bank's shares.

VII. BRANCHES

The Bank has no registered branches within the meaning of the Commerce Act.

Apart from its Headquarters in Sofia, 2 Slavyanska St. (registered address of BACB), in 2023 the Bank carried out its activities through operational offices in Sofia (5), Burgas (2), Plovdiv (2), Varna (2), Kozloduy (1), Kardzhali (1), Pamporovo (1), Chepelare (1), Pleven (1), Ruse (1), Stara Zagora (1), Veliko Tarnovo (1) and Petrich (1)), offering a full range of banking services. The purpose of the offices is to provide additional support for the growth of the client base and good service level to the existing clients. Information about the location of the offices can be found on the Bank's website.

VIII. FINANCIAL INSTRUMENTS USED

On 23 December 2022 BACB issued an unsecured bonds issue in the amount of EUR 15,000,000. The bonds are issued to satisfy equity and eligible liabilities requirements in accordance with the provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The type of bonds issued – ordinary, interest-bearing, book-entry, registered, freely transferable, unsecured, non-convertible bonds. Maturity of the bonds issued is seven years and the total principal is payable at maturity. The interest rate is fixed and the interest amount is payable on six-month coupon payments. The issue is expected to be registered for trading on the Bulgarian Stock Exchange within 6 months after issuance.

As of 31 December 2023 the Bank's obligation related to debt securities in issue, including accrued interest, amounts to EUR 15.016 million (2022: EUR 15.016 million).

IX. STATEMENT OF CORPORATE GOVERNANCE

1. Information on compliance, as appropriate, with the Code of Corporate Governance, approved by the Deputy Chairman of the FSC under Art. 100n, para. 8 of the POSA

Pursuant to the requirements of Art. 100n, para. 8 of POSA "Bulgarian-American Credit Bank" AD declares that in 2023 it will comply with the National Corporate Governance Code (the "**Code**") as appropriate, approved by decision No. 461-KKU of 30.06.2016 of the member of the FSC, exercising the powers of the deputy chairman of the FSC, managing the "Supervision of investment activity" department for a corporate governance code under Art. 100n, para. 8, item 1, letter "a" of POSA, as last amended and supplemented in July 2021.

The text of the National Corporate Governance Code is published on the website of the Financial Supervision Commission www.fsc.bg

2. Information on corporate governance practices applied by the Bank in addition to the National Corporate Governance Code

The bank believes that the provisions of the National Corporate Governance Code sufficiently cover the requirements for good corporate governance of companies. In this regard, the Bank does not apply additional corporate governance practices other than those established by the National Corporate Governance Code.

3. Explanations on the parts of the Corporate Governance Code, approved by the Deputy Chairman of the FSC under Art. 100n, para. 8 of the POSA, which are not complied with by the Bank and grounds thereof

Clarifications for certain corporate practices applied by the Bank:

(1) Art. 7.4., last sentence of the Code "The Management Board adopts and complies with the Code of Ethics". Based on a decision from April 2012 and a decision from 17 May 2018, the Management Board approved a Code of Conduct (Code of Ethics) for the Bank's employees, determining the basic principles, ethical standards and corporate values, used as basis for the Bank's policies and business plans, rules and procedures in the day-to-day operational work of the Bank and applied by the employees in their duties. The adopted Code of Ethics is applicable to all employees, as well as to the Bank's management. In this regard, the Management Board has not adopted an ethical code of conduct applicable only to the members of the Management Board, different from the one that applies to the entire Bank.

(2) Art. 9.2 of the Code: "The remuneration of the members of the Management Board is recommended to consist of basic remuneration and incentives".

The remunerations paid in 2023 to the executive members of the Bank's Management Board (Chief executive officers and Executive officers) are made up of basic remuneration only.

For his activities, the member of the Management Board of the Bank, who is not in charge of the operational management and representation of the Bank to third parties ("non-executive" member of the Board), does not receive remuneration under a management contract.

(3) Art. 13.3, second sentence of the Code: "The number of consecutive mandates of the independent members (of the Supervisory Board) is recommended to be limited"

Given the advisory nature of the provision and the absence of such a requirement in the applicable legislation, no such restriction has been introduced in the Bank. BACB AD believes that the requirements for independence according to Art. 116a of POSA sufficiently guarantee the interests of the company and its shareholders (including minority shareholders).

(4) Art. 13.6, second sentence of the Code: "It is recommended that the organizational acts of the company determine the number of companies in which the members of the Supervisory Board can hold management positions"

In view of the fact that the Bank is a "credit institution" within the meaning of the Credit Institutions Act, the requirements of Art. 10, para. 5 of the Credit Institutions Act and the Regulations on the Implementation of the law shall apply. The regulatory framework sets out in detail the positions that a person - a member of the Managerial and supervisory body of a bank - has the right to occupy. BACB AD believes that the regulatory provision is sufficient. BACB complies with the established regulatory requirements.

- (5) Art. 19 of the Code: "A rotation principle should be applied in the proposals and selection of an external auditor"

In view of the specificity of BACB as a credit institution and the provision of Art. 76, para. 4 of the CIA, BACB aligns in advance with the BNB the selection of the Bank's auditors. In view of the applicable legislation, in 2023 a joint audit of BACB AD was carried out by two audit companies.

- (6) Art. 23.3.3 of the Code: "Corporate management prepares rules for the organization and conduct of the regular and extraordinary General Meetings of the company's shareholders, which guarantee equal treatment of all shareholders and the right of each shareholder to express their opinion on the items on the agenda of the General Meeting"

The bank complies with the legally established rules under the Commerce Act and POSA regarding the organization and conduct of general meetings of shareholders, and these rules sufficiently guarantee the equal treatment and rights of shareholders during the General Meetings of shareholders. In 2023, the Bank also adopted Rules for corporate events, identification of shareholders and holding a general meeting of shareholders, which continue to apply as at the end of the reporting period.

- (7) Art. 32 of the Code: "The Corporate management approves and controls the compliance with the internal rules for the preparation of annual and interim statements and the procedure for disclosing information"

The bank complies with the requirements of the applicable legislation according to POSA and the by-laws on its implementation, which regulate to a sufficient extent the requirements for the preparation of the annual and interim financial statements. With regards to the disclosure of information, the relevant provisions of the BACB's Internal Rules for the Implementation of Measures Against Market Abuse with Financial Instruments shall apply.

4. Description of the main characteristics of the internal control and risk management systems in relation to the financial reporting process

Organizational and operational independence of the risk control function from the business lines that the Bank monitors and controls

The risk control function at BACB is performed by the Risk Management Directorate, which reports directly to the Executive Officer responsible for Risk Management. As part of the Bank's organizational structure, the directorate is directly subordinated to the sectoral Executive Officer of the Bank. Pursuant to the rules of procedure and organizational structure of the Bank, the "Risk Management" department is independent from the business areas responsible for lending, client operations and investments, which are directly subordinated to another Executive officer.

In order to ensure consistency between the Bank's strategic objectives set by the management and the activities of the directorates, including the Risk Management Directorate, the management has developed a matrix with risk indicators, which are monitored by the Audit Committee on a quarterly basis.

A system of control processes for identifying, measuring, monitoring and managing risks

The system of control processes for identification, measuring, monitoring and managing risks in the Bank is based on the internal rules and procedures, the functional characteristics of the individual units and the job descriptions of the employees.

The procedure for limit-setting in the Bank is strictly regulated and, depending on the level within the organizational structure, is approved and discussed by the higher levels of management.

In 2023, no violations of the procedure for setting powers and limits were found.

Credit risk

The credit process at the Bank is based on the principle of division of functions and competences for analysis, decision-making for credit approval, management and control over credit transactions. The independence of the units involved in control functions from the business areas is ensured.

The activities of identification, monitoring, management of credit risk and limitation of its negative effect are regulated in the adopted internal regulatory documents - Risk Management Policy, Credit Activity Policy, Instructions for lending to SMEs and corporate clients, Instructions for providing consumer and mortgage loans to individuals, Rules for control, management and collection of problematic exposures, Internal rules for operations on the financial markets - limits by counterparty banks, Work manuals. The rules are mandatory for the structural units of the Bank, directly involved in the lending activity. They examine the transactions in detail - bearers of credit

risk, the powers of the structural units and employees engaged in lending activity, the authorization powers, the procedures and activities for preliminary, current and subsequent control, the type and amount of collateral accepted, the insurances required and other techniques for risk mitigation.

The process of approving loan transactions, respectively, the decision-making levels are clearly defined in the current rules and approved by the Management Board of BACB AD. The composition of the committees that take decisions on credit transactions is determined by the Management Board, and each one includes persons representing the Bank.

Credit risk monitoring is performed on an individual transaction level, as well as on a portfolio basis.

Periodic reporting on credit risk, including information on the state of the credit portfolio, compliance with internal and regulatory limits, the level of concentration risk, etc. is presented both to the Bank's management and at the regular meetings of the Independent Audit Committee, the Risk Committee and the Supervisory Board.

The limits related to the Bank's credit activity comply with the requirements of the Credit Institutions Act, the external regulatory framework - directives, regulations, the ordinances of the BNB and best banking practices. Exceeded limits are reported in writing to the Bank's senior management.

Limits for counterparty exposures are determined by the Assets and Liabilities Management Committee, within the rights delegated to the Committee by the Board of Directors. The Markets and Liquidity Department reviews new proposals for counterparty limits, coordinates them with the Risk Management Directorate and submits them for approval to the ALMC at least once a year. The "Markets and Liquidity" Department may propose for approval by the ALMC the change, deletion or addition of counterparties if necessary and in the event of a change in the market situation or the position of a certain counterparty.

The bank has adopted an internal policy and procedures for monitoring and classifying its risk exposures and determining expected credit losses. These documents regulate the terms and conditions for identifying excessive credit risk and forming impairment losses. The specialized internal body for monitoring, evaluation and classification of risk exposures, analyzes the available information and determines the amount of expected credit losses on a monthly basis.

Market risk

Market risk management in the Bank is aimed at systematically identifying, assessing, analyzing, limiting, monitoring and reporting market risk. The functions and responsibilities of the identification units The market risk management framework is defined in the Internal rules for identifying, measuring and managing market risks in the activities of BACB AD, the Risk management policy, the Rules for the operations on the financial markets, Rules for management of securities in a banking and trading portfolio, the procedures for approval of transactions of the Payments Directorate.

The main principles underlying market risk management are: defining and approving a market risk strategy by the BACB Management Board, as part of the overall risk management strategy; separation of responsibilities between the persons who assume and currently manage the risk and those who control it. The ongoing management of risk and execution of transactions on the financial markets by BACB is carried out by the Markets and Liquidity Department, in accordance with the Bank's strategy and according to the decisions of the Asset and Liability Management Committee (ALMC) and the Management Board. The control of market risks and methodological guidance on the processes is performed by the Risk Management Directorate.

The bank has defined a system of limits aimed at mitigating market risks in its daily operations. The limits are grouped according to the relevant market risk category. Limits/levels of competence have also been determined by types of activities of the employees of the Markets and Liquidity Department.

Currency risk

The internal rules for operations on the financial markets determine a list of widely traded currencies with which the Bank trades, limits for the transactions on the local and international interbank foreign exchange market and limits for open currency positions. The compliance with the currency trading limit is monitored at a system level. A change in the limits is made after a corresponding approval by the ALMC. Exceeding limits and/or daily ratios of an open currency position by counterparty, instrument, etc., is only allowed with the permission of the Executive officer. In 2023, no violations of the restrictive thresholds set were reported.

Interest rate risk

The Bank's interest rate position is monitored and managed on an ongoing basis by the Markets and Liquidity Department, which reports to the Assets and Liabilities Management Committee on a monthly basis. The Asset and Liability Management Committee assesses the interest rate risk of the bank in the general context of all banking operations and activities. The "Operational, market and other risks" Department under the Risk Management

Directorate carries out independent ongoing control over the open interest position, monitors the risk indicators regarding interest imbalances and draws up quarterly reports to the management.

BACB's policy is to reduce interest rate risk by granting loans with a floating interest rate combined with the application of fixed floor thresholds so as to limit the potential negative impact resulting from non-parallel or time-varying changes in asset and liability interest rates.

Price risk

The Bank strives for optimal price risk management, with investments in securities approved by the Asset and Liability Management Committee after analyzing the credit risk of the relevant issuer and the potential profits at a transaction level. The bank does not keep a trading portfolio. The portfolio is conservative from a counterparty risk point of view - the investments are mainly made in Bulgarian government securities.

Operational risk

The operational risk control system includes rules and methodologies that are applied in the operational risk management, as well as the effective systems limiting errors or abuses.

The operational risk management framework combines:

1. The Bank's risk management strategy and the level of risk tolerance, defined in the Risk Management Policy;
2. An organizational model based on the principle of separation of responsibilities between risk management and control and including three main pillars – risk identification and management by individual business lines, independent review, assessment and reporting of risk by the operational risk management function, independent verification of controls, processes and systems used to manage operational risk by internal and/or external auditors
3. An accountability system covering the preparation of reports and information on the nature and reasons for the occurrence of significant operational events, as well as a comprehensive analysis and assessment of the dynamics of registered events by categories and business lines and aimed at providing timely and accurate information to support business unit heads, the management and the Management Board in taking appropriate decisions for the purpose of enhancing the effectiveness of the operational risk management framework

As of 31 December 2023, operational risk management is carried out by the "Risk Management" directorate assisted by the heads of individual units of the Bank under the direct supervision of the Management Board.

The Bank has developed an Action Plan in the event of unforeseen circumstances, ensuring the continuity of the Bank's activities, adopted by the Management Board on 30 August 2012, updated by a decision of the Management Board of 05.2021, the purpose of which is to ensure the continuity of the activities. BACB has a UPS (for the Headquarters and the offices) in order to maintain the operations in the event of an emergency power outage. In 2023, no techniques described in the Plan were applied.

Compliance Risk

Related to legal and regulatory penalties, material financial loss or loss of reputation as a result of failure to comply with laws, regulations, internal rules and standards, the code of business conduct applicable to banking (collectively referred to as compliance with laws, rules and standards).

The Bank has developed the compliance function (" Compliance "), carried out by the "Regulatory compliance and control" department, which identifies and assesses the risk of regulatory non-compliance by the Bank, monitors and controls all activities, measures taken to mitigate the risks of regulatory non-compliance, controls the entry of the changes in the regulations applicable to the banking activity in the internal policies, rules and procedures of compliance of the Bank's activities with them, reports the risks of regulatory non-compliance to the Management Board and the Supervisory Board of the Bank, provides training and consulting activities on compliance issues within the Bank. Compliance with the regulatory requirements is a responsibility of all employees and managers of the Bank, but it is also an integral part of its corporate culture. The scope of the function covers, as a priority for regulatory compliance and control, all regulations, laws, ordinances, instructions related to banking activity. The entire internal banking system shall be provided with a sufficient qualitative and quantitative set of policies, rules and procedures complying with regulatory and legal requirements. The Bank's regulatory compliance function regularly reports to the Management on important amendments in the regulatory framework regarding internal bank policies and rules. The identified risks of non-compliance are also reported, as well as targeted measures for their mitigation and effective management. The Bank has developed a policy and rules for the implementation and organization of the compliance function, which are allocated among all employees of BACB, who have to be familiar with them and strictly observe them.

Audit services

The audit firms performing audits on the bank's annual financial statements (both individual and consolidated) additionally issue a Report on the Reliability of Internal Control Systems pursuant to Article 76, paragraph 7, of the Credit Institutions Act and Regulation 14, Article 5, outlining the content of the audit report for supervisory purposes as of 31 December 2023. ("Ernst and Young Audit" OOD and "Afa" OOD have issued such reports for the Bank as of 31 December 2022.). In 2023, the joint auditors also carried out a review of the Bank's interim individual condensed financial statements as at 30 June 2023 and an engagement for agreed procedures on the Prospectus for the admission to trading on a regulated market of an issue of unsecured bonds of the Bank

5. Information under Art. 10(1)(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

- (1) Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross shareholdings) within the meaning of Art. 85 of Directive 2001/34/EC

As of 31.12.2023, the Bank's shareholder structure is as follows:

Shareholder	31.12.2023	
	Number of shares held	% of the capital
"CSIF" AD	11 277 473	45.68
LTBI Holdings LLC	8 824 755	35.74
Tzvetelina Borislavova Karagyozova	2 465 000	9.98
Other shareholders	2 124 085	8.60
Total	24 691 313	100.00

The significant direct shareholdings in the Bank's capital include the participations of the shareholders "CSIF" AD, LTBI Holdings LLC.

Mrs. Tzvetelina Borislavova Karagyozova is a shareholder who directly owns 9.98% of the capital of BACB AD and at the same time is a person who owns more than 50 percent of the votes in the general meeting of shareholders of the direct shareholder "CSIF" AD and accordingly, can determine more than half of the members of its Board of Directors. Based on the above, Mrs. Tzvetelina Borislavova Karagyozova has a significant shareholding (direct and indirect) in the Bank's capital.

- (2) Holders of all securities with special rights of control and description of such rights

The bank has not issued securities with special control rights.

- (3) Any restrictions on voting rights.

The Bank's Statute does not provide for restrictions on the voting rights of shareholders.

Similar restrictions may arise by virtue of the law in two cases: (a) upon exceeding of certain thresholds of shareholding without the prior consent of the BNB according to the CIA and (b) the voting of certain transactions with related parties pursuant to Art. 114 of the POSA.

- (4) Rules regulating the appointment or replacement of members of the Supervisory Board and Management Board and the introduction of amendments to the statute

"Bulgarian-American Credit Bank" AD has a two-tier management system, which consists of a Supervisory Board and a Management Board. The members of the Supervisory Board can be both individuals and legal entities, while the members of the Management Board can only be individuals.

Supervisory Board

The Bulgarian legislation and the Bank's Statute provide that the Supervisory Board must consist of at least three and no more than seven members, and currently the Supervisory Board of BACB AD consists of three members. The

members of the Supervisory Board are elected and dismissed by decision of the General Meeting of Shareholders, adopted by a two-thirds majority of the shares presented at the meeting. According to the Public Offering of Securities Act, at least one third of the members of the Supervisory Board must be independent persons (i.e. they shall not be shareholders owning 25% or more of the Bank's capital, employees or persons in lasting commercial relations with the Bank, persons related to the aforementioned, to another member of a Bank's board, as well as to the Bank itself).

The Supervisory Board appoints and dismisses the members of the Management Board and approves the election and authorization of the executive officers (two or more executive members of the Management Board), as well as the withdrawal of such authorization.

Management Board

The Bulgarian legislation and the Bank's Statute provide that the Management Board consists of at least three and no more than nine members, and currently the Management Board of BACB AD consists of four members, three of whom are executive members (Chief Executive Officer and executive officers). The members of the Management Board are appointed and dismissed by the Supervisory Board, which also requires BNB's approval.

The Bank's Statute provides that a quorum of at least half of all members of the Management Board is required for holding a valid meeting and taking decisions. As a rule, the decisions of the Management Board are adopted by a simple majority, unless the law or the Statute provide otherwise. The Management Board, with the approval of the Supervisory Board, elects at least two of its members as executive members (executive officers) to represent the Bank and be responsible for its activities. The members of the Management Board can be re-elected without restrictions, and can be dismissed at any time by the Supervisory Board. Pursuant to the provisions of the applicable law, any Member of the Management Board may resign by giving a six-month written notice addressed to the Bank.

Amendments and additions to the Statute

The Bank's Statute provides that the decision on the approval of amendments and additions to the Bank's Statute shall be adopted by a majority of at least two-thirds of the voting shares present at the General Meeting of Shareholders. In addition, any change in the Statute is subject to prior approval by the BNB.

The amendments and additions to the Bank's Statute shall enter into force from the date of entry of the decision in the Trade Registry and the approval of the BNB.

- (5) Powers of the members of the Supervisory Board and the Management Board and, in particular, the right to issue or redeem shares.

Supervisory Board

The main powers of the Supervisory Board are to exercise ongoing control over the activities of the Management Board, including approval of the Bank's business strategy and its three-year business plan. The Supervisory Board monitors the functioning of the risk management and control systems, as well as the management information systems. The Supervisory Board has the authority to appoint and dismiss members of the Management Board, to approve the election and authorization of the executive officers (two or more executive members of the Management Board), as well as the withdrawal of this authorization.

Management Board

The Management Board directs the activities of the Bank in compliance with the law. The Management Board takes decisions on all issues that are not within the exclusive competence of the General Meeting of Shareholders and the Supervisory Board. The Management Board reports its activities to the Supervisory Board and to the General Meeting of Shareholders.

Issuance of shares

The Bank may increase its capital by issuing new shares in accordance with the current legislation, including: (1) in order to borrow new funds, (2) convert part of the Bank's profit into capital, (3) transform part of the funds into reserve fund into capital and (4) convert bonds issued as convertible into shares.

The Bank's capital cannot be increased by increasing the nominal value of already issued shares or by converting bonds that have not been issued as convertible ones, into shares.

The Bank's capital cannot be increased by contributions in kind or on the condition that the shares will be acquired by certain persons, in violation of the shareholders' pre-emptive right (in compliance with Articles 193, 195 and 196, paragraph 3 of the Commerce Act), except in the cases specifically provided for by law.

As an exception, under the conditions provided for in Art. 113, para. 2 of POSA (within the framework of the Bank's recovery program or based on an order by the BNB, if this is required for the purpose of an acquisition or an offer for the exchange of shares, as well as to ensure the rights of holders of convertible bonds or warrants) the Bank's capital can be increased in accordance with Articles 193, 195 and 196, Paragraph 3 of the Commerce Act. The increase with contributions in kind requires written permission from the BNB.

According to Art. 24, item 2 of the Statute of BACB AD, the competent authority for adopting a decision for capital increase is the General Meeting of Shareholders.

Share redemption

The decision to redeem shares falls within the exclusive competence of the General Meeting of Shareholders. In addition, the Bank may redeem its shares subject to a written approval by the BNB pursuant to the Credit Institutions Act, the Commerce Act, POSA and other applicable laws.

The bank cannot exercise its rights on the redeemed shares. These rights can be exercised only after the Bank has transferred the shares to third parties.

In 2023, the Bank did not undertake any share redemptions. The bank does not hold any of its own shares. The bank did not grant loans against its own shares, nor did it accept its own shares as collateral. The bank was not a party to any of the transactions described in art. 187e and 187f of the Commerce Act.

6. Composition and functioning of the Management and Supervisory bodies of the Bank and their committees

Supervisory Board

As of 31 December 2023, the BACB Supervisory Board consists of three members:

1. Mrs. Tzvetelina Borislavova Karagyozeva, Chairperson
2. Mr. Petar Georgiev Atanasov
3. Mr. Martin Boychev Ganev, independent member

The main powers of the Supervisory Board are to exercise ongoing control over the activities of the Management Board, including approval of the Bank's business strategy and its three-year business plan. The Supervisory Board also monitors the functioning of the risk management and control systems, as well as the management information systems. The Supervisory Board has the authority to appoint and dismiss members of the Management Board, to approve the election and authorization of the executive officers (two or more executive members of the Management Board), as well as to withdraw such authorization. The approval of the Supervisory Board is also required for the decisions of the Management Board regarding:

- the Bank's internal and organizational structure and significant organizational changes;
- the internal rules governing the scope, conditions and procedure for transactions and operations of the Bank;
- opening and closing branches;
- increase of the Bank's capital, pursuant to the authorization of the Management Board according to the Statute;
- the acquisition and disposal of shares, in the cases provided for by law and the Statute;
- drafts on the amendment of the Statute;
- transactions with real estate, other than those related to enforcement on loan collateral and exceeding the thresholds set by the Rules of the Supervisory Board and other internal rules of the Bank;
- authorization of proxies;
- provision of loans forming a large exposure of more than 10% of the Bank's capital and loans to members of the Bank's boards and administrators; and
- issuance of bonds at a nominal value of the issue exceeding 1/3 of the Bank's capital base.

Management board

As of 31 December 2023, the Management Board of BACB consists of four members:

1. Mr. Ilian Petrov Georgiev, member of the Management Board and Chief Executive Officer
2. Mr. Aleksandar Dimitrov Dimitrov, member of the Management Board and Executive officer
3. Mrs. Loreta Ivanova Grigороva, member of the Management Board and Executive officer;
4. Mrs. Silvia Kirilova Kirilova, member of the Management Board

The Management Board directs the activities of the Bank in compliance with the law. The Management Board takes decisions on all issues that do not fall within the exclusive competence of the General Meeting of Shareholders and

the Supervisory Board. The Management Board reports its activities to the Supervisory Board and to the General Meeting of Shareholders.

The most important decisions of the Management Board that require approval by the Supervisory Board, are described above.

Audit Committee

BACB's Audit Committee consists of three members, two of which being members of the Supervisory Board and one member is independent of the Supervisory Board, as follows:

1. Mr. Martin Boychev Ganev, member of the Supervisory Board, chairman of the Audit Committee;
2. Mr. Petar Georgiev Atanasov, member of the Supervisory Board;
3. Mrs. Sevdalina Velkova Paskaleva, independent member of the Audit Committee;

The Audit Committee is a specialized body of the Bank, the functions of which comply with the Independent Financial Audit Act.

The audit committee is elected by the General Meeting of the Bank's shareholders and performs the following functions:

- controls the quality and integrity of the accounting policy, financial statements and information disclosure practices;
- monitors the processes involved in the financial reporting activity;
- monitors the compliance with the applicable regulatory provisions, tax obligations and relevant internal regulations and "business ethics" rules;
- monitors the independence and effectiveness of the internal audit;
- supervises the external (independent) auditors and monitors their independence in accordance with the requirements of the applicable legislation or regulatory bodies, including in cases of provision of additional services;
- monitors the effectiveness of internal control systems;
- monitors the effectiveness of risk management systems;
- recommends to the General Meeting the selection of external (independent) auditors to perform an independent financial audit

Risk Committee

BACB's Risk Committee was created based on a decision of BACB Supervisory Board dated 9 September 2014. The functions and duties of the Committee are set out in accordance with the requirements of Regulation No. 7 of the BNB on the organization and management of risks. The Risk Committee consists of the three members of the Supervisory Board as follows:

1. Mr. Petar Georgiev Atanasov, Chairman;
2. Mrs. Tzvetelina Borislavova Karagyozeva;
3. Mr. Martin Boychev Ganev;

The Risk Committee assists the Supervisory Board and the Management Board in the management, monitoring and control of the risks assumed by the Bank. The Risk Committee also performs the following functions:

- advises and consults the Supervisory Board and the Management Board on the current and future risk tolerance/appetite, as well as on the control over the implementation of the Bank's strategy;
- monitors the effectiveness of the framework, systems and processes related to risk management and proposes to the Supervisory Board and the Management Board measures to improve the existing organization and controls;
- verifies the adequacy of the incentives applied according to the Remuneration Policy in relation to capital, liquidity, implementation of the business plan
- monitors the applied pricing policy and makes proposals to the Supervisory Board and the Management Board for correction in case of any identified deviations from the business model and risk strategy;
- assists the Supervisory Board and the Management Board in the control and evaluation of the adequacy of the Bank's capital, liquidity and funding sources;
- monitors the compliance with the internal rules and their compliance with the legal regulations.

Remuneration Committee

The Bank does not have a Remuneration Committee as an independent auxiliary body. All functions, duties and powers related to remuneration administration at the Bank according to BACB's Remuneration Policy and Regulation No. 4 of the BNB on remuneration in banks, are carried out by the Supervisory Board of BACB.

7. Diversity policy implemented by the Bank in relation to its management and supervisory bodies

BACB, as a "credit institution" within the meaning of the CIA, is subject to special legally established criteria in the selection and approval of candidates for members of the Bank's boards, including but not limited to requirements for education, qualification and professional experience, reliability and suitability, etc.

BACB declares the following information in relation to diversity in the Supervisory Board and the Management Board:

Supervisory Board

- All members of the Supervisory Board of BACB AD have completed higher education with an acquired educational and qualification degree not lower than "Master";
- All members of the Supervisory Board have sufficient qualifications for the relevant education and professional experience in banking;
- All members of the Supervisory Board meet the other requirements for occupying the relevant position in accordance with the requirements of the Credit Institutions Act and Ordinance No. 20 of the BNB on the Issuance of Approvals for Members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements in connection with the performance of their functions;
- The Supervisory Board includes both men and women (the chairman of the Supervisory Board is a woman and the other two members are men);

Management board

- All members of the Management Board of BACB AD have completed higher education with an acquired educational-qualification degree not lower than "Master", with three of the members of the Management Board having a completed higher economic/financial education, and one Member of the Management Board has completed higher legal education;
- The executive members of the Management Board (executive officers) have occupied a position with management functions in a bank or in a company or institution comparable to a bank for at least 5 years;
- All members of the Management Board meet the other requirements for occupying the relevant position in accordance with the requirements of the Credit Institutions Act and Regulation No. 20 of the BNB on the Issuance of Approvals for Members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements relating to the performance of their functions;
- The Management Board includes both men and women (two of the Management Board members are women and the rest are men);

In addition, the Bank applies and observes the following principles as part of the diversity principle in the composition of the Supervisory Board and Management Board:

- the composition of the Supervisory Board and the Management Board are structured in a way that guarantees the professional approach, impartiality and independence of their decisions in relation to the Bank's activities;
- after their election, the members of the Boards familiarize themselves with the main legal and financial issues related to the Bank's activities;
- the members of the Boards continuously expand their professional qualifications;
- the members of the Boards have the necessary time to fulfill their tasks and responsibilities; the executive members of the Management Board (executive officers) are present daily at the company's registered address;

Based on the above, BACB believes that the compliance with the above principles and standards sufficiently guarantees greater transparency of the information provided by the Bank, leads to better results with limited costs, better management of non-financial risks, etc. The compliance and the disclosure of these principles act as a catalyst for increasing and improving the Bank's results in the field of corporate social responsibility, which can bring a positive impact on the society's and, accordingly, the consumers' perception of the Bank.

Bulgarian – American Credit Bank AD
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As at 31 December 2023

The disclosures contained in this Annual Activity Report related to the actions and policies implemented by the Bank in the field of ecology and environmental protection lead to better management of resources and internal sustainability awareness.

X. INFORMATION UNDER APPENDIX NO. 2 TO ART. 10 OF REGULATION NO. 2 OF THE FSC

(1) Information on the main categories of services provided, revenues and sources of revenues and their dynamics in 2023

Bulgarian-American Credit Bank AD is a licensed credit institution holding a full license to perform all banking activities under the Credit Institutions Act, and respectively - the main categories of services offered by BACB include lending and other financing for its own account and risk and publicly attracting deposits and other repayable funds. Detailed information on attracted deposits and granted loans is provided in Section I "Review of the financial position" of this Report

(2) Main markets, funding sources and credit concentration

The table below provides a breakdown of the sources of income of the Bank on a consolidated basis, as well as the variance in revenue by source in 2023 as compared to 2022.

INCOME	2023		2022		2023/2022
	000 EUR	%	000 EUR	%	%Δ
Interest Income	51 157	86.17	28 748	62.18	78.0%
Fees and commission income, net	6 990	11.77	7 594	16.42	-8.0%
Other non-interest income, net	1 220	2.06	9 892	21.40	-88.0%
TOTAL	59 367	100%	46 234	100%	28.4%

The interest income represented over 86.17% of the Bank's total income for 2023. For a further discussion, please see section Results of Operations above.

The bank operates within the territory of Bulgaria, where it generates its revenue.

BACB has no investments outside Bulgaria, except for amounts placed in the interbank money market and settlement accounts in foreign banks with high credit ratings. The portfolio of debt securities of BACB consists of Bulgarian government, foreign government, and corporate debt securities. In 2023, the Bank continued to offer deposit products for individuals in the markets of Germany and Spain. By the end of 2023, deposits from Germany and Spain accounted for 0.1% and 0.03%, respectively, of total customer deposits and 0.1% and 0.03% of the Group's liabilities. Due to the large number of customers from Germany and Spain, there is no separate customer in this market with a share exceeding 10% of the Group's expenses.

The bank's credit portfolio mainly includes loans to clients living and operating in Bulgaria. As of 31 December 2023, and 2022, there are no exposures to other countries that collectively exceed 10% of the bank's assets' value. For 2023, there is no group loan recipient who has generated more than 10% of the bank's revenue. At the same time, there is no client to whom more than 10% of BACB's operating expenses have been paid (including interest expenses, fee and commission expenses, and other operating expenses).

A more detailed discussion of funding sources is contained in the Capital Resources section above.

(3) Major transactions or transactions of significant importance to the activity in 2023.

In accordance with the requirements of Ordinance No. 2, the Bank has adopted a materiality threshold of its transactions equivalent to the thresholds specified under Art. 114 POSA.

In 2023 the Bank did not enter into large-value transactions under Art. 114(1) POSA as regards its assets or liabilities.

(4) Transactions with related parties, transactions outside of the normal scope of activity or unusual transactions

In 2023 the Bank has executed transactions with related parties within the scope of its regular activities and under the market conditions. The main transactions with related parties represent deposits to the managerial and control bodies, credit exposures to subsidiaries and other related parties. For details on transactions with related parties, please see Note 31 to the Consolidated Financial Statements for 2023.

(5) Unusual events and indicators with significant impact on the operations

There are no such events and indicators for 2023.

(6) Off-balance sheet exposures

The unutilized commitments on loans represent funds that are committed but not yet disbursed to borrowers. At 31 December 2023 unutilized commitments on loans represented 12% of net loans (2022 – 10.4%). For a detailed breakdown of off-balance sheet exposures, please see the Selected Statistical Information above and Note 28 to the 2023 Consolidated Financial Statements of the Bank.

(7) Information on shareholdings and investments

The fair value of the securities classified "at fair value through Other Comprehensive Income" as of 31 December 2023 is presented in Note 17 to the Separate Financial Statements for 2023.

At 31 December 2023 the Bank had the following participations in other companies:

Owner	Company	Number of shares held	Nominal value per share	Date of acquisition	% of shareholding
BACB	„BACB Finance“ EAD	3 000 000	1.00	13.4.2006	100.00
BACB	„BACB Trade“ EAD	50 000	1,00	13.06.2013	100.00
BACB	Bulgarian Stock Exchange	20 000	1.00	13.3.2003	0.30
BACB	Paynetics AD	36 658	8.00	12.03.2020 08.2023	7,58%
BACB	Tiksi AD	5 385	1,00	26.04.2021	6,25%

The main real estate owned or leased by the Bank for operational purposes are the following:

Address	Description	Type of rights	Area (m2)
2 Slavyanska St. 1000 Sofia	Headquarters	Rental Agreement valid by December 2026	2 691,43 (78,912% of the entire building area)
16 Krakra St. 1504 Sofia	Building for operational activity	Rental Agreement valid by December 2024	2 258 sq.m.
202 Vitosha Blvd. Sofia	Yuzhen park Office	Rental Agreement valid by December 2027	184.47

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 As at 31 December 2023

159 Tsarigradsko Shose Blvd. Sofia	Iztok Office	Rental Agreement valid by April 2026	182
2 Nikolay Haytov St., entrance 4, Sofia	Joliot Curie Office	Rental Agreement valid by October 2028	107
13 Henrih Ibsen St. Sofia, 1407	Paradise Office	Rental Agreement valid by December 2023	255,30
14 Vanga St. Petrich	Petrich Office	Rental Agreement valid by January 2025	306
6 Belgrade St. 4000 Plovdiv	Plovdiv 1 Office	Rental Agreement valid by May 2027	287
152 Shesti Septemvri Blvd. 4000 Plovdiv	Plovdiv 2 Office	Rental Agreement valid by July 2027	115
76 Tsar Simeon Veliki Blvd. 6000 Stara Zagora	Stara Zagora Office	Rental Agreement valid by March 2028	179
68 Bratya Miladinovi St. 9000 Varna	Varna Office	Rental Agreement valid by January 2027	253
100 Osmi Primorski Polk Blvd. Varna	Orbita Office	Rental Agreement valid by March 2024	102,66
5 Adam Mitskevich St. Burgas	Burgas 1 Office	Property right	180
57 Ferdinandova St. Burgas	Burgas 2 Office	Rental Agreement valid by April 2027	592
1 Despot Slav St. Kardzhali	RW Kardzhali (Remote workplace)	Rental Agreement valid by July 2033 2023	11
1 Despot Slav St. Kardzhali	RW Kardzhali (Remote workplace)	Rental Agreement valid by April 2033 2023	10
3 Stefan Karadzha St. Kardzhali	Kardzhali Office	Rental Agreement valid by February 2024	167
4 Aleksandrovska St. Ruse	Ruse Office	Rental Agreement valid by June 2029	182
12 Nikolaevska St., Ruse	Commercial premise	Rental Agreement valid by September 2028	94
15 Danail Popov St15 Pleven	Pleven Office	Rental Agreement valid by May 2024	171
41 Hristo Botev St. Kozloduy	Kozloduy Office	Rental Agreement valid by September 2029	90,60
Perelik Hotel Pamporovo	Reception Desk/Pamporovo RW	Rental Agreement valid by December 2023	5

1 Ivaylo St. Veliko Tarnovo	Veliko Tarnovo Office	Rental Agreement valid by February 2026	215,80
7 Han Asparuh St., Chepelare, Chepelare Municipality	Chepelare office	Rental Agreement valid by March 2028	107
1B Vasil Levski St. Village of Kazichene, Pancharevo Region Sofia	Trade premise	Rental Agreement valid by October 2029	655,84

For the subsequent accounting of its investment properties after their initial recognition, the Group has chosen the fair value model and they are valued in the statement of financial position at fair value. For the reported period Y/E 2023 the Bank disposed of real estate properties, classified as “investment properties” with gross balance value of EUR 2.9 million. No new assets classified as investment properties were acquired during the year. For the reporting period upon Management’s resolution assets held for sale with balance value of EUR 10.6 million were reclassified as investment properties and assets classified as investment properties with balance value of EUR 2.2 million were reclassified as assets held for sale. The balance value of the investment properties as of December 31, 2023 is EUR 46.9 million (2022: 42 million).

The balance value of the assets held for sale as of the same date is EUR 4.9 million (2022: EUR 12.3 million), with newly acquired assets in the period in the amount of EUR 4.8 million and assets with balance value of EUR 3.7 million were realized through sale. As noted above upon Management’s resolution assets held for sale with balance value of EUR 10.6 million were reclassified as investment properties and assets classified as investment properties with balance value of EUR 2.2 million were reclassified as assets held for sale. During the year the Group acquired new assets classified as held for sale in the amount of EUR 4.596 thousand were settled against direct reduction of loan portfolio.

The sum of the two positions show a total decrease by 4.6% compared to the previous year.

These assets are subject to future disposition that is facilitated by a specialized unit in the Bank.

Details on these categories at 31 December 2023 and 2022 are provided in Note 19 and Note 21 to the Consolidated Financial Statements of the Bank.

(8) Information on the loan agreements concluded by the issuer and by the subsidiaries in their capacity as borrowers.

The Bank's subsidiary "BACB Trade" EAD uses financing in the form of bank loans provided by the Bank as a lender. A detailed description of the bank loan parameters is contained in the tables below.

"BACB Trade" EAD

Loan agreement No. 026158.01 dated 12.02.2014

Lender	BACB
Initial size	BGN 200,000
Outstanding part of the loan as of 31.12.2023	BGN 0.00
Maturity	20.02.2024
Price conditions:	Management fee - 0.25% Commitment Fee - 0.25% Interest rate - 3% - fixed
Collateral:	A pledge on all present and future receivables

Loan agreement No. 026158.03 dated 12.02.2014

Lender	BACB
Initial size	BGN 400 000
Outstanding part of the loan as of 31.12.2023	BGN 300 000
Maturity	20.04.2024
Price conditions:	Management fee - 0.25% Interest rate - 3% - fixed
Collateral:	1. A second-ranking pledge on all aggregate present and future receivables 2. First-ranking pledge of goods in circulation / for the relevant transaction

Loan agreement No. 026158.06 dated 08.07.2020

Lender	BACB
Initial size	BGN 14 000 000
Outstanding part of the loan as of 31.12.2023	BGN 7 999 981.72
Maturity	10.09.2024
Price conditions:	Management fee - 0.5% of each amount utilized, but not more than BGN 70 000 (EUR 35 790) Interest rate – 7.00% - fixed
Collateral:	1. A first-ranking pledge on all present and future receivables 2. First –ranking pledge on bank accounts 3. First –ranking pledge on all oil crops 4. First –ranking pledge on a financial asset

(9) Loans received and extended by the Bank including guarantees and other commitments

The Bank is a lending institution which provides banking services, including through extending loans, providing bank guarantees and gathering deposits, which represent the core of its business activity. For details on the Group's loan portfolio and structure of funding, please, see the discussion above as well as Notes 15, 28, 32 and 24-25 to the Group's consolidated financial statements for 2023.

(10) Use of proceeds from the issuance of new bonds or shares

On 23 December 2022 BACB issued an unsecured bonds issue in the amount of EUR 15 million. The bonds are issued to satisfy equity and eligible liabilities requirements in accordance with the provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The type of bonds issued – ordinary, interest-bearing, book-entry, registered, freely transferable, unsecured, non-convertible bonds. Maturity of the bonds issued is seven years and the total principal is payable at maturity. The interest rate is fixed and the interest amount is payable on six-month coupon payments. The issue is expected to be registered for trading on the Bulgarian Stock Exchange within 6 months after issuance.

As of 31 December 2023 the Bank's obligation related to debt securities in issue, including accrued interest, amounts to EUR 15.016 million (2022: EUR 15.016 million).

(11) Comparison of financial results with published forecasts

The Group has a policy not to provide earnings guidance and it does not publish forecasts of its expected results.

(12) Fundraising Strategy

Historically the Group's funding strategy has been designed around the longer-term funding requirements of its target markets, and has been aiming to raise wholesale funds from domestic and foreign debt capital markets and international banks. As a result, the Group has not developed a large network of branches as most of its competitors have done. Results of the deposit raising strategy in the last financial years are excellent and the customer deposits reached EUR 1 227.6 million as at December 31, 2023.

Further information for the Bank's liquidity is provided herein above in sections "Capital Resources" and "Risk Management" above

(13) Investment intentions and their financing

Loans and advances to customers form the main portion of the assets of the Bank. BACB shall continue to pursue its targets for small and medium-sized enterprise (SME) financing and will simultaneously search for diversification of its portfolio through exposures to corporate customers and other sectors of strong fundamentals such as renewable energy as well as the retail banking. The Bank prioritises the financing projects with approved financial grants under EU operational programmes.

For details on the Bank's ability to finance its loan portfolio and the associated financial risks, please see sections *Capital Resources*, *Liquidity* and *Risk Management* above

(14) Changes in the management principles of the Bank and its economic group

In 2023, the Bank did not change its management principles.

The bank declares that it complies, as appropriate, with the National Corporate Governance Code, approved by the Deputy Chairman of the Financial Supervision Commission, responsible for "Investment Supervision", as a Corporate Governance Code under Art. 100n, para. 7 of the POSA.

A detailed analysis of the compliance with the principles of corporate governance under the National Corporate Governance Code is contained in Section VIII "*Corporate Governance Statement*" above.

(15) Internal control and risk management

The Bank has clearly defined operating procedures regarding internal control, which are updated and supplemented as necessary to reflect the growing business of the Bank. The Bank's organizational structure and human resources policy is designed to ensure control and management of all areas of banking operations by competent and highly qualified employees. In addition, the Internal Audit Specialized Services supervises and audits the implementation of the internal control systems at the Bank and reports the results of such audits directly to the Supervisory Board and the General Meeting of Shareholders. The Bank's management believes that the Bank's internal control systems are adequate for its size and activity, and the Bank continues to update and improve them. More information on risk management is contained in the *Risk Management section* above.

(16) Changes in the Bank's Management Board and Supervisory Board

No changes were made in the composition and number of the Supervisory Board or the Management Board of the Bank within the reporting period.

(17) Bank shares held by members of its senior management

The table below shows the shareholdings of the members of the Supervisory and Management Boards in the Bank's share capital as of 31 December 2023

	Number of shares held	% of the issued share capital
Tzvetelina Borislavova	2 465 000	9.98
Martin Ganev	-	-
Petar Atanasov	-	-
Ilian Georgiev	-	-
Aleksandar Dimitrov	-	-
Loreta Grigorova	-	-
Silvia Kirilova	1 600	0.0065

As stated above Mrs. Tzvetelina Borislavova Karagyozyova is a person who exercises control over the direct majority shareholder of BACB - "CSIF" AD.

Except as stated above, no member of the Bank's Supervisory and Management Board has any other shareholding in the Bank's capital.

During the reporting period, the Bank did not grant options on the Bank's securities to the members of its management and control bodies.

(18) Rights and privileges of the Directors in the purchase of shares or bonds issued by the Bank

The members of the Bank's Management and Supervisory Board do not have special rights and privileges for buying securities issued by the Bank. The bank does not have a bonus plan for granting options on its own shares.

(19) Court, administrative and arbitration proceedings

The Bank is not a party to pending court, administrative or arbitration proceedings concerning liabilities or receivables in the amount of 10 and/or more than 10 percent of its equity.

In connection with its ordinary activity and in particular for the active management of the portfolio of non-performing exposures, in 2021 the Bank was a party to enforcement proceedings and/or bankruptcy proceedings against debtors for the collection of overdue receivables.

(20) Investor Relations Director

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XI. INFORMATION UNDER APPENDIX No. 3 TO ART. 10 REGULATION No. 2 of the FSC

As stated above, on 23 December 2022 BACB issued an unsecured bonds issue in the amount of EUR 15 million, ISIN BG2100022222. As of 31.12.2023, the bond issue ISIN BG2100022222 is not admitted to trading on a regulated market.

Bulgarian-American Credit Bank AD has no other securities issued that are not admitted to trading on a regulated market on the territory of the Republic of Bulgaria or another member-state.

(1) Information on the direct and indirect ownership of 5 percent or more of the voting rights at the general meeting of shareholders of BACB AD

Shareholder	Number of shares owned (directly and/or indirectly) as of 31.12.2023	Percentage of votes at the General Meeting of Shareholders as of 31.12.2023
"CSIF" AD (CSIF)	directly owns 11 277 473 shares	45.68%
Tzvetelina Borislavova Karagyozova - directly and indirectly as a person who exercises control over the direct shareholder CSIF AD (owns 99.99% of the shares of CSIF AD) and	Directly owned 2 465 000 shares Indirect (through the controlled company "CSIF" AD) owns 11 277 473 shares	9.98% 45.68%
LTBI Holdings LLC	Directly owns 8 824 755 shares	35.74%

The above-mentioned information is derived from (1) the book of shareholders, kept by "Central Depository" AD, (2) the data from the notifications received for the disclosure of shareholding under Art. 145 and 146 of POSA and (3) the powers of attorney and accompanying founding documents of the shareholders of BACB AD provided in view of the General Meetings of Shareholders.

(2) Information on shareholders with special control rights

None of the shareholders of BACB AD has special control rights.

(3) Restrictive agreements between shareholders

The bank has no information about agreements between its shareholders that could result in restrictions on the transfer of shares or on the exercise of voting rights

(4) Material contracts of the Bank, which enter into force, are amended or terminated due to a change in the control of the Bank during the implementation of a mandatory trade offering

To the Bank's knowledge, there are no such agreements or contracts.

Internal control and control environment

Internal control includes the following components:

(a) control environment - a description of the control environment can be found in the Risk Management Sections, Item IX. Corporate Governance Statement, Section 3. "Description of the Main Characteristics of the Internal Control and Risk Management Systems in Relation to the Financial Reporting Process" of this report.

(b) risk assessment processes in the company - a description of the Bank's control risk assessment can be found in item IX. Corporate Governance Statement, sections "Risk Management" and section System of control processes for identifying, measuring, monitoring and managing risks;

(c) information system, including the related business processes essential for financial reporting, and communication - a description of the Bank's information system can be found in sections "Risk Management" and "The Bank is dependent on complex information systems" section;

(d) control activities - a description of the Bank's control activities can be found in sections "Risk Management", "Organizational and operational independence of the risk control function from the business lines that the Bank monitors and controls" and "Composition and functioning of the Bank's management and supervisory bodies and their committees"; "Internal control and risk management";

(e) ongoing monitoring of controls - a description of the ongoing monitoring and control of the Bank can be found in the sections "Organizational and operational independence of the risk control function from the business lines that the Bank monitors and controls", "Composition and functioning of the Bank's management and supervisory bodies and their committees"; "Internal control and risk management"

21.03.2024

ILIAN PETROV
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Ilian Georgiev
Chief Executive Officer

Loreta
Ivanova
Grigorova

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Loreta Grigorova
Executive officer

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

All amounts are in thousands of EUR unless otherwise stated

	Notes	2023	2022
Interest income		51,157	28,748
Interest expense		(3,360)	(2,080)
Net interest income	4	47,797	26,668
Fees and commission income		7,592	8,045
Fees and commission expense		(602)	(451)
Fees and commission income, net	5	6,990	7,594
Dividend income		16	11
FX trade net income		1,834	1,889
Net gain on financial assets at FV through profit or loss	7	147	82
Exchange differences, net	6	(51)	323
Other operating income	8	896	9,217
Other operating expenses	8	(1,558)	(1,607)
Share of (loss) of joint ventures		(64)	(23)
Net operating income before impairment		56,007	44,154
Impairment on financial assets	10	(4,302)	(2,839)
Impairment of equity investment		(51)	-
Impairment of non-financial assets		(88)	(7)
Personnel expenses		(8,457)	(7,340)
Administrative expenses	9	(9,201)	(8,137)
Depreciation and amortization	20	(2,290)	(1,889)
Profit before tax		31,618	23,942
Tax expense	11	(3,176)	(2,393)
PROFIT FOR THE YEAR		28,442	21,549
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on revaluation of properties, net of tax		-	214
Fair value changes on equity instruments at FVOCI, net of tax	27	176	(1)
<i>Items that may be reclassified subsequently to profit or loss</i>			
<i>Debt instruments at FVOCI, net of tax</i>			
Change in fair value	27	1,030	(1,496)
Changes in allowance for ECL		49	(14)
Other comprehensive income for the year, net of tax		1,255	(1,297)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,697	20,252

These consolidated financial statements have been prepared and approved by the Management Board 21 March 2024.

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CEO

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Executive Director

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Bineva
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Katya Bineva
Chief Accountant

The accompanying notes to the financial statements from page 5 to page 103 are an integral part thereof.

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
All amounts are in thousands of EUR unless otherwise stated

	Notes	2023	2022
Assets			
Cash and balances with the Central Bank	13.1	411,213	445,002
Loans and advances to banks	14	9,301	23,648
Loans and advances to customers	15	767,175	704,995
Financial assets at FV through profit or loss	16	735	609
Debt instruments at FVOCI	17	68,073	42,141
Equity instruments at FVOCI	17	2,287	2,092
Debt instruments at amortized cost	18	102,714	65,758
Inventories	23	4,090	7,902
Assets held for sale	21	4,878	12,286
Investment properties	19	46,921	42,016
Other assets	23	2,936	4,762
Investments in joint ventures	22	-	115
Tangible assets and right-of-use assets	20	5,876	6,257
Intangible assets	20	855	925
Deferred tax assets, net	11	144	144
Total Assets		1,427,198	1,358,652
Liabilities and Shareholders' Equity			
Liabilities			
Deposits from banks		177	39
Deposits from customers	24	1,227,577	1,178,454
Current tax liabilities		594	754
Other liabilities	26	12,261	16,716
Debt securities in issue	25	15,016	15,016
Other borrowed funds	25	4,641	9,176
Total Liabilities		1,260,266	1,220,155
Shareholders' Equity			
Share capital	27	12,624	12,624
Share premium	27	18,944	18,944
Reserves and retained earnings	27	135,364	106,929
Total Shareholders' Equity		166,932	138,497
Total Liabilities and Shareholders' Equity		1,427,198	1,358,652

These consolidated financial statements have been prepared and approved by the Management Board 21 March 2024.

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Executive Director

Katya
Svetoslavova
Bineva

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Katya Bineva
Chief Accountant

The accompanying notes to the financial statements from page 5 to page 103 are an integral part thereof.

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts are in thousands of EUR unless otherwise stated

	Share capital	Share premium	Fair value reserve	Revaluation reserve on own properties	Retained earnings and other reserves	Total
31 December 2021	12,624	18,944	201	2,353	84,123	118,245
Profit for the year	-	-	-	-	21,549	21,549
Net change in fair value of properties	-	-	-	214	-	214
Fair value changes on equity instruments at FVOCI	-	-	(1)	-	-	(1)
Fair value changes on debt instruments at FVOCI	-	-	(1,496)	-	-	(1,496)
Changes in allowances for ECL on debt instruments at FVOCI	-	-	(14)	-	-	(14)
Other comprehensive income, net of tax	-	-	-	-	21,549	21,549
TOTAL COMPREHENSIVE INCOME	-	-	(1,511)	214	21,549	20,252
Transfer of FV reserve of properties at derecognition	-	-	-	(2,482)	2,482	-
31 December 2022 (Note 27)	12,624	18,944	(1,310)	85	108,154	138,497
Profit for the year	-	-	-	-	28,442	28,442
Fair value changes on equity instruments at FVOCI	-	-	176	-	-	176
Fair value changes on debt instruments at FVOCI	-	-	1,030	-	-	1,030
Changes in allowances for ECL on debt instruments at FVOCI	-	-	49	-	-	49
Other comprehensive income, net of tax	-	-	1,255	-	-	1,255
TOTAL COMPREHENSIVE INCOME	-	-	1,255	-	28,442	29,697
Distribution of dividends	-	-	-	-	(1,262)	(1,262)
Transfer of reserve on derecognition of equity instruments at FVOCI	-	-	342	-	(342)	-
31 December 2023 (Note 27)	12,624	18,944	287	85	134,992	166,932

These consolidated financial statements have been prepared and approved by the Management Board 21 March 2024.

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Loreta Grigorova
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Katya Bineva
Chief Accountant

The accompanying notes to the financial statements from page 5 to page 103 are an integral part thereof.

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts are in thousands of EUR unless otherwise stated

	Notes	2023	2022
Cash flows from operating activities			
Profit for the year		28,442	21,549
Adjustments to reconcile net income to net cash flow from operations:			
Tax expense	11	3,176	2,393
Depreciation and amortization	20	2,290	1,889
Impairment of financial assets	10	4,234	2,839
Other non-cash items included in profit or loss		612	380
Result on disposal of investment properties	8	75	(75)
Share of loss of joint ventures		64	23
Changes in operating assets and operating liabilities:			
Net change in restricted funds		16,847	(14,539)
Increase in loans to customers		(71,477)	(74,675)
Net change in financial assets at FV through profit or loss		(5)	23
Decrease in assets held for sale, net		3,475	5,988
Decrease in other assets		5,631	852
Increase in deposits from banks and customers		52,014	197,366
(Decrease) / increase in other liabilities		(3,566)	1,257
Net cash flow from operating activities before taxes		41,812	145,270
Taxes paid		(3,469)	(1,943)
Net cash flow from operations		38,343	143,327
Cash flows from investing activities:			
Purchases of debt instruments at amortized cost and financial assets at FVOCI		(272,369)	(73,709)
Receipts from sold / matured debt instruments at amortized cost and financial assets at FVOCI		208,804	40,974
Acquisition of tangible and intangible assets	20	(885)	(629)
Sale of fixed assets		9	42
Sale of investment properties	19	2,833	10,458
Net cash flow used in investing activities		(61,608)	(22,864)
Cash flows from financing activities:			
Proceeds from debt securities in issue		-	15,016
Repayments of other borrowed funds	25	(4,534)	(6,961)
Dividends paid		(1,262)	-
Payments under lease agreements	26	(1,847)	(1,201)
Net cash (used in) / from financing activities		(7,643)	6,854
Net effect of exchange rate changes on cash		(386)	2,752
Net change in cash and cash equivalents		(31,294)	130,069
Cash and cash equivalents at the beginning of the year	13.2	449,900	319,831
Cash and cash equivalents at the end of the year	13.2	418,606	449,900
Supplemental cash flow information:			
Interest paid		2,634	2,463
Interest received		49,047	27,891
Received dividends		16	11

These consolidated financial statements have been prepared and approved by the Management Board 21 March 2024.

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Katya Bineva
Chief Accountant

1 Corporate Information

The consolidated financial statements of Bulgarian American Credit Bank AD ("BACB" or the "Bank") present the financial position of the Bank and the companies controlled by it as a single reporting entity. As of 31 December 2023, the Group consists of BACB and two subsidiaries: BACB Finance EAD and BACB Trade EAD, as well as a joint venture in which the Bank exercises joint control, through its subsidiary BACB Finance EAD. The two subsidiaries are fully owned and controlled by BACB and they conduct their activities at their registered office located at 2 Slavyanska Str., Sofia, Bulgaria. The Bank generates the main part of the income and represents the substantial part of the assets and liabilities of the Group at 31 December 2023 and 31 December 2022, respectively.

The Bulgarian-American Credit Bank was registered as a Bulgarian joint stock company under the requirements of the Bulgarian Commercial Act in December 1996. Currently the BACB operates a full banking license, issued by the Bulgarian National Bank (BNB) for offering and performing the full scope of banking operations, permitted by the Credit Institutions Act (CIA). From a bank, specialist provider of secured finance with specific lending programs for financing companies and individuals, BACB gradually affirmed itself as a universal bank, offering both corporate and transactional loan programmes, and retail banking through various products in the areas of consumer and mortgage financing. The activities of BACB are conducted through its headquarters in Sofia and operations offices in the country. The offices offer the full scope of banking services, provided by the headquarters.

In April 2006 the shares of the Bank's capital were listed for trading on the Bulgarian Stock Exchange (BSE) and as a result BACB became a public company.

At 31 December 2023 and 31 December 2022, the Group employs 369 and 357 employees respectively. The Bank's seat and registered office is located at 2, Slavyanska Str., Sofia, Bulgaria.

At 31 December 2023 and 31 December 2022 the Bank has a two-tier management system consisting of the Management Board and the Supervisory Board. The operating management of BACB is represented by the Management Board. Those charged with governance are represented by the Audit Committee and the Supervisory Board.

2 Regulatory Environment

Currently the Group's activities and operations are governed by the Credit Institutions Act and all the related legal regulations. The BNB is responsible for supervising the Bank's compliance with the banking laws and regulations. Following the Bank's listing on the BSE, the Bank's activity as a public entity is also subject to supervision by the Financial Supervision Commission (FSC).

3 Summary of Accounting Policies

Basis of preparation and presentation of the financial statements

The consolidated financial statements presented in euro were issued by the Group in addition to the statutory consolidated financial statements presented in BGN. The consolidated financial statements presented in euro are prepared for foreign investors' information purposes only.

The consolidated financial statements comprise the accounts of the Bank and its subsidiaries. The Group prepares and presents its financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the "EU") and applicable in the Republic of Bulgaria. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

3 Summary Accounting Policies (continued)

Basis of preparation and presentation of the financial statements (continued)

The consolidated financial statements comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto. The financial year for the Group ends at 31 December.

When preparing the financial statements the Group uses the historical cost method as a basis for reporting the assets and liabilities, unless it is specifically indicated that the respective assets are evaluated at their fair value.

The figures in the consolidated financial statements are presented in EUR (euro) and rounded down or up to thousands (thousand EUR), unless otherwise specified.

In general, the group presents the statement of its financial position, based on the degree of liquidity. An analysis of the recovery of assets or the settlement of liabilities within twelve months after the financial position statement (current) and after more than 12 months after the financial position statement (non-current) is presented in the attachments to the financial statements (Note 32.4).

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the carrying value of assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the reporting period and to disclose contingent assets and liabilities. The management made approximate estimates and assessments for the purposes of the accounting reporting and disclosure, which may be different from the actual results. The uncertainty, related to the estimations and assumptions made, could lead to actual results, requiring significant adjustments to the carrying value of the respective assets or liabilities in the future.

The Bank and its subsidiaries apply the same accounting policies for reporting similar transactions and other events in similar circumstances.

Changes to the accounting policies and disclosures

The accounting policies of the Group are consistent with those, applied in the previous reporting period, taking into account the amendments to IFRS adopted by the EU and effective for annual periods beginning on or after 1 January 2023. The Group did not significant changes in the accounting poloces applied.

The consolidated financial statements presented in euro are not statutory financial statements. Therefore, there is no legal requirement in reference to ESEF regulations.

Comparatives

The financial statements provide comparative information in respect of the previous reporting period. The presentation of the data for previous years is adjusted, where necessary, with the aim of comparability with the current year presentation.

3 Summary of Accounting Policies (continued)

Changes to the accounting policies and disclosures (continued)

Standards / amendments that are effective and have been endorsed by the European Union

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS and amendments to IFRS which have been adopted by the Group as of 1 January 2023:

- **IFRS 17 insurance contracts,**
- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments),**
- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments),**
- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**

The newly adopted IFRS and amendments to IFRS did not have a material impact on the Group's accounting policies.

In addition, in 2023 the Group implemented the following change in IFRS:

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Group has reviewed the disclosures of accounting policies and edited their content, applying a level of materiality.

3 Summary of Accounting Policies(continued)

Changes to the accounting policies and disclosures (continued)

Standards/amendments that are not yet effective, but they have been endorsed by the European Union

Standards issued but not yet effective and not early adopted

Listed below are the issued standards that are not yet effective or have not been applied earlier by the Group as at the date of these financial statements. It is disclosed how reasonably they may affect the disclosures, the financial position and the performance when the Group adopts these standards for the first time. This is expected to occur when they become effective.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The Group will analyze and assess the impact of the new amendments on its financial position or performance.
- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments).** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

Standards/amendments that are not yet effective and they have not yet been endorsed by the European Union

Listed below are the issued standards that are not yet effective and they have not yet been endorsed by the European Union.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Group will analyze and assess the impact of the new amendments on its financial position or performance.
- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The Group will analyze and assess the impact of the new amendments on its financial position or performance.
- **Amendment in 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.** The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

3 Summary of Accounting Policies(continued)

Principles of Consolidation

The principles of consolidation did not change compared to previous reporting period. The consolidated financial statements present the financial position and performance for the period of the Bank and its subsidiaries as of 31 December 2023.

The Bank consolidates its investments in other companies where it exercises control over them, i.e. when it defines these companies as subsidiaries. Exercise of control is available if the following conditions are simultaneously met:

- The Bank has real powers to determine, directly or indirectly, the financial and operating policies of the investee.
- The Bank is exposed to or has rights to the variable returns from its involvement with the investee
- The Bank is able to use its powers within the company to influence the amount of its return as an investor

There is a presumption that holding more than half of the voting rights in an entity results in the exercise of control, and on a case-by-case basis all the facts and circumstances available are considered and analysed in order to determine the exercise of control over the investment. At the reporting date, the Group assesses whether there is a change in any of the three control criteria for the consolidated companies. As of 31 December 2023, the Bank defines its investments in BACB Finance EAD and BACB Trade EAD as subsidiaries, due to the fact that it is the sole owner of these companies.

The financial statements of the subsidiaries are fully consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date on which control ceases. The assets, liabilities, revenues and expenses of subsidiaries acquired or sold during the year are included in the consolidated financial statements only for the period in which the Bank exercised control over the investment.

At consolidation, all transactions, balances and unrealized gains between group members are eliminated. The entities in the Group apply consistent accounting and valuation methods for similar transactions, assets and liabilities under similar circumstances.

The change in the shareholding in a subsidiary without loss of control is reported as a capital transaction. If the Bank loses control over the subsidiary, then the related assets and liabilities are excluded from the consolidated financial statements, and any remaining gains or losses are recognized in profit or loss for the period. The rest of the investment, if any, is recognized at fair value.

Business combinations

Business combinations are accounted for by using the acquisition method. The acquisition method requires the investor to evaluate the investment acquired, which undergoes four steps as follows:

- Identification of the acquirer. All facts and circumstances related to the parties to the transaction shall be analysed.
- Determining the date and the cost of the acquisition. The cost of an acquisition in a business combination is determined based on the consideration transferred and the amount of the non-controlling interest in the acquiree. The consideration is the aggregate of the acquisition date fair value of the assets acquired, the liabilities assumed, and the equity instruments issued by the acquirer in exchange for the control acquired. The transaction costs are recognized in the profit or loss for the period.

3 Summary of Accounting Policies(continued)

Principles of Consolidation (continued)

Business combinations (continued)

- Recognition and measurement of the identifiable assets acquired, liabilities and contingent liabilities assumed, as well as non-controlling interests in the acquiree. The acquired assets and liabilities are measured at fair value as at the acquisition date. The non-controlling interests may be determined by two alternative approaches - at fair value as at the acquisition date, or in proportion to the shares in the net assets of the acquiree. For each business combination, the Bank chooses which approach to apply, depending on the particular circumstances. In a business combination achieved in stages, the equity interest in the investment held before the acquisition of control is remeasured to fair value as at the acquisition date. Any differences resulting from the remeasurement are recognized on an ongoing basis in the profit or loss for the period or other comprehensive income, as appropriate.
- Recognition and measurement of goodwill or gain from a bargain purchase. The excess of the acquisition cost over the acquirer's share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities is recognized as goodwill. If the cost of acquisition is less than the investor's share of the fair value of the net assets of the acquiree, the difference is recognized directly in profit or loss for the period as gain from a bargain transaction. After initial recognition, goodwill arising from business combinations is measured at the acquisition cost less the accumulated impairment. An impairment test is carried out at least once a year, or more frequently if events or changes in circumstances indicate impairment.

Investments in joint ventures

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control exists when decisions regarding the management and operation of the arrangement require unanimous agreement of the parties and neither of them controls the joint arrangement on its own. A joint venture is a type of joint arrangement whereby the parties that have joint control, have rights to the net assets of the arrangement. The parties that share control are joint venturers. For each specific case where the Bank is a party to a joint arrangement, all relevant facts and circumstances are considered and analysed to determine the exercise of joint control over the investment as well as the type of the joint investment. As of 31 December 2023, the Bank has made an analysis and determined that through its subsidiary BACB Finance EAD, it is a jointly controlling partner in IDS Fund AD and the investment is assessed as a joint venture. The assessment was made on the basis of the following facts and circumstances:

- The joint activity is carried out through a separate registered company - IDS Fund AD.
- The share capital of IDS Fund AD is divided equally between two shareholders. BACB Finance EAD holds 50% of the registered voting shares.
- Each of the shareholders has assumed liabilities up to the amount of its equity holding in the company.
- There is a written agreement (Articles of Association) between the two members regulating the organization and management of the company, according to which valid decisions on all key business issues are taken by a majority of 50% + 1 share of all voting rights. This agreement presupposes joint control due to the fact that neither party can make a sole decision that would have material consequences for the assets, liabilities or the performance of the company.
- From the rights and obligations of the shareholders provided for in the Articles of Association, including in the event of liquidation, it becomes clear that each party is entitled to the net assets of the company up to the amount of its shareholding and thus designate the joint arrangement as a joint venture

3 Summary of Accounting Policies(continued)

Principles of Consolidation (continued)

Investment in joint ventures (continued)

Investments in which the Bank, directly or indirectly through its subsidiaries, is a party to a joint venture, are presented in the consolidated financial statements using the equity method.

Under the equity method, an investment in a joint venture is initially recognized at cost. The carrying amount of the investment is Adjusted to recognise changes in the Group's share of the net assets of the joint venture since the date of the acquisition. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The changes in the results of the joint venture after acquisition are recognized in profit or loss for the period up to the investor's share, and the changes in other comprehensive income of the company are reported as part of other comprehensive income of the Group.

The financial statements of the joint venture are prepared for the same reporting period as those of the Group. Where necessary, adjustments are made to align the investee's accounting policies with those of the Group.

At the end of the reporting period, the Group assesses whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group determines the amount of the impairment loss as the difference between the recoverable amount of the investment and its carrying amount, and impairment loss is recognized in profit or loss in item "Share of profit / (loss) from investments in joint ventures".

3 Summary of Accounting Policies(continued)

Foreign currency transactions and translations

The functional currency of BACB and its subsidiary is the national currency of Bulgaria - the Lev (BGN). Foreign currency transactions, i.e. transactions denominated in currencies other than BGN are accounted for at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated to the statement at the exchange rate valid at the reporting date. Non-monetary assets denominated in foreign currency and measured at historical cost are translated at the exchange rate as of the date of initial recognition. Income and expense items resulting from foreign currency transactions are translated at the exchange rates existing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are measured in BGN at BNB's official exchange rate on the date of preparation of the statements, as follows:

Currency	<u>31-12-2023</u>	<u>31-12-2022</u>
EUR*	1.95583	1.95583
USD	1.76998	1.83371

**fixed rate according to the Law on the Bulgarian National Bank*

The net result in transactions, involving the purchase and sale of foreign currencies are recorded in the comprehensive income statement, as "Income from foreign exchange trading, net". Gains and losses, resulting from the translation of monetary assets and liabilities in foreign currency are presented net in the comprehensive income statement, as "Exchange differences, net".

Financial instruments

Financial instrument is any contract that generates a financial asset for one party to the contract and a financial liability or equity instrument for the other party. A financial asset or financial liability is recognized in the statement of financial position when the Group becomes a party to the contractual terms of a financial instrument resulting in legal rights for the Group to obtain either legal obligations to pay cash or other equivalent. Planned future transactions are not reported as financial assets or liabilities until the Group becomes a party to the contract, regardless of the probability that the transaction may be realized.

Upon their initial recognition, financial assets and liabilities are measured at fair value. For financial assets and liabilities that are not subsequently accounted for at fair value through profit or loss, the transaction costs that are directly attributable to the generation of the financial asset / liability are added to the fair value of the instrument upon initial recognition. Transaction costs for financial instruments that are measured at fair value through profit or loss are recognized directly in profit or loss on initial recognition.

The fair value at the initial recognition of a financial instrument is usually the transaction price.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating the relevant interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees received and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, for a shorter period to its carrying amount.

3 Summary of Accounting Policies(continued)

Financial Instruments (continued)

Financial assets

Upon initial recognition, financial assets are classified as such and are subsequently measured at amortized cost, at fair value in other comprehensive income or as such at fair value through profit or loss. The management determines the classification of investments at their initial acquisition and reassesses their use at the end of each reporting period, if this is permitted and appropriate.

The classification of financial assets upon initial acquisition depends on:

- Business model that applies to their management
- Characteristics of the contractual cash flows of the financial asset

In order to be classified and measured at amortized cost or at fair value in OCI, the financial asset should generate cash flows that represent "principal and interest payments only" (PIPO) on the outstanding principal amount. This measurement is called the "PIPO test" and is performed at the level of the debt instrument concerned.

The business model applied by the Group to manage financial assets refers to the way in which it manages its financial assets for the purpose of generating cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, sale of financial assets, or both.

For the purposes of subsequent measurement, financial assets are classified into four categories:

1. Debt instruments measured at amortized cost

This category is the most significant category for the Group. The financial assets are measured at amortized cost if the following two conditions are met:

- The assets are managed in a business model in order to collect the contractual cash flows.
- Under the contractual terms of the instrument, cash flows arise on certain dates, which are only principal payments and interest on the outstanding principal.

In this category, the Group reports loans and receivables, investments in debt securities, trade receivables.

The amortized cost is the original value of the instrument adjusted by the principal repayments and the accumulated depreciation of the difference between the original value and the maturity value using the effective interest method and less the loss allowance. In determining the expected future cash flows, the Group takes into account all agreed terms and conditions of the transaction, including premiums, fees and other remuneration payable by the counterparty, which directly affect the yield on the transaction and are an integral part of the effective interest rate. In cases where the cash flows required to calculate the effective interest rate cannot be reliably measured, the Group uses the agreed cash flows over the full contractual term of the instrument for the purpose of calculating the effective interest rate. For credit line and overdraft contracts where future cash flows cannot be reliably determined, interest revenue is recognized on a monthly basis based on the agreed interest rate. Revenue from management fees under such credit agreements is deferred and depreciated on a straight-line basis over the term of the contract as a supplement to interest income.

3 Summary of Accounting Policies(continued)

Financial Instruments (continued)

Financial assets (continued)

2. Debt instruments measured at fair value through other comprehensive income (OCI)

The Group measures its debt instruments at fair value in other comprehensive income if the following two conditions are also met:

- The assets are managed in a business model that targets both the collection of contractual cash flows and the sale of financial assets
- Under the contractual terms of the instrument, cash flows arise on certain dates, which are only principal payments and interest on the outstanding principal.

In respect of debt instruments measured at fair value in other comprehensive income, interest income, currency revaluation and impairment losses or their reversal are recognized in profit or loss and are calculated in the same way as those for financial assets measured at amortized cost. The other changes in the fair value are recognized in other comprehensive income. When derecognized, the cumulative change in the fair value recognized in other comprehensive income is reclassified to profit or loss.

Debt instruments at fair value in other comprehensive income of the Group include investments in government securities as well as investments in corporate bonds.

3. Equity instruments determined for fair value measurement through other comprehensive income (OCI) upon initial recognition.

Upon their initial recognition, the Group may choose to classify irrevocably as equity instruments at fair value through other comprehensive income when they qualify for equity in accordance with IAS 32 Financial Instruments: *Recognition* and when they are not held for trading purposes. Classification is determined on an individual basis.

Gains and losses on these financial assets are never reclassified to profit or loss. Dividends are recognized as other income in the income statement when the entitlement to the payment is established except where the Company derives benefits from such proceeds as a refund of part of the acquisition cost of the financial asset in which case the gains are reported in another comprehensive income. Equity instruments determined as such at fair value in other comprehensive income are not subject to impairment testing.

The group has decided to classify in this category its equity investments, which it intends to hold in the long run.

3 Summary of Accounting Policies(continued)

Financial Instruments (continued)

Financial assets (continued)

4. Financial instruments measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss include financial assets held for trading and financial assets designated at their initial recognition as such at fair value through profit or loss or financial assets that are required to be measured at fair value. The financial assets are classified as held for trading if they are acquired for sale or re-acquisition within a short period of time. The derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not only principal and interest payments are classified and measured at fair value through profit or loss regardless of the business model.

Types of financial assets presented in the statement of financial position

Cash and cash equivalents

The cash flow statement shows the change in cash and cash equivalents arising during the reporting period from operating, investing and financing activities. For the purposes of the cash flow statement, cash includes cash in hand and deposits in accounts with BNB without restricted collateralized funds. The Group considers current accounts with correspondent banks without restricted funds as cash equivalents, as well as deposits with banks with an original maturity of up to three months, which are shown in the statement of financial position as "Loans and advances to banks".

Debt securities

Debt securities are presented in the statement of financial position depending on the business model under which they are managed and according to their initial classification.

Interest received on debt securities is presented as interest income in the statement of comprehensive income (in profit or loss).

Equity instruments

Equity instruments that are not designated as investments in subsidiaries, joint ventures or associates are presented in the statement of financial position at fair value through profit or loss, unless they have been selected for fair value presentation in another comprehensive income on initial recognition.

Dividends received from equity securities are presented in the statement of comprehensive income (in profit or loss) as dividend income when the Group acquires the right to receive dividends and the amount of dividends can be measured reliably. In the event that there is clear evidence that dividends represent a reversal of part of the initial cost of an investment, they are not recognized in profit or loss for the period but reduce the carrying amount of the investment.

Loans and receivables

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Initially, loans are recognized in the balance sheet at fair value which represents the cash outflow for the generation or purchase on credit, including all transaction costs. The initial recognition of the loan as an asset is the time of the extension of the funds to the borrower. The undrawn loan amounts are reported as off-balance sheet commitments. Loans and receivables are subsequently measured at amortized cost.

3 Summary of Accounting Policies(continued)

Financial Instruments (continued)

Financial assets (continued)

Derecognition of financial assets

Financial assets (or, if applicable, a part of a financial asset or a part of a group of similar financial assets) are derecognized, when:

- the rights for receiving cash flows from the asset have expired; or
- the rights for receiving cash flows from the asset have been transferred or the Group has undertaken the obligation to fully pay the received cash flows, without material delays, to a third party, under a transfer agreement; whereby (a) all risks and rewards of the financial asset's ownership are substantially transferred by the Group; or (b) all risks and rewards of ownership of a financial assets are neither transferred, nor retained, but the Group has not retained control over the financial asset.

Impairment of financial assets

The Group recognizes an allowance (provision) for impairment of financial assets by applying the so-called model of "Expected Credit Losses" (ECL), i.e. a loss allowance is recognized regardless of whether a specific loss event has occurred. The model applies for initial recognition in respect of all debt instruments that are not reported at fair value through profit or loss, including lease receivables, loan commitments, financial guarantees and contractual assets arising from the application of *IFRS 15 Contracts with Customers*.

No loss allowance is reported for financial assets that are measured at fair value through profit or loss, since the change in fair value is presumed to include potential credit losses.

Loss allowance is also not reported for equity instruments measured at fair value in other comprehensive income due to the fact that any changes in their fair value are recognized in other comprehensive income and subsequently are not reclassified in the income statement.

ECLs are based on the difference between the contractual cash flows due under the terms of the contract and all cash flows that the Company expects to receive discounted to the original effective interest rate. Expected cash flows include cash flows from the sale of the collateral held or other credit enhancements that form an integral part of the terms of the contract.

ECLs are recognized in two stages. Where there is no significant increase in credit risk after the initial recognition of the asset, the loss allowance is based on the expected credit losses that arise as a result of non-performing events that may occur over the next 12 months (12-month ECLs).

For exposures for which there is a significant increase in credit risk from initial recognition, a loss provision is recognized in respect of credit losses expected over the remaining exposure period, irrespective of the occurrence of the default (ECLs over the lifetime of the instrument). In this regard, the credit risk assessment and its change over the initial provision period is a key point in determining the loss allowance. The loss allowance reflects not the level of credit risk in general, but its relative change at the reporting date and its measurement is related to many assumptions and estimates.

The change in the loss adjustment is recognized as a result of impairment in profit or loss for the period.

When in subsequent periods the credit quality of the financial asset improves so that there is no significant increase in credit risk compared to the initial recognition of the asset, the allowance is remeasured on the basis of the expected credit losses for 12 months.

3 Summary of Accounting Policies(continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

With respect to trade receivables, the Group applies a simplified approach for ECL calculation. Therefore, it does not track the changes in credit risk but instead recognizes a provision for loss on the basis of the ECL for the entire duration of the instrument at each reporting date. The Group has created a provisioning matrix based on historical experience of credit losses, adjusted by forecast factors specific to the debtors and the business environment.

For receivables from banks and debt instruments at fair value in other comprehensive income, the Group applies low credit risk based impairment. For each reporting date, it determines whether the debt instrument is assessed as an instrument with low credit risk using all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts. In this assessment, the Group analyses the available information on the credit rating of the instrument. In addition, the Group assesses whether there is a significant increase in credit risk in the cases where the payments on the instrument are past due over 30 days. The Group's policy is to assess the ECLs for these instruments (receivables from banks and debt instruments at fair value in other comprehensive income) on a 12-month basis. However, when there is a significant increase in the credit risk after the occurrence, the provision is based on the ECLs for the entire duration of the instrument. The Group uses the ratings to determine whether the credit risk of the debt instrument is significantly increased and to prepare an approximate assessment of the ECLs.

The Group considers a financial instrument as a non-performing instrument when the contractual payments are in arrears over 90 days. In certain cases, however, it may treat a financial asset as a non-performing asset when internal or external information indicates that it is unlikely that the Group will receive the full amount of the outstanding amounts under the contract before taking into account any credit improvements it holds.

Financial assets are derecognized when there is no reasonable expectation for the collection of cash flows under the contract. The amounts subsequently collected under derecognized loans are recognized as income for the current period in reduction of the expenses on the ECLs.

Reclassification of financial assets

Under certain circumstances, non-derivative financial assets at fair value may be reclassified at assets at amortized cost and vice versa. Such reclassification is only allowed if the business model in which the assets are managed is changed. The change of the business model is determined by the management of the Group as a result of external and internal changes that are material to the operating activities. Changes may also occur when reorganizing the operations as a result of changed goals of the business model. Changes to the initial classification of financial assets are expected to occur in relatively rare and limited cases.

The new accounting is applied for future periods after the reclassification date when the business model was changed without recalculating the results for previous periods. The reclassification date is the first day of the first reporting period following the change in the business model that resulted in the reclassification.

3 Summary of Accounting Policies(continued)

Financial Instruments (continued)

Financial liabilities

Financial liabilities that are not derivatives or at acquisition are not classified as at fair value through profit or loss are measured at amortized cost. Initially they are recognized at 'cost', i.e. fair value of the cash flows received at the liability occurrence less the transaction costs. Subsequently any difference between net proceeds and the redemption value is recognized in the profit or loss over the period of the instrument using the effective interest method.

The Group's financial liabilities include deposits, borrowed funds, issued bonds and other trade payables and reflect the Group's commitments to repay the liabilities due at maturity through cash or other financial assets. The Group has not designated financial liabilities for accounting at fair value through profit or loss and recognizes all its financial liabilities at amortized cost using the effective interest method.

Financial liabilities are written-off from the statement of financial position, if it has been repaid, i.e. when the liability, specified in the contract has lapsed or cancelled or expired. The replacement of an existing financial liability by another debt instrument, by the same creditor with significantly different terms and conditions, or significant modification of the terms and conditions of an existing financial liability, is reported as a derecognition of the initial financial liability and recognition of a new financial liability. The difference between the carrying values of the original and the new liability, is recognized in the statement of comprehensive income (in profit or loss).

Offsetting financial assets and liabilities

The Group does not allow the offsetting of financial assets and liabilities unless this is permitted by a specific standard or an explanation. Financial assets and liabilities may be offset and the net amount reported in the statement of financial position only when the Group has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial guarantee contracts

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 carried at their fair value on the date the guarantee was given, which is likely to be the premium received at inception. No receivables for the future premiums are recognized. The income from commission fees is deferred, based on the linear method, along the period, to which such fees refer. Subsequently, the Group's liabilities under financial guarantee contracts are measured at the higher of the amount initially recognized less amortization and the provision that should be accrued for the Group to meet its contractual obligations arising at the reporting date. The expected credit losses, related to the financial guarantees issued, are recorded in the statement of comprehensive income (in profit or loss), in the line "Impairment of non-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 Summary of Accounting Policies(continued)

Investment properties

In the course of its operating activities and under certain circumstances, the Bank acquires real estate as a result of legal proceedings brought against debtors on loans for non-recovery. Such assets are classified as held for sale or as investment properties depending on the Management intention and on the possibility for quick disposal.

Investment properties are real estate - land and/or buildings held primarily to earn income from rent and/ or for capital appreciation or both and that are not occupied by the Group.

Recognition of investment properties as an asset takes place only when it is probable that the future economic benefits that are associated with the estate will flow to the entities in the Group and when the cost can be determined reliably. This is usually from the day when all the benefits and risks/control associated with/on the asset are transferred to the Group.

Investment properties are measured initially at cost, including transaction costs. Ongoing costs associated with servicing the asset are not included in the carrying amount and are reported as an expense for the period. Improvements made after the date of initial recognition are included in the value of the investment property as long as it meets the criteria for recognition of an asset.

For subsequent reporting, there are two alternative methods - a fair value model and a cost model, and the Group has decided to use the fair value model. In accordance with IAS 40 *Investment Property*, this model requires, after initial recognition, that investment property to be measured and stated at fair value without depreciation. Gains or losses arising from a change in the fair value are included in the profit or loss for the period in which they arise. Determination of fair value is made in accordance with IFRS 13 *Fair Value Measurement* and reflects market conditions at the reporting date. Licensed independent valuers (appraisers) with the necessary professional qualifications and experience carry out the update of the fair value of the investment property annually.

When property, plant and equipment is transformed into investment property, as a result of change in use, the Group applies its accounting policy, regarding properties, plant and equipment, until the date of change of the use. The difference between the balance-sheet value and the fair value as of the date of the change is to be accounted into the profit or loss for the period.

Under certain circumstances, the Group takes action to develop land classified as investment property in order to build residential and/or commercial premises that it subsequently intends to realize through a sale. When the Group becomes a party to a contract providing for similar developments, the asset ceases to be reported as an investment asset and is presented as an asset under development in the line "Other assets" in the statement of financial position.

The revenues from investment properties are recorded in the statement of comprehensive income (in profit or loss) in the Other operating income item. This amount includes the income from leased investment properties, which is recorded in the period to which it refers, in accordance with the lease contract signed. The result from the sale of property, classified as investment property is carried at Other operating income when the result is in the form of gain and – in Other operating expenses when the result is a loss, respectively. The current costs, related to the maintenance and operation of the investment properties are disclosed as a part of the Other operating expenses item in the comprehensive income statement. Information regarding the income and costs, related to the investment properties is provided in Note 8 to these statements.

An investment property is derecognized upon its disposal when the control on it is transferred or when it is permanently decommissioned and no economic benefits are expected from such disposal. The gains or losses, when derecognizing an investment property, are disclosed in the period of such derecognition.

3 Summary of Accounting Policies(continued)

Assets held for sale

Real estate and other tangible assets acquired from disposal of collateral on foreclosed loans or assets acquired exclusively with a view to subsequent disposal in the near future are classified as assets held for sale and are initially measured at cost. The classification of properties as assets held for sale happens at initial recognition and depends on the Management intention and their plan for assets disposal.

The Management is actively seeking realization of assets classified as held for sale, aiming to complete the sale within one year period after the classification. After initial recognition, such assets are carried at the lower of their carrying amount or at their fair value less the cost to sell. No depreciation is accrued on such assets.

Income and costs, related to assets, classified as Assets held for sale are recorded in the item lines "Other operating income" or "Other operating costs" of the comprehensive income statement, respectively. Information regarding any such income and costs can be found in Note 8 of these statements.

Tangible and intangible assets

Tangible and intangible assets are initially recognized at cost, including direct transaction costs. Two alternative models apply for subsequent reporting: the cost model and the revaluation model, depending on the class of asset. The properties, used in Group's operations – office buildings and the adjacent terrains – are reported based on the revaluation model, where after initial recognition the asset is carried at revalued amount, the latter being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Upon revaluation any depreciation accumulated to the date is eliminated against the gross amount of the asset and the net amount is restated in relation to the fair value.

If the asset's carrying amount is increased as a result of revaluation, the increase is recognized in other comprehensive income and is accumulated in equity as revaluation reserve of assets, net of taxes. In the event of a reduction in the carrying amount of the asset as a result of revaluation, netting with previous increases, the reduction shall be accrued against the revaluation reserve.

All other reductions in the carrying amount of the asset are reported to the profit or loss for the period. Revaluations are to be performed regularly to insure that the carrying amounts of the assets do not differ materially from their fair values at the reporting date. The depreciation of revalued assets is reported on a regular basis in the profit or loss for the period. Upon subsequent derecognition of a revalued asset, the relevant formed revaluation reserve is transferred directly to results from previous years, without being reported to the profit or loss for the period.

After the initial recognition, all other tangible and intangible assets are measured according to the cost model, i.e. at cost less accumulated depreciation and impairment losses.

Subsequent repair and maintenance costs are included in the profit or loss at the moment these are incurred, unless there is clear evidence that they will result in increased economic benefits from the use of the asset. Such costs are then charged to the carrying amount of the asset.

Land and buildings comprise the Bank's own premises. Land is not subject to depreciation. Depreciation and amortization of other assets is accrued based on the straight-line method over the estimated useful life of the asset. The assets' useful lives are periodically reviewed and adjusted if appropriate. No adjustments have been made during the reporting period.

3 Summary of Accounting Policies(continued)

Tangible and intangible assets (continued)

Annual rates of depreciation and amortization used in the consolidated financial statements are as follows:

<u>Tangible assets</u>	<u>2023</u>	<u>2022</u>
Buildings	3%-4%	3%-4%
Right-of-use assets	Over the contracted period	Over the contracted period
Computers and hardware	25%	25%
Office equipment	20%	20%
Vehicles	20%	20%
Office furniture	10%-15%	10%-15%
<u>Intangible assets</u>		
Software and licenses	15%-25%	15%-25%
Leasehold improvements	Over the contracted period	Over the contracted period

Long-term assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its recoverable amount, the asset is impaired and the Bank reports an impairment loss. On disposal of tangible assets, the difference between the carrying amount and the sales price of the asset is reported as profit or loss for the current period in the item line Other operating income / Other operating expense .

No residual value is recorded with respect to the aforesaid asset classes. Properties, plant or equipment are derecognized upon their discard and the transfer of the control on it or when no further economic benefits may be expected from their continued use.

Inventories

Inventories are represented mainly by goods in stock held by a subsidiary and are valued at the lower of cost and net realizable value. Real estate under construction, which is intended for subsequent realization through sale, is also presented as Inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Leases

A lease contract is a contract or part of a contract under which the right to use an asset or assets for a specified period of time is transferred for consideration. The assessment of whether a contract is a lease or contains elements of a lease is based on the circumstances existing at inception of the contract.

The Group as a Lessor

The Group classifies its lease contracts as finance or operating leases at the conclusion of the contract. Contracts that provide for the transfer of all risks and benefits of use and ownership of the asset to the lessee are classified as finance leases. Assets sold under finance leases are recognized as receivables at their present value and included in "Loans and advances to customers" in the statement of financial position. Revenue for the reporting period from finance leases is recognized using the effective interest rate, which reflects a constant return on assets throughout the contract period.

Contracts that are not classified as finance leases at inception are recorded as operating leases. Rentals received under operating lease contracts are recognized on a straight-line basis over the term of the contract and are recognized in profit or loss for the period in item Other Operating Income.

3 Summary of Accounting Policies(continued)

Leases (continued)

The Group as a Lessee

The Group applies a single accounting model for all lease contracts the 'right-of-use-asset' model.

The Group is party to a number of long-term real estate lease contracts for the purposes of its operating activity. As a result of the changed accounting policy, the right-of-use-assets and corresponding liabilities, which represent the present value of the lease obligations for the term of the contract, are recognised in the statement of financial position. Lease assets and liabilities are recognised at the date on which the assets are available for use by the Group. The right-of-use-assets are presented in the statement of financial position within Tangible Assets item and the corresponding lease liabilities within Other Liabilities item.

The right-of-use-asset is initially measured at cost, considering:

- the amount of the lease liability recognised;
- the lease payments made so far (if any);
- the initial direct costs of the transaction
- the estimated future costs of disposing of the asset, recorded as a provision (if any).

For the subsequent reporting of these assets, the Group has chosen to apply the cost model. In applying this model, the right-of-use-asset is measured at cost, less any accumulated depreciation and impairment losses and adjusted for subsequent remeasurements of the lease liability. The right-of-use-assets are depreciated on a straight-line basis from the beginning of the contract to the end of the useful life of the asset or to the end of the lease term if the underlying asset is subject to return to the lessor. Depreciation expense is recognized in profit or loss for the period as part of the total depreciation expense.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted at an incremental discount rate at the beginning of the lease because the interest rate set in the contract cannot be reliably determined. The incremental interest rate reflects the estimated cost of financing the lessee on market terms. To determine the incremental interest rate, the Group uses information about the cost of its long-term borrowings - the interest rate on deposits with a maturity of more than one year or other loans received. The Group has chosen to use as a reference the interest rate on long-term financing received from BDB.

After initial recognition, the lease liability increases with the interest and decreases with the lease payments made. In addition, its carrying amount is remeasured if there is a modification, a change in the lease term, a change in the lease payments resulting from changes in the index or the interest rate used to determine them, or a change in the measurement of the option to buy the underlying asset. The remeasurements are treated at the same time as an adjustment of the liability and the right-of-use-asset. The subsequent lease payments are recognized in proportion as a decrease in the financial liability and as interest expense for the relevant period so as to achieve a constant interest expense on the remaining balance of the liability. Variable lease payments that do not depend on an index or interest rate are recognized as expense during the period in which the event or condition that triggers the payment occurs.

In the Income Statement, interest expense on lease liabilities is presented separately from the depreciation expense of the right-of-use-asset. In the Cash Flow Statement, payments related to the lease liability are presented as cash flows from financial operations.

Short-term leases and low-value asset leases

The Group applies the IFRS 16 exemption from the recognition of lease liabilities and the right-of-use-asset in respect of:

- short-term lease contracts with a term of up to 12 months with no purchase option
- lease contracts for assets designated as low-value assets - the value of a new analogous asset should not exceed approximately USD 5,000 (e.g. office equipment)

In these cases, the lease contracts are recognized as a rental expense in profit or loss for the period determined on a straight-line basis over the term of the contract.

3 Summary of Accounting Policies(continued)

Taxation

Income tax for the reporting period comprises current and deferred tax. Other taxes that are not directly related to income for the period are reported as operating costs with the relevant balances at the end of the reporting period included in Other liabilities.

The Group measures income tax in accordance with the applicable laws and regulations. The income tax is calculated, based on the taxable profit, obtained upon transformation of the financial result, according to the requirements of the Corporate Income Taxation Act.

The current tax assets and liabilities for the current and previous periods, are recognized at the amount, which is expected to be recovered from or paid to the tax authorities. The tax rates and tax laws and regulations, effective or significantly adopted at the date of the statement of financial position are applied for the calculation of the current taxes. In accordance with the Corporate Income Taxation Act, the nominal tax rate for 2023 and 2022 is 10%.

Deferred taxes are calculated using the liability method by taking into account all temporary differences at the reporting date arising between the value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates that are expected to be in force in the period when the asset is disposed or the liability is settled as far as they may be reliably determined. The calculation of deferred tax liabilities and assets reflects the tax consequences related to the expectations of the Group at the reporting date for disposal of certain assets, respectively, the repayment of certain liabilities. Deferred tax is recognized regardless of when reversal of temporary differences is expected to occur. Temporary differences arise primarily in the context of different rates of depreciation of fixed assets and investment properties for taxation and accounting purposes, in terms of the valuation or revaluation of certain assets and liabilities, etc. (Note 11).

Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each reporting date, the Group reviews the recognized tax assets and revalues them depending on the expectations for disposal. In case of reduced probability of achieving tax benefits, the deferred assets are reduced or removed. Deferred tax liabilities are recognized for all taxable temporary differences.

The Group offsets deferred tax assets and liabilities only when there is a legally enforceable right to deduct current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable enterprise.

Deferred taxes are charged directly in the equity, when resulting from positions, which are reported directly in the equity.

Amendments to the Corporate Income Tax Act related to the global minimum corporate tax of 15%

At the end of 2023, amendments to the Corporate Income Tax Act (CITA) were approved, which introduced effectively, as of 1 January 2024, a global minimum corporate tax of 15% on multinational and large national groups of companies under the conditions set out in the CITA. These amendments were in the context of the so-called OECD Pillar Two Model Rules in line with the agreement reached at the global and European level launched by the OECD BEPS (Base Erosion and Profit Shifting) initiative to deal with tax challenges arising from the digital transformation of the economy. The amendments to the CITA relating to the levy of a global minimum tax of 15% effective 1 January 2024 do not apply to the Group as the annual revenues in the consolidated financial statements of the ultimate parent company of the Group (including revenues of the excluded entities) in at least two out of the prior four tax periods do not exceed EUR 750 million.

3 Summary of Accounting Policies(continued)

Share capital

The share capital is recorded at the nominal value of the issued and paid-in shares. The proceeds from the issued shares, exceeding their nominal value, are reported as premium reserves.

The costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the period declared after the date of the financial statements, are disclosed as an event after the reporting date.

Cash dividends to the shareholders

Liabilities for cash distributions to the owners are recognized, when the respective distribution has been approved by them and do not depend on the Group. The corresponding amount is debited directly to the equity.

Provisions

Provisions for legal claims or other obligations are recognized when the Group as a result of a past event, has a present legal or constructive obligation whose repayment is likely to be an outflow of economic benefits. Provisions are recognized in the event that the amount of future cash outflows can be reliably determined.

Employee benefits

The short-term employee benefits include salaries, remunerations, intermediate and annual bonuses, social security contributions, and annual compensable employee leaves, which are expected to be fully settled within 12 months after the end of the reporting period. When the Group receives the service, these are recognized as personnel costs in the profit or loss or are capitalized in the value of the asset. The short-term employee benefits are measured at the non-discounted amount of the expected settlement costs.

The retirement compensations have been calculated in accordance with the Labor Code. By virtue of the applicable regulations, the Group is obliged to pay its employees upon retirement, either two or six gross monthly salaries, depending on the working experience of the respective employee. If an employee has worked at the Group for 10 years, he/she receives six gross monthly salaries upon retirement, and if he/she has worked for less than 10 years – two.

The Group determines its liabilities for the payment of employee benefits upon retirement, applying the actuarial method of the estimated credit units. Remeasurements of the defined benefit plan, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognizes related restructuring costs. Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, are recognized as Personnel expense. Net interest is calculated by applying the discount rate to the net defined benefit liability and is recognized as Interest expense.

3 Summary of Accounting Policies(continued)

Fair value measurement

According to its accounting policy, the Group measures certain financial assets at fair value at the reporting date, as well as certain non-financial assets such as office buildings used in the operating activity and its investment properties.

The fair values of the financial instruments measured at amortized cost and non-financial fixed assets, accounted for at their acquisition cost, less the accumulated depreciations and impairment losses, are disclosed in Note 30. Fair value is the price that would be received from the sale of an asset or paid for the transfer of a liability in a normal transaction between market players (an arm's length transaction) at the evaluation date. The fair value evaluation is based on the assumption that the transaction for the sale of an asset or the transfer of a liability takes place:

- on the main market for the respective asset or liability, or
- if there is no main market, on the most favorable market for the respective asset or liability.

The fair value of the asset or liability is measured, applying the assumptions, which the market players would make when determining the price of the asset or liability, if they act to their best economic interest.

The measurement of the fair value of non-financial assets, takes into consideration the capability of a market player, to generate economic benefits from using the asset, according to its most efficient and best use, or by selling the asset to another market player, who will use the asset, according to its most efficient and best use.

The Group uses valuation methods, suitable for the respective circumstances and providing sufficient data for the evaluation of the fair value, maximizing the use of appropriate monitored input data and minimizing the use of non-monitored input data.

All the assets and liabilities, evaluated at their fair value or requiring disclosure of the fair value in the financial statement, are placed in categories, based on the fair value hierarchy, as detailed below, based on the lowest level of used input data, having significant effect on the measurement of the fair value in general:

Level 1 – Bid (non-adjusted) prices on the asset markets for identical assets or liabilities are used

Level 2 – Evaluation methods are employed, where the lowest level of used input data, significant for the fair value measurement, is monitored either directly or indirectly

Level 3 – Evaluation methods are employed, where the lowest level of used input data, significant for the fair value measurement, is not monitored

For assets and liabilities, measured on a regular basis at their fair value, the Group reviews their categorization at the relevant level in the fair value hierarchy (based on the lowest level of used input data, having significant effect on the measurement of the fair value in general) at the end of the reporting period and determines whether it is necessary to make transfer(s) from one level to another.

Usually the evaluation of the fair value of the significant assets (such as land and buildings) is carried out by external valuers. The need of external valuers is assessed each year by the Management. The external valuers are selected based on their professional experience, reputation and independence. After discussions with the specialist valuers, the Management decides what evaluation methods and input data are most appropriate for each separate case.

At each reporting date, the Management carries out an analysis of the changes in the values of the assets and liabilities, which are subject to revaluation, according to Group's accounting policies. This includes a review of the key input data, used in the latest measurement and their comparison to appropriate historical information, such as contracts signed and other relevant documents. Together with the evaluation specialists, the Management compares the changes in the fair value of each asset or liability, to appropriate external sources, in order to decide whether the changes are reasonable. For the purposes of disclosing the fair value, the Group assigns the assets and liabilities to various classes, depending on their nature, characteristics and risk and the respective level in the fair value hierarchy, as detailed above.

3 Summary of Accounting Policies(continued)

Interest income and expense

Interest income and expense are recognized in the profit or loss for the period for all interest bearing assets and liabilities using the effective interest method and in compliance with principle of accrual accounting. Interest income or expense on securities or other debt instruments is based on contractual interest rate and includes unwinding of the discount or the premium on the instrument, as well.

When loans are identified as impaired, their interest income is recognized using the effective interest method on the net carrying amount of the instrument, i.e. after deduction of the loss allowance. Actual interest income on impaired loans is recognized in profit or loss for the current period when it is received by the Group.

Fees and commission income

Loan commitment fees and loan management fees are deferred and recognized in the profit or loss for the respective period, as part of the effective interest rate.

The Group has identified the following 3 performance obligations according to IFRS 15 Contracts with customers:

- Services related to transactions – revenue is recognised over time as the customer simultaneously receives and consumes the benefits due to the short term of providing the services. The fees for these services are based on the Terms and conditions of the Bank and represent fixed amount per transaction corresponding to the customers' benefit. The Groups applies the practical expedient in IFRS 15.B16 and recognizes the determined fee income from the transaction when completed.
- Fees for issuing guarantees and letter of credits - revenue is recognised over time as the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time thus the Groupe uses a straight-line method for amortization of fees over the contracted term. The fees for these services are fixed, calculated on the nominal amount of the guarantee or the letter of credit.
- Deposit accounts maintenance - revenue is recognised over time as the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Terms and conditions of the Bank and represent fixed amount on a monthly base corresponding to the customers' benefit transferred. The Groups applies the practical expedient in IFRS 15.B16 and recognizes the determined fee income from the transaction when completed, according to Tariff.

Fiduciary assets in safekeeping arrangements

The Group keeps assets on behalf of its clients, as an investment agent. Such assets are not disclosed in the statement of financial position, because these are not assets of the Group.

Operating segments

The Group falls within the scope of IFRS 8 - Operating Segments - because it issues debt instruments, which are traded on a public market and consequently submit their financial reports to the Financial Supervision Commission (FSC), as the regulatory authority. Nevertheless, the Group does not provide additional disclosures relating to operating segments due to the nature of the regulatory environment in which it operates, the inability to determine the segments in operational activity, as well as lack of requirement to report them separately for the purposes of accountability to the Management.

3 Summary of Accounting Policies(continued)

Judgments, estimations and assumptions

The preparation of the consolidated financial statements of the Group requires from the Management to make judgments, estimations and assumptions, which concern the reporting periods, costs, assets, liabilities and concurrent disclosures, as well as the disclosure of contingent liabilities.

The uncertainty, regarding these assumptions and estimations may result in significant adjustments to the balance value of the assets or liabilities in subsequent reporting periods.

The main assumptions regarding the future and other key sources of uncertainty at the reporting date, which result in a significant risk for a major adjustment of the carrying amounts of the assets and liabilities within the following financial year, are detailed below.

The Group bases its assumptions and estimates of the existing parameters at the moment of preparation of the consolidated financial statements. The existing circumstances and assumptions for future development may change due to market changes or circumstances beyond the control of the Group. All such changes are recorded in the assumptions, when they occur.

Judgments

In the process of implementation of the accounting policy of the Group, the Management has made the following judgments in addition to those, including estimations and assumptions, which have the most significant effect on the amounts, recognized in the financial statement.

Going concern

When preparing the financial statement the Group's management has made an assessment of the ability of the Group companies and the Group, itself, to continue as a going concern for the foreseeable future. The management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue in business and therefore the financial statement is prepared on the going concern basis. Also the management does not expect any material uncertainties, events or circumstances that may prevent the subsidiaries to carry out their operating activity.

Leases – Classification of leased property (the Group as a lessor)

The Group has leased some of its investment properties and properties held for sale. As a lessor, based on the terms and conditions of the lease contracts, it has determined that it preserves all the significant risks and benefits, resulting from the ownership of such properties and that the lease term does not cover much of the economic life of the property and therefore accounts for these contracts as operating lease. (Note 8)

Determining the lease term for contracts with renewal and termination options (the Group as lessee)

The Group determines the lease term as the irrevocable term of the contract, together with any periods covered by the option to extend it, if it is reasonably certain that the option will be exercised, or any periods covered by the option for termination of the lease, if it is reasonably certain that the option will not be exercised. Some of the leases include extension and termination options. The Group considers all material factors that create an economic incentive to exercise either the renewal option or the termination option to determine the lease term for which it calculates lease liabilities as reliably as possible. In the event of significant events or changes in circumstances affecting the Group's ability to exercise or not the relevant option, the lease term is adjusted according to the changed circumstances.

3 Summary of Accounting Policies(continued)

Judgments, estimations and assumptions (continued)

Judgments (continued)

Leases - Estimated incremental borrowing rate (the Group as lessee)

The Group cannot reliably determine the interest rate implicit in the lease, therefore, an incremental borrowing rate is used to measure the lease liabilities. The incremental borrowing rate is the interest rate that the Group would pay to borrow the funds necessary to acquire an asset of similar value to the right-of-use-asset for a similar period and with similar security in a similar economic environment. Therefore, setting the incremental borrowing rate requires an estimate when observable interest rates are not available or when they need to be adjusted to reflect the terms of the lease. As most of the lease contracts for office rentals have an original term between 5 and 10 years, the Group determines its incremental borrowing rate based on the cost of its long-term financing at the date of the lease.

Classification of assets as held for sale or investment property

For the initial classification of assets acquired as collaterals on loans, the Group makes judgments related to the classification of these assets either as assets held for sale, investment properties or other assets. The Group form their judgment for the initial recognition of assets based on the objectives for the future utilization and disposal of the acquired assets. In addition to the date of the statement of financial position, the Management reviews its intentions regarding the use and/or realization of these assets and, as a result, reclassification is made between assets for sale and investment properties. (Notes 19 and 21)

Estimations

Determination of ECLs for financial assets with low credit risk

Low credit risk instruments are those for which there is a low non-performance risk, the counterparty's ability to perform its contractual obligations in the short run is stable, negative long-term economic conditions are unlikely to change the ability to repay the liabilities due. For its short-term receivables from banks and debt instruments measured at amortized cost or at fair value in OCI, the Group assumes as at the reporting date that the likelihood of default is unlikely and therefore determines 12-month credit losses for them. If the low credit risk criteria are no longer met in the subsequent reporting periods, the Group performs an analysis of the change in credit risk relative to the initial recognition in order to assess the need for a loss allowance over the full period of the instrument. Determining instruments as instruments with low credit risk requires judgment. In making this judgment, the Group uses all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts. (Note 32.2).

Determination of ECLs from loans and advances

As disclosed in Note 32.2 *Credit risk*, the Group has developed a policy to assess changes in credit quality and determine the expected credit losses on financial instruments. The Group classifies its risk assets into three risk stages depending on the changes in credit risk after the initial recognition of the asset and accordingly estimates the expected credit losses based on the 12-month probability of default if there is no change in credit quality (Stage 1) and based on the probability of default over the entire duration of the instrument (Stage 2 and Stage 3), if there is a significant increase in credit risk. In determining the extent to which the credit risk is significantly increased in relation to the initial recognition of an asset, the Group uses all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts.

3 Summary of Accounting Policies(continued)

Judgments, estimations and assumptions (continued)

Estimations (continued)

Loss on default (LGD) is an estimate of the damage that the Group would suffer upon a default event and is based on the difference between the contractual cash flows and the cash flows that the Group expects to receive, including from collateral and other credit facilities. Significant judgment is required to determine the timing and amount of the expected cash flows, including when determining the value of the respective collateral. The Management uses judgments, based on the historical experience, related to losses, with respect to assets, with inherent credit risk and objective circumstances for impairment, similar to those in the portfolio, when calculating the future cash flows

In determining the amount of expected credit losses, the Group uses estimated information about expected future changes in certain economic conditions and indicators and assumptions how changes in these indicators would affect the probability of default.

The 'Likelihood of default' (PD) parameter is a key factor to calculating the amount of expected credit losses and reflects the likelihood that the counterparty will not implement its contractual obligations over a given time horizon. The Bank has developed internal models for determining the probability of default on loans based primarily on historical information for a period for which it is available. The assessment of the correlation between the historical default rates and the estimated economic indicators is a significant estimate. The Group's historical experience with credit losses and economic forecasts may also not be considered representative of the actual losses in the future.(Note 32.2).

Fair value of financial instruments

When the fair values of the financial assets and liabilities in the statement of financial position cannot be received from the asset markets, these are determined with the help of various evaluation techniques, which include the use of mathematical models. The input data for these models, result from indicators, which are observed on the financial markets, where possible, and otherwise assumptions shall be used to determine the fair value. The assumptions take into consideration factors, related to liquidity, volatility for longer-term derivatives and discount rates, early payments and non-performance provisions, related to securities, secured by assets. (Note 30)

Measurement of the acquired assets from collaterals

The properties, which prior to their acquisition have served as collaterals to loans granted, are classified by the Group as assets held for sale or investment property. According to the accounting policies adopted by the Bank, the assets that are classified as held for sale are subsequently measured at the lower of their carrying amount and their fair value. To determine the fair value of assets for sale, the Group uses estimates by independent external valuers.

Acquired assets that are classified as investment property are subsequently measured at fair value at the reporting date. To determine the fair value of investment properties, the Group uses valuations prepared by independent external valuers with appropriate professional qualifications and necessary experience to evaluate similar real estate.

4 Net interest income

	<u>2023</u>	<u>2022</u>
Interest income		
Loans and advances to banks	5,704	790
Loans and advances to customers	41,242	27,183
Debt instruments at FVOCI	2,155	361
Debt instruments at amortized cost	2,056	414
Total interest income	<u>51,157</u>	<u>28,748</u>
Interest expense		
Deposits	(2,214)	(697)
Debt securities in issue	(750)	(16)
Other borrowed funds	(294)	(222)
Lease agreements	(102)	(63)
Assets	-	(1,082)
Total interest expense	<u>(3,360)</u>	<u>(2,080)</u>
Interest income, net	<u>47,797</u>	<u>26,668</u>

The Group recognizes interest income on impaired loans only on the net amount of the exposure after decreasing the accumulated expected credit loss. As part of interest income on loans and advances to customers, the Group has recognised interest income on impaired loans in 2023 in the amount of EUR 2,297 thousand (2022: EUR 1,819 thousand).

5 Fees and Commissions Income, net

	<u>2023</u>	<u>2022</u>
<i>Fees and commissions income</i>		
Fees and commissions from transactions	5,258	5,163
Deposit accounts	1,226	2,011
Guarantees and letters of credit	240	284
Total fees and commissions income from contract with customers	<u>6,724</u>	<u>7,458</u>
Loans and advances to customers	790	524
Other services	78	63
Total fees and commissions income	<u>7,592</u>	<u>8,045</u>
<i>Fees and commissions expense</i>		
Bank cards	(448)	(364)
Payment and other services	(154)	(87)
Total fees and commissions expense	<u>(602)</u>	<u>(451)</u>
Fees and commissions income, net	<u>6,990</u>	<u>7,594</u>

As part of Payment and other services, the Group has realized income from fees on fiduciary activity in 2023 in the amount of EUR 9 thousand (2022: EUR 4 thousand).

6 Net exchange rate differences

Gains and losses, resulting from the revaluation of monetary assets and liabilities denominated in foreign currency are presented net in profit or loss for the year. In 2023, the realized loss on revaluation of assets and liabilities denominated in foreign currency is EUR 51 thousand (2022: gain of EUR 323 thousand).

7 Gains on financial assets at fair value through profit or loss

The reported gain on financial assets at FV through profit or loss in 2023 in the amount of EUR 147 thousands represents the net change in fair value of the investment in shares of Visa Inc. (2022: gain of EUR 82 thousands).

8 Other operating income and expense

<i>Other operating income</i>	<u>2023</u>	<u>2022</u>
Gains from sale of goods and non-financial services	463	1,235
Rental income from investment properties	280	185
Rental income from assets held for sale	75	126
Gains on disposal of assets held for sale	-	7,521
Miscellaneous other	78	150
Other operating income	<u>896</u>	<u>9,217</u>
<i>Other operating expense</i>	<u>2023</u>	<u>2022</u>
Direct administrative expenses arising from investment properties	(675)	(619)
Fair value changes of investment properties	(620)	(455)
Direct administrative expenses arising from assets held for sale	(156)	(308)
Loss on disposal of assets held for sale	(76)	-
Loss on disposal of investment properties	(13)	(123)
Direct administrative expenses arising from assets under development	(6)	(13)
Miscellaneous other	(12)	(89)
Other operating expense	<u>(1,558)</u>	<u>(1,607)</u>

9 Administrative expenses

	<u>2023</u>	<u>2022</u>
Professional services	2,809	2,598
Equipment maintenance	2,179	1,772
Marketing	591	450
Overhead costs	360	463
Audit costs	341	239
Rent*	191	194
Deposit insurance Fund and Banks Restructuring Fund contributions	1,512	1,574
Miscellaneous other**	1,218	847
Administrative expenses	<u>9,201</u>	<u>8,137</u>

* The Group has contracts for the lease of commercial space in large shopping centers, the terms of which are 12 months or less. These leases are subject to the recognition exemption for "short-term leases".

** Miscellaneous expenses include membership fees, office supplies, travel and related expense, local taxes and similar other.

10 Impairment on Financial Assets

The following tables provide information on the ECL charges on financial asset for 2023 and 2022 respectively:

<u>2023</u>	Stage 1		Stage 2		Stage 3		TOTAL
	Individual	Collective	Individual	Collective	Individual	Collective	
Loans and advances to banks	(4)	-	-	-	-	-	(4)
Loans and advances to customers	80	(22)	(92)	229	3,335	660	4,190
<i>incl. Reversals due to reclassification from Stage 3 to Stage2 or Stage1</i>	-	(13)	-	(7)	-	-	(20)
<i>incl. Effect from modifications</i>	138	(127)	1	-	10	-	22
Debt instruments at FVOCI	49	-	-	-	-	-	49
Debt instruments at amortised cost	49	-	-	-	-	-	49
Other financial assets	-	(2)	-	-	8	-	6
Financial guaranties	13	(1)	-	-	-	-	12
Total	187	(25)	(92)	229	3,343	660	4,302

<u>2022</u>	Stage 1		Stage 2		Stage 3		TOTAL
	Individual	Collective	Individual	Collective	Individual	Collective	
Loans and advances to banks	3	-	-	-	-	-	3
Loans and advances to customers	56	217	37	241	1,441	826	2,818
<i>incl. Reversals due to reclassification from Stage 3 to Stage2 or Stage1</i>	-	(24)	(238)	(10)	-	-	(272)
<i>incl. Effect from modifications</i>	(24)	238	27	2	(2)	-	241
Debt instruments at FVOCI	(14)	-	-	-	-	-	(14)
Debt instruments at amortised cost	(8)	-	-	-	-	-	(8)
Other financial assets	-	1	-	-	41	-	42
Financial guaranties	2	(4)	-	-	-	-	(2)
Total	39	214	37	241	1,482	826	2,839

10 Impairment on Financial Assets (continued)

In 2023, the 'Impairment of financial assets' item in the statement of comprehensive income includes the recognized negative effect on modification of loans and advances of EUR 22 thousands (2022: EUR 241 thousands). The net amount of write-offs or recoveries recognized direct in profit or loss for 2023 is loss of EUR 67 thousands (2022: zero).

11 Taxes

	<u>2023</u>	<u>2022</u>
Current tax expense	(3,176)	(2,378)
Deferred tax expense	-	(15)
Tax expense	<u>(3,176)</u>	<u>(2,393)</u>

Corporate tax on profit

The Bank and its consolidated subsidiaries are subject to income tax (tax on profit) pursuant to the Corporate Income Tax Act. Tax rate applicable to the taxable profit of the Bank for 2023 is 10% (2022: 10%).

Tax returns are subject to audit by the tax authorities and the limitation period for verification is five years after submission of the tax return. The tax assessment notice, which finalizes an appointed tax audit for a certain period, under certain circumstances, could be reviewed within another 5 years after the year of issue. There were no tax audits in 2023 for the Group.

Effective tax rate

The following table presents a calculation of the expected tax on profit compared to the real one:

	<u>2023</u>	<u>2022</u>
Profit before tax	31,618	23,942
Tax rate	10.00%	10.00%
Tax according to tax rate	(3,162)	(2,394)
Tax unrecognized (expense)/income	(147)	58
Non taxable income	1	1
Other tax differences	132	(58)
Tax expense	<u>(3,176)</u>	<u>(2,393)</u>
Effective tax rate	<u>10.04%</u>	<u>10.0%</u>

Deferred taxes

As of 31 December 2023 deferred taxes are calculated using the balance sheet method on all temporary differences at the effective tax rate of 10% (2022: 10%).

11 Taxes (continued)

Deferred taxes (continued)

The movement on the deferred tax assets and liabilities is as follows:

	<u>2023</u>	<u>2022</u>
Deferred tax asset / (liabilities) net at the beginning of the year	144	(93)
Deferred tax recognized direct in equity	-	252
Deferred tax (expense)	-	(15)
Deferred tax assets, net at the end of the year	<u>144</u>	<u>144</u>

Deferred tax assets and liabilities are attributable to the following items in the statement of financial position:

	<u>2023</u>	<u>2022</u>
<i>Deferred tax assets</i>		
Investment properties	72	93
Assets held for sale	20	13
Other temporary differences	109	93
Total deferred tax assets	<u>201</u>	<u>199</u>
<i>Deferred tax liabilities</i>		
Fixed tangible and intangible assets	(9)	(9)
Property revaluation	(45)	(46)
Other temporary differences	(3)	-
Total deferred tax liabilities	<u>(57)</u>	<u>(55)</u>
Deferred tax assets, net	<u>144</u>	<u>144</u>

The change in deferred tax for the year is related to the following items:

	<u>2023</u>	<u>2022</u>
Revaluation of investment properties to fair value	(21)	(18)
Impairment of assets held for sale	7	(22)
Accelerated tax depreciation	1	(16)
Other temporary differences	13	41
Deferred tax expense	<u>-</u>	<u>(15)</u>

12 Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group's shareholders by the weighted average number of ordinary shares in issue during the period. The Bank has decided to disclose earning per share in the Separate Financial Statements prepared and approved by the Management Board on 21 March 2024.

13 Cash on hand and balances with the Central Bank

13.1. Cash and balances with the Central Bank

	<u>2023</u>	<u>2022</u>
Cash on hand	6,866	6,406
Balances with the Central Bank	404,347	438,596
Cash and balances with the Central Bank	<u>411,213</u>	<u>445,002</u>

The balances with the Central Bank include the minimum required reserve (MRR), amounting to EUR 142,182 thousands and EUR 107,197 thousands as of 31 December 2023 and 31 December 2022, respectively. The minimum required reserve is calculated as a percentage of borrowed funds, with the exception of those borrowed from local banks, and no interest is charged thereon. MRR is measured on a monthly basis and daily fluctuations are allowed. The funds in accounts with BNB ensuring compliance with the MRR requirements are available for use by the Bank in its daily operations and therefore are not reported as encumbered assets. As of 31 December 2023 the amount of the minimum reserve is 12% on all borrowed funds. As of 31 December 2023 the balances with the Central Bank include the amount of EUR 2,351 thousand (2022: EUR 1,814 thousand) representing BACB's participation in a new Guarantee Mechanism of a system processing card-based payment transactions – BORICA.

13.2. Cash and cash equivalents reported in the consolidated statement of cash flows

For consolidated statement of cash flows purposes, cash and cash equivalents include cash on hand and balances with the Central Bank and loans and advances to banks with maturity up to 3 months, as follows:

	<u>2023</u>	<u>2022</u>
Cash and balances with the Central Bank	411,213	445,002
Loans and advances to banks with maturity up to 3 months	9,302	23,653
Funds restricted as collateral	(1,909)	(18,755)
Cash and cash equivalents	<u>418,606</u>	<u>449,900</u>

The funds restricted in accounts with other banks, secure the financial commitments made by the Group for guarantees and letters of credit, as well as payments to card operators. The amounts, securing payments to card operators, are determined based on the volume of transactions in a certain period of time and these have the nature of guarantees, which can be used to cover payments made, in case of non-performance by the Group.

14 Loans and advances to banks

Loans and advances to banks represent current accounts and short-term deposits with original maturity up to three months with local banks and foreign correspondent banks. For the purposes of consolidated statement of cash flows, the balances on these accounts are included as cash equivalents, excluding amounts in accounts restricted as guarantee.

	<u>2023</u>	<u>2022</u>
Current accounts with other banks	2,866	4,898
Deposits with other banks	4,527	-
Restricted funds on the accounts	1,909	18,755
Loans and advances to banks	<u>9,302</u>	<u>23,653</u>
Less: ECL allowance	(1)	(5)
Loans and advances to banks, net	<u>9,301</u>	<u>23,648</u>

15 Loans and advances to customers

	<u>2023</u>	<u>2022</u>
Loans and advances to customers	797,656	735,719
Less: ECL allowance	(30,481)	(30,724)
Loans and advances to customers, net	<u>767,175</u>	<u>704,995</u>

Loan segmentation by customer

<u>Type of Customer</u>	<u>2023</u>	<u>2022</u>
Individuals	216,606	171,716
Businesses	581,050	564,003
Loans and advances to customers	797,656	735,719
Less: ECL collective	(4,514)	(3,670)
Less: ECL individual	(25,967)	(27,054)
Loans and advances to customers, net	767,175	704,995

<u>Industry Sector</u>	<u>2023</u>		<u>2022</u>	
	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net
Real estate construction	101,954	95,392	83,206	75,445
Wholesale distribution	69,592	68,449	67,233	66,186
Hotels	67,012	65,469	61,069	59,400
Electricity production	47,198	45,973	40,985	40,422
Primary agriculture and farming	43,516	42,271	37,510	36,732
Real estate investment&Land development	37,416	32,503	29,199	23,763
Transportation	19,307	19,161	28,721	28,031
Food processing	13,885	13,382	27,329	26,630
Furniture and wood products	21,764	20,048	22,981	20,566
Financial services	26,931	26,472	22,571	22,235
Light industry	18,833	16,493	19,402	17,414
Chemical industry	18,094	18,060	17,332	17,307
Retail	19,405	18,992	16,163	16,068
Production of metal products and equipment	11,300	10,873	15,313	15,074
Waste collection and recycling	13,737	13,718	15,290	15,272
IT services	6,632	6,618	10,297	10,289
Entertainment and Recreation	8,977	8,448	9,450	8,955
Other	35,497	32,756	39,953	37,296
Exposures to corporate customers	581,050	555,078	564,004	537,085
Mortgage loans to individuals	171,490	171,184	132,460	132,134
Consumer loans to individuals	45,116	40,913	39,255	35,776
Loans and advances to customers	797,656	767,175	735,719	704,995

15 Loans and advances to customers (continued)

Loan segmentation by customer (continued)

During the reporting period there was no significant change in the industry structure of the portfolio. As of 31 December 2023, three industry sectors – Construction, Wholesale distribution and Hotels formed 29.9% of the gross balance sheet exposure (2022: 28.7%). The highest concentration is reported in the Construction sector - real estate and infrastructure projects - 12.8% (2022: 11.3%), with the most significant share of projects for financing the construction of residential properties.

At the end of 2023, the volume of consumer and housing loans to individuals increased to 27.2% of the gross loan portfolio, at a level of 23.3% a year earlier.

Loans and advances to customers include finance lease receivable in the total carrying amount of EUR 7,318 thousand as of 31 December 2023 (2022: EUR 9,205 thousand). As at 31 December 2023, the expected credit losses recognized on lease receivables amount to EUR 54 thousand (2022: EUR 104 thousand).

The tables below contain information, regarding the lease receivables, as of 31 December 2023 and 2022.

<u>2023</u>	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	3,540	4,741	-	8,281
Unearned future income on finance lease	(446)	(517)	-	(963)
Net minimum lease payments	3,094	4,224	-	7,318

<u>2022</u>	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	2,501	7,677	235	10,413
Unearned future income on finance lease	(437)	(746)	(25)	(1,208)
Net minimum lease payments	2,064	6,931	210	9,205

Information, regarding the effective interest rate on financial instruments as of 31 December 2023 and 31 December 2022 is included in note 32.3.2 Interest rate risk.

16 Financial assets at fair value through profit or loss

This item presents the Group's investment in shares of Visa Inc. This investment is measured at fair value reflecting the fair value changes in profit or loss for the period.

The Group acquired these shares as a result of BACB's membership in VISA Europe, which has been sold to VISA Inc. In 2016, the process of selling 100% of the share capital of VISA Europe to VISA Inc. was finalized and a pre-defined number of convertible preferred shares Class C of the capital of Visa Inc., were received as part of the transaction consideration. The acquired Series C preferred shares are subject to mandatory conversion into Class A ordinary shares /or Series A preferred shares, where applicable/ within a 12-year period at a certain ratio which is subject to review and adjustment over time under certain conditions. The newly issued Class A or Series A shares are not subject to restrictions and can be freely transferred.

The model for determination of the fair value of the Class C convertible preferred shares of Visa Inc. is based on the information about the indicative conversion ratio to the Class A ordinary shares of Visa Inc., information about the quoted market value of the Class A ordinary shares and takes into account the lack of liquidity due to the restrictions for selling the investment within a 12-year period after closing the transaction.

The model for measuring the fair value of Series A preferred shares of Visa Inc. is based on a fixed conversion ratio to the Class A ordinary shares of Visa Inc. and information about the quoted market value of the Class A ordinary shares. Unlike Class C shares, the Series A shares are not subject to a trading restrictions, therefore the model does not include a discount for lack of liquidity.

The change in the fair value of the investment for the current year is recognized in profit or loss and is presented in the item "Net gain on financial assets at fair value through profit or loss" of the Statement of Comprehensive Income.

The fair value of the investment in VISA Inc. as of 31 December 2023 and 31 December 2022 is presented bellow:

	<u>2023</u>	<u>2022</u>
Visa Inc convertible preferred stocks class C	335	277
Visa Inc preferred stocks class A	400	332
Total	<u>735</u>	<u>609</u>

17 Financial instruments at FVOCI

During the reporting period, the Group manages its investments in Bulgarian bonds, as a part of the management of its liquid assets.

As of 31 December 2023 and 31 December 2022, the carrying amount of the investments measured at fair value in OCI is as follows:

	<u>2023</u>	<u>2022</u>
<i>Debt instruments at FVOCI</i>		
EUR Bulgarian Government Bonds	7,208	19,605
BGN Bulgarian Government Bonds	18,128	17,559
EUR Foreign Government Bonds	17,297	-
USD Foreign Government Bonds	17,989	-
EUR Corporate Bonds	3,794	3,947
BGN Corporate Bonds	3,657	1,030
Debt instruments at FVOCI	<u>68,073</u>	<u>42,141</u>
<i>Including collateral for attracted funds from the state budget</i>	<u>2023</u>	<u>2022</u>
<i>BGN Bulgarian Government Bonds</i>	3,656	6,080
<i>Total pledged as collateral</i>	<u>3,656</u>	<u>6,080</u>

As stated in the table above, as at 31 December 2023, debt instruments with a carrying amount of EUR 3,656 thousand, measured at fair value in OCI (2022: EUR 6,080 thousand) are pledged in connection with the statutory requirement for banks to secure government bonds with the funds attracted on budget accounts.

The fair value of both Bulgarian government bonds and corporate bonds is determined on the basis of quoted market prices on active markets at the reporting date.

As at 31 December 2023, BACB also reports equity investments at fair value in OCI of EUR 2,287 thousand (2022: EUR 2,092 thousand), as follows:

	<u>2023</u>	<u>2022</u>
Shares in Bulgarian payment services company	1,664	1,500
Investment in shares of TIXI AD	500	500
BSE Shares	123	92
Total	<u>2,287</u>	<u>2,092</u>

Determination of the fair value of investments in equity securities is based on valuation models using direct and indirect market information.

For the valuation of the investment in shares on the BSE, quotations from active market are used at the reporting date.

Valuation models have been used to assess the fair value of the other equity investments, as there are no active market data for these equity securities. More information on the models applied, is presented in Note 30 of these financial statements.

The levels of the inputs into the valuation techniques applied with respect to financial assets at FVOCI as per the Fair value hierarchy defined by IFRS 13 are disclosed in Note 30.

18 Debt instruments at amortized cost

As of 31 December 2023 and 31 December 2022 the Group reports a portfolio of debt instruments at amortized cost as follows:

	<u>2023</u>	<u>2022</u>
<i>Debt instruments at amortised cost</i>		
EUR Bulgarian Government Bonds	9,686	19,970
BGN Bulgarian Government Bonds	7,478	6,993
EUR Foreign Government Bonds	53,314	19,973
USD Foreign Government Bonds	31,266	18,855
EUR Corporate Bonds	1,051	-
Debt instruments at amortised cost	102,795	65,791
Less: ECL allowens	(81)	(33)
Debt instruments at amortised cost, net	102,714	65,758

As at 31 December 2023 the Bulgarian Government bonds of EUR 12,710 thousand (2022: EUR 12,069 thousand) are fully pledged as collateral for attracted funds from the state budget counterparties.

19 Investment properties

<i>Fair Value</i>	<u>Buildings</u>	<u>Buildings under construction</u>	<u>Land</u>	<u>Total</u>
31 December 2021	28,955	10,950	13,033	52,938
Reclassified from assets held for sale	-	-	25	25
Disposals 2022	(6,088)	(300)	(4,104)	(10,492)
Change in fair value	170	(431)	(194)	(455)
31 December 2022	23,037	10,219	8,760	42,016
Reclassified from assets held for sale	10,257	-	323	10,580
Classified as assets held for sale	(2,216)	-	-	(2,216)
Disposals 2023	(2,190)	(420)	(229)	(2,839)
Change in fair value	(368)	(204)	(48)	(620)
31 December 2023	28,520	9,595	8,806	46,921

During 2023, there were no acquisitions of new investment properties. Investment properties are presented in the statement of financial position at fair value. As of 31 December 2023, the fair value of the investment properties has been obtained on the basis of valuations, carried out by independent external appraisers. The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations, which conform to International Valuation Standards, were arrived at by using the specified in the standard valuation methods and reference to market evidence of transactions or offer prices for similar properties (Note 30).

20 Tangible, intangible assets and right-of-use assets

	Land and buildings revalued	Right- of-use assets	Other Tangibles	Inntangib le assets under developm ent	Intangi bles	Total
Cost or valuation						
31 December 2021	4,117	5,852	4,291	329	2,232	16,821
Additions in 2022	-	2,038	336	16	277	2,667
Revaluation to FV	238	-	-	-	-	238
Depreciation written off on revaluation	(482)	-	-	-	-	(482)
Reclassification to assets held for sale	(3,584)	-	-	-	-	(3,584)
Disposals in 2022	-	(573)	(121)	-	(45)	(739)
31 December 2022	289	7,317	4,506	345	2,464	14,921
Additions in 2023	-	980	721	21	143	1,865
Remesurement	-	(3)	-	-	-	(3)
Disposals in 2023	-	(715)	(176)	-	-	(891)
31 December 2023	289	7,579	5,051	366	2,607	15,892
Accumulated Depreciation and impairment						
31 December 2021	358	1,709	3,254	-	1,707	7,028
Charge for 2022	124	1,159	384	-	222	1,889
Depreciation written off on revaluation	(482)	-	-	-	-	(482)
Disposals 2022	-	(568)	(83)	-	(45)	(696)
31 December 2022	-	2,300	3,555	-	1,884	7,739
Charge for 2023	13	1,670	373	-	234	2,290
Disposals 2023	-	(695)	(173)	-	-	(868)
31 December 2023	13	3,275	3,755	-	2,118	9,161
Net book value						
31 December 2022	289	5,017	951	345	580	7,182
31 December 2023	276	4,304	1,296	366	489	6,731

The office buildings are presented in the statement of financial position at revalued amount, and all other assets – at cost less the accumulated depreciation and impairment.

As of 31 December 2023, the Group has fully depreciated assets, which are still used in its operations, amounting to EUR 4,252 thousand (2022: EUR 3,653 thousand).

21 Assets held for sale

Balance at 31 December 2021	8,940
Transferred to investment properties	(25)
Transferred from own properties	3,584
Additions in 2022	5,869
Disposals in 2022	(6,075)
Impairment in 2022	(7)
Balance at 31 December 2022	12,286
Transferred to investment properties	(10,580)
Transferred from investment properties	2,216
Additions in 2023	4,757
Disposals in 2023	(3,713)
Impairment in 2023	(88)
Balance at 31 December 2023	4,878

The fair value of properties classified as assets held for sale at 31 December 2023 is valued at EUR 4,970 thousand (2022: EUR 12,296 thousand). The fair value has been arrived on the basis of valuations, carried out by external independent appraisers. The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations are obtained using the methods and references specified in the International Valuation Standards for market certificates from transactions or bid prices of similar properties. (Note 30)

During the year the Group acquired new assets classified as held for sale, amounting to a total of EUR 4,757 thousand, of which assets in the amount of EUR 4,596 thousand (2022: EUR 5,675 thousand) were settled against direct reduction of loan portfolio.

22 Investments in companies of the Group and joint ventures

Companies of the Group consolidated in full in the present financial statements

These financial statements are prepared by the Bank and the Group companies which are subsidiaries and are fully consolidated. As of 31 December 2023, the Bank has two subsidiaries - BACB Finance EAD and BACB Trade EAD, which it fully owns.

BACB Finance EAD is a subsidiary providing financial services and has supporting functions for the Bank. Through this subsidiary BACB carries out leasing transactions, as well as commercial and consumer lending transactions, using the company's own funds for this purpose and, if necessary, funding from the Bank. In 2015 BACB Finance EAD was registered as a financial institution under the requirements of BNB Regulation #26.

BACB Trade EAD is 100% owned by BACB. The company was incorporated in 2013 with subject of activity financial-consulting and trade-consulting activity.

22 Investments in subsidiaries and joint ventures (continued)

Joint ventures

The Group considers as a joint venture its investment in "IDS Fund" AD, an investment fund established in 2019 with main purpose to support companies with good business ideas that strive to realize their full potential on the market. As of 31 December 2023, IDS Fund reports two financial investments. The Fund holds 75% of the share capital of ORK Consult Ltd which main activity is trade in ecological food products. ORK Consult Ltd is a subsidiary and is consolidated by IDS Fund. IDS Fund holds as well 44% of the share capital of another entity – Vital Concept Ltd, which main activity is production and distribution of food supplements and other trading. IDS Fund considers the company Vital Concept Ltd as an associate and presents this investment under the equity method in its consolidated financial statements.

IDS Fund is a joint stock company registered in Bulgaria. The two shareholders – founders of the Fund are the BACB's subsidiary "BACB Finance" EAD and CSIF AD - the largest shareholder of BACB. The parties are holding 50% of the shareholders equity each. The investment is determined as joint venture as per the definitions in IFRS 11 and is presented under the equity method in the Group's consolidated financial statement. Under the equity method the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets and any recognized impairment. As of 31 December 2023, the management has analyzed the state of the investments of IDS Fund and the results of the activity. The companies in which the Fund has invested do not fulfill the set business goals, as their activity has been also adversely affected by the COVID crisis, which hindered and delayed their development, respectively the possibility to overcome the accumulated negative results and generate profit. Based on the analysis and in view of the limited opportunities for positive development, the management decided to proceed with the release of the investments and, together with the other shareholder, to prepare a plan for the voluntary liquidation of the company IDS Fund AD. As a result of this decision, the book value of the investment is reduced to zero.

As of 31 December 2023, IDS Fund prepared consolidated financial statements. Summarized financial information of IDS Fund AD as at 31 December 2023 is presented in the following tables:

<i><u>Summarised statement of financial position</u></i>	<u>2023</u>	<u>2022</u>
<i>Non-current assets</i>	237	248
<i>Current assets</i>	78	137
<i>Goodwill</i>	-	87
<i>Non-current liabilities</i>	(198)	(166)
<i>Current liabilities</i>	<u>(44)</u>	<u>(96)</u>
<i>Equity attributable to controlling interest</i>	102	230
<i>Equity attributable to non-controlling interest</i>	(30)	(20)
Group's carrying amount of the investment in joint venture - 50%	51	115
	<u>2023</u>	<u>2022</u>
<i>Revenue from contracts with customers</i>	62	159
<i>Cost of sales</i>	(52)	(122)
<i>Other operating income, net</i>	9	-
<i>Administrative expenses</i>	(56)	(80)
<i>Depreciation</i>	(2)	(7)
<i>Financial costs</i>	(10)	(8)
<i>Share of (loss) of associate</i>	(2)	-
<i>Impairment of goodwill</i>	<u>(87)</u>	<u>-</u>
Loss for the year	(138)	(58)
Attributable to:		
Equity holders of the parent	(128)	(46)
Non-controlling interest	(10)	(12)
Group's share of loss for the year	(64)	(23)

23 Inventories and Other assets

	2023	2022
<u>Inventories</u>		
Goods in stock (held by subsidiary)	4,090	7,157
Assets for sale under development	-	745
Inventories, total	4,090	7,902
<u>Other assets</u>		
Advance payments	1,112	2,210
Deferred expenses	1,077	732
Accounts on bank transfers	394	724
Receivables under rental agreements	195	572
Receivables on sale of properties	-	215
Other accounts and receivables	311	456
Total other assets	3,089	4,909
Expected credit losses on receivables	(153)	(147)
Other assets, net	2,936	4,762

24 Deposits from customers

The tables below represent distribution of deposits from customers as of 31 December 2023 and 2022 :

<i>By type of currency</i>	2023			2022		
	Demand deposits	Term deposits	Total deposits	Demand deposits	Term deposits	Total deposits
BGN	589,493	166,587	756,080	578,697	127,181	705,878
EUR	236,605	158,453	395,058	194,184	188,884	383,068
USD	30,775	45,664	76,439	47,610	41,898	89,508
Total	856,873	370,704	1,227,577	820,491	357,963	1,178,454

<i>By type of customer</i>	2023			2022		
	Demand deposits	Term deposits	Total deposits	Demand deposits	Term deposits	Total deposits
Non-bank financial institutions	56,500	4,273	60,773	38,173	4,483	42,656
Corporate	666,282	85,379	751,661	660,599	69,583	730,182
Individuals	134,091	281,052	415,143	121,719	283,897	405,616
Total	856,873	370,704	1,227,577	820,491	357,963	1,178,454

At 31 December 2023 Deposits from customers include EUR 38,752 thousand (2022: EUR 35,327 thousand) deposits from related parties (Note 31). Information on the effective interest rate applicable to monetary financial instruments as at 31 December 2023 and 31 December 2022 is included in Note 32.3.2 Interest rate risk.

25 Debt securities in issue and Other borrowings

On 23 December 2023 BACB issued an unsecured bonds issue in the amount of EUR 15,000,000. The bonds are issued to satisfy equity and eligible liabilities requirements in accordance with the provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The type of bonds issued – ordinary, interest-bearing, book-entry, registered, freely transferable, unsecured, non-convertible bonds. Maturity of the bonds issued is seven years and the total principal is payable at maturity. The interest rate is fixed at 5% and the interest amount is payable on six-month coupon payments. In June 2023, the bonds have been registered for trading on the Bulgarian Stock Exchange.

As of 31 December 2023 the Bank's obligation related to debt securities in issue, including accrued interest, amounts to EUR 15,016 thousand (2022: 15,016 thousand).

The amounts payable under agreements for short-term or long-term financing that are not deposits from customers are presented in the statement of financial position as Other borrowed funds.

In July 2015 the Group signed an agreement with the Bulgarian Development Bank (BDB) for participation in its partnership program for indirect financing of micro, small and medium-sized companies. The program is developed to provide low-interest rate financing to Bulgarian companies and support the business in creating new jobs and investing in regions with high unemployment. According to the agreement BDB will provide to the Group up to EUR 17.9 million credit line for financing of eligible projects under the program. In November 2018, BACB signed a new agreement with BDB under the COSME+ program to support small and medium-sized businesses in the country. The objective of the program is to provide easy access to finance for SMEs across the different stages of their life cycle: establishment, expansion or transfer of business. With the COSME+ guaranteed resource provided by BDB, BACB provided investment and working capital loans and bank guarantees. Under the agreement, the Group received funding of EUR 10 million over a 10-year period.

As of 31 December 2023 the long-term borrowed funds amount to EUR 4,641 thousand (2022: EUR 9,176 thousand) including interest and represent amounts due to BDB under the loan agreement as described.

The following tables summarize the reconciliation between the opening and closing balances in the statement of financial position for other borrowed funds as part of the liabilities arising from financing activities:

	1 January	Cash	Interests	Cash	Effective	31
<u>2023</u>	<u>2023</u>	<u>inflows</u>	<u>paid</u>	<u>outflows</u>	<u>rate</u>	<u>December</u>
					<u>accruals</u>	<u>2023</u>
Debt securities in issue	15,016	-	(750)	-	750	15,016
Other borrowings	9,176	-	(295)	(4,534)	294	4,641
Total liabilities from financing activity	24,192	-	(1,045)	(4,534)	1,044	19,657

	1 January	Cash	Interests	Cash	Effective	31
<u>2022</u>	<u>2022</u>	<u>inflows</u>	<u>paid</u>	<u>outflows</u>	<u>rate</u>	<u>December</u>
					<u>accruals</u>	<u>2022</u>
Debt securities in issue	-	15,000	-	-	16	15,016
Other borrowings	16,136	-	(201)	(6,981)	222	9,176
Total liabilities from financing activity	16,136	15,000	(201)	(6,981)	238	24,192

26 Other liabilities

As of 31 December 2023 and 31 December 2022 the other liabilities include:

	<u>2023</u>	<u>2022</u>
Payables under lease agreements	4,379	5,075
Accounts on bank transfers	2,491	3,565
Amounts due to suppliers and advances received	902	1,604
Retirement benefit plan provisions	443	402
Payables to staff	390	322
Payables to BRF	314	282
Taxes payable, excluding income tax	49	90
VAT Payable	40	36
ECL for guarantees	20	7
Provisions for liabilities	-	55
Other payables	3,233	5,278
Total other liabilities	<u>12,261</u>	<u>16,716</u>

* As of 31 December 2023, the position includes liabilities under NGF and BDB agreements of EUR 2,644 thousand and other restricted funds in escrow accounts for EUR 45 thousand. As of 31 December 2022, the position includes liabilities under NGF and BDB agreements of EUR 1,627 thousand and other restricted funds in escrow accounts for EUR 3,203 thousand.

The following table summarizes the reconciliation between the opening and closing balances for lease liabilities funds as part of the liabilities arising from financing activities:

	<u>2023</u>	<u>2022</u>
As at 1 January 2023	5,075	4,181
New recognised	980	2,038
Interest accrued	102	63
Payments	(1,755)	(1,201)
Remesurement of liabilities	(3)	-
Terminated agreements	(20)	(6)
As at 31 December 2023	<u>4,379</u>	<u>5,075</u>

The total cash outflows in 2023 for leases is in the amount of EUR 1,755 thousand (2022: EUR 1,201 thousand). The maturity analysis of lease liabilities are disclosed in Note 32.4.

Amounts recognized in profit or loss for the year, related to the operating lease liabilities.

	<u>2023</u>	<u>2022</u>
Depreciation expense on right-of-use assets (Note 20)	1,670	1,159
Interest expense on lease liabilities (Note 4)	102	63
Total amount recognized in profit or loss	<u>1,772</u>	<u>1,222</u>

27 Share capital and reserves

As at 31 December 2023 and 31 December 2022 the BACB's share capital amounts to BGN 24,691 (EUR 12,624) thousand, comprising respectively of 24,691,313 ordinary dematerialized voting shares, with a face value of BGN 1 each. Since 2006 BACB is a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia. Shareholding in the Bank is divided between a varying number of local and foreign investors.

The Bank's shareholding structure as at 31 December 2023 and 31 December 2022 is as follows:

Shareholder	<u>2023</u>	<u>%</u>	<u>2022</u>	<u>%</u>
CSIF, Bulgaria	11,277,473	45.68%	11,277,473	45.68%
LTBI HOLDINGS LLC, USA	8,824,755	35.74%	8,824,755	35.74%
Mrs.Tzvetelina Borislavova-Karagyozeva	2,465,000	9.98%	2,465,000	9.98%
Other	2,124,085	8.60%	2,124,085	8.60%
Total	<u>24,691,313</u>	<u>100.00%</u>	<u>24,691,313</u>	<u>100.00%</u>

Share premium

As of 31 December 2023 and 31 December 2022, there are no movements in the share premium reserve in the amount of EUR 18,944 thousand, representing the difference between the nominal value of the shares issued and their price.

Reserves

According to the legislation in force in Bulgaria companies should allocate at least 10% of the net profit in the "Reserve Fund", until this reserve represents 10% of the company's registered capital. The law does not allow the entities to pay dividends before making contributions to the Reserve Fund. As a result of significant profits in previous years and conservative dividends policy the Group has historically maintained a Reserve Fund in excess of the minimum levels required by law.

The General meeting of shareholders of Bulgarian-American Credit Bank, held on 23 May 2023, decided to distribute part of the net profit for 2022 as dividend. The gross dividend per share is BGN 0.10 or EUR 0.05, and the total distributed amount is BGN 2,469,131.30 or EUR 1,262,446.78 at a dividend rate of BGN 0.10 per share or EUR 0.051 per share. The dividend was paid to the shareholders in July 2023.

As of 31 December 2023 and 31 December 2022, the reserves of the Group include:

	<u>2023</u>	<u>2022</u>
Reserve Fund	162,593	142,648
Accumulated loss from previous years	(53,399)	(53,399)
Impact of adopting IFRS 9	(2,644)	(2,644)
Other reserves	106,550	86,605
Current year profit	28,442	21,549
Retained earnings and other reserves	<u>134,992</u>	<u>108,154</u>

27 Share capital and reserves (continued)

	<u>2023</u>	<u>2022</u>
Reserve on real estate owned by the Bank	94	94
<i>Tax effect</i>	<u>(9)</u>	<u>(9)</u>
Total	<u>85</u>	<u>85</u>
Reserve on equity instruments at FVOCI	665	89
<i>Tax effect</i>	(67)	(9)
Reserve on debt instruments at FVOCI	(434)	(1,578)
<i>Tax effect</i>	44	158
ECL on debt instruments at FVOCI	<u>79</u>	<u>30</u>
Total	<u>287</u>	<u>(1,310)</u>

28 Contingent liabilities and commitments

The Group is counterparty to bank guarantees and letters of credit and other off-balance sheet commitments, as part of its customer service. Those instruments involve, to various degrees, elements of credit and interest-rate risk. At 31 December 2023 and 31 December 2022 the commitments of the Group are as follows:

	<u>2023</u>	<u>2022</u>
Unutilized commitments on loans	92,415	73,044
Bank guarantees	20,140	11,007
L/C issued	<u>2,293</u>	<u>284</u>
Total	<u>114,848</u>	<u>84,335</u>

29 Litigations

As at 31 December 2023, no significant lawsuits have been filed against BACB or its subsidiaries that could have significant consequences for the Group and/or its financial position. Therefore, no litigation provisions have been recognized for any claims in the accompanying consolidated financial statements.

In the consolidated financial statements for the year ended 31 December 2021, the Group has recognised provisions for possible additional liabilities related to a civil case against BACB in the amount of EUR 55 thousand as disclosed in Note 26. In the beginning of 2023 BACB has made a payment under this civil case for the amount of the accrued provisions.

30 Fair value information

IFRS 7 "Financial Instruments: Disclosures" provides for the disclosure in the notes to the financial statements of information about the fair value estimated in accordance with IFRS 13 "Fair value measurement" of the financial assets and liabilities. The Group determines the fair value of its financial instruments based on available market information or using appropriate valuation techniques if such information is not available.

The following table summarizes information about the carrying amount and fair value of financial assets and liabilities.

	<u>Carrying Amount</u>		<u>Fair Value</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Financial assets				
Loans and advances to banks	9,301	23,648	9,301	23,648
Loans and advances to customers	767,175	704,995	756,497	699,070
Financial assets at FV through profit or loss	735	609	735	609
Financial assets at FVOCI	70,360	44,233	70,360	44,233
Debt instruments at amortised cost	102,714	65,758	102,757	64,506
Other financial assets	747	3,458	747	3,458
Financial liabilities				
Demand deposits from banks & customers	857,050	820,530	857,050	820,530
Term deposits from customers	370,704	357,963	371,217	357,593
Debt securities in issue	15,016	15,016	14,966	14,872
Other borrowed funds	4,641	9,176	4,641	9,176
Other financial liabilities	6,038	9,125	6,038	9,125
Off balance sheet positions				
	<u>Nominal Value</u>		<u>Fair Value</u>	
Unutilized commitments on loans	92,415	73,044	92,415	73,044
Bank guarantees and L/C issued	22,433	11,291	32	17

Management has estimated that the fair value of cash and balances with BNB and deposits from banks, is not materially different from their carrying amount. The fair value of floating rate loans approximate their carrying amount. The expected cash flows on fixed rate loans that are not impaired, are discounted at current market rates to determine their fair value.

The fair value of loans and advances to banks is also considered to be equal to their carrying amount, as these assets are short-term (with maturity of less than one month). Other borrowed funds are funds received under the programs of BDB which are deemed to be specific. The interest rate on the funding is a floating one, where the terms are equal for all market participants who have access to the program, therefore the interest rate on this funding is considered to be market-based, i.e. based on that the fair value and the carrying amount are not materially different. The Group does not expect payments to be made under guarantees and letters of credit. Unutilized commitments on loans relate mainly to loans with floating interest rates and hence their fair value does not differ materially from their contractual amount.

30 Fair value information (continued)

The following table shows the fair value hierarchy, applicable to the assets and liabilities:

31 December 2023	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FV through profit or loss	-	735	-	735
Debt instruments at FVOCI	68,073	-	-	68,073
Equity instruments at FVOCI	-	123	2,164	2,287
Land and building for own needs at fair value	-	-	276	276
Investment properties	-	-	46,921	46,921
Assets for which fair values are disclosed:				
Loans and advances to banks	-	9,301	-	9,301
Loans and advances to customers	-	756,497	-	756,497
Debt instruments at amortised cost	102,757	-	-	102,757
Other financial assets	-	747	-	747
Total assets	170,830	767,403	49,361	987,594
Liabilities for which fair values are disclosed:				
Demand deposits from banks & customers	-	857,050	-	857,050
Term deposits from customers	-	371,217	-	371,217
Debt securities in issue	-	14,966	-	14,966
Other borrowed funds	-	4,641	-	4,641
Other financial liabilities	-	6,038	-	6,038
Total liabilities	-	1,253,912	-	1,253,912
31 December 2022	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FV through profit or loss	-	609	-	609
Debt instruments at FVOCI	42,141	-	-	42,141
Equity instruments at FVOCI	-	92	2,000	2,092
Land and building for own needs at fair value	-	-	289	289
Investment properties	-	-	42,016	42,016
Assets for which fair values are disclosed:				
Loans and advances to banks	-	23,648	-	23,648
Loans and advances to customers	-	699,070	-	699,070
Debt instruments at amortised cost	64,506	-	-	64,506
Other financial assets	-	3,458	-	3,458
Total assets	106,647	726,877	44,305	877,829
Liabilities for which fair values are disclosed:				
Demand deposits from banks & customers	-	820,530	-	820,530
Term deposits from customers	-	357,593	-	357,593
Debt securities in issue	-	14,872	-	14,872
Other borrowed funds	-	9,176	-	9,176
Other financial liabilities	-	9,125	-	9,125
Total liabilities	-	1,211,296	-	1,211,296

30 Fair value information (continued)

At 31 December 2023 and 31 December 2022 there were no movements between the levels, representing the fair values hierarchy of the assets and liabilities.

The following tables summarize the reconciliation between the opening and closing balances of Level 3 the fair values at 31 December 2023 and 31 December 2022:

<u>2023</u>	Equity instruments at FVOCI	Land and building for own needs	Investment properties
At 1 January 2023	2,000	289	42,016
Gains/(losses) recognised in profit or loss	164	(13)	(620)
Acquired and/or reclassified	120	-	8,364
Sold and/or matured	(120)	-	(2,839)
Outgoing transferres from Level 3	-	-	-
Incoming transferres to Level 3	-	-	-
At 31 December 2023	2,164	276	46,921

<u>2022</u>	Equity instruments at FVOCI	Land and building for own needs	Investment properties
At 1 January 2022	2,000	3,759	52,938
Gains/(losses) recognised in profit or loss	-	114	(455)
Acquired and/or reclassified	-	(3,584)	25
Sold and/or matured	-	-	(10,492)
Outgoing transferres from Level 3	-	-	-
Incoming transferres to Level 3	-	-	-
At 31 December 2022	2,000	289	42,016

30 Fair value information (continued)

Further information on the assets with fair values classified as level 3

Equity securities at fair value in OCI

As at 31 December 2022 the Group reported investments in shares of two companies – Fire AD and Paynetix AD, whose main activity is providing of different payment services and innovative technological and digital payment solutions. In August 2023, the General Meeting of Shareholders of Paynetix AD, took a decision for increasing the registered capital of the company. BACB participated in the capital increase through a non-monetary contribution by exchanging its own shares in Fire AD for the newly issued shares in Paynetix AD. Before the exchange, the investment in the capital of Fire AD was revalued in other comprehensive income and an impairment loss was recognized in the amount of EUR 342 thousand net of taxes. The amount of EUR 342 thousand has been reclassified in the item Retained earnings and other reserves upon write-off of the investment. The increase of the capital of Paynetix AD was completed and registered in the Commercial Register on 28 August 2023.

As there are no direct market data available, as of 31 December 2023 the fair value of the investment in Paynetix is estimated applying the model of discounted cash flows. Under this model the expected future cash flows from the business activity of the company are discounted to their present value. The future cash flows have been calculated on the basis of the updated 10-year business plan of the company, using the discount rate of 20.33% which represents the weighted average cost of capital (WACC) calculated as of 31 December 2023.

For the valuation of the investment in the shares of TIXI AD the model of discounted cash flows has been applied as well. The future cash flows have been calculated on the basis of the updated 5-year business plan of the company. The weighted average cost of capital (WACC) which is stated at 22.5% as of 31 December 2023, has been used as a discount rate in the model.

As of 31 December 2023 a sensitivity analysis have been performed to changes in the inputs to the models used to determine the fair value of equity investments. Historical data over 3-year period have been analysed, focusing on its volatility as measured by standard deviation. The direction and magnitude of the change in input indicators, as well as other characteristics have been also taken into account. The analysis indicate low sensitivity that will not have a material impact on fair value. There is some volatility in the prices of government securities that are used in the model, but their weight does not significantly affect the fair value.

The table below provides information on the fair value depending on the intended use of the property:

Investment properties

<i>Type of property</i>	<u>2023</u>	<u>2022</u>
Plot (land)	8,806	8,760
Residential	4,546	1,969
Commercial	16,701	10,416
Vacation	15,927	19,322
Industrial	941	1,549
Total fair value	<u>46,921</u>	<u>42,016</u>

Assets held for sale

<i>Type of property</i>	<u>2023</u>	<u>2022</u>
Land	365	434
Residential	-	3,124
Commercial	385	7,610
Vacation	2,915	1,128
Industrial	1,305	-
Total fair value of assets held for sale	<u>4,970</u>	<u>12,296</u>

30 Fair value information (continued)

Description of the valuation methods and key input data in determining the fair value of investment properties and assets held for sale:

Key:

Method of real value (MRV)

Method of the market approach (MMA)

Method of capitalization of future cash income (MCFCI)

Investment property type	Valuation method	Significant unobserved input data	Range of fair values	
			2023	2022
Land plots	MMA - ZLP	Offer (transaction) price sq.m.	€200 - €500	€150 - €400
		Annual growth of market analogues	25%	25%
	MMA - LP	Offer (transaction) price sq.m.	€15 - €18	€10 - €15
		Annual growth of market analogues	20%	25%
Residential properties	MMA	Offer (transaction) price sq.m.	€450 - €1200	€350 - €900
		Annual growth of market analogues	33%	31%
	MCFCI	Estimated monthly rent per sq.m.	€5 - €10	€5 - €70
		Annual growth of rent	30%	15%
Commercial properties	MMA	Offer (transaction) price sq.m.	€700 - €1400	€560 - €1,200
		Annual growth of market analogues	17%	0%
	MCFCI	Estimated monthly rent per sq.m.	€5 - €15	€3.6 - €9
		Annual growth of rent	60%	5%
Vacation properties	MMA-buildings	Offer (transaction) price sq.m.	€200 - €800	€140 - €700
		Annual growth of market analogues	14%	5%
	MMA - ZLP	Offer (transaction) price sq.m.	€20 - €150	€10 - €120
		Annual growth of market analogues	25%	19%
	MCFCI	Estimated daily rent per room	€45 - €55	€35 - €45
Annual growth of rent	22%	14%		
Industrial properties	MRV	Reference construction prices sq.m.	€350 - €450	€265 - €300
		Annual growth of reference and construction prices	50%	24%
	MMA	Offer (transaction) price sq.m.	€100 - €500	€50 - €400
		Annual growth of market analogues	25%	10%

30 Fair value information (continued)

The next table presents sensitivity analysis of the properties prices, based on the type of the property and the most relevant indicators:

Type of property	Range	Comments
Residential properties	Sofia	€1000 - €3000/m ² The higher rates apply to apartments situated in the center of the city. New constructions - 1200-2000 EUR/m ² , depending of the area and the quality of construction
	Plovdiv, Varna	€800 - €2000/m ² The higher rates apply to apartments situated in the center of the city. New constructions - 700-1400 EUR/m ² , depending of the area and the quality of construction
	Burgas, Stara Zagora, Russe	€750 - €1900/m ² The higher rates apply to apartments situated in the center of the city. New constructions - 650-1200 EUR/m ² , depending of the area and the quality of construction
Vacation properties		€600 - €1200/m ² The higher rates apply to apartments situated at the sea side in well developed resorts.
	house with a land plot	€25 500 - €102 250 The lower rates apply to properties situated in an outlying district /over 25-30 km from municipal center/
Properties in the country	house /new construction/ with a land plot	€102 250-€204 500 For new constructed houses near (up to 10 km) to the big regional cities, excluding the area of Sofia, Plovdiv and Varna.
Agriculturale land plots	cultivated land plots in productive area	€409 - €1 278 / decare The consolidation of land plots forms better prices for the agriculture land. In Dobrudja the prices reach up to 1022 EUR/decare. In the low mountain areas from 150 to 300 EUR/decare.
Office properties	rental price	€5 - €16/m ² Avarage rents for offices class "A" 10-16 EUR/m ² , for offices class "B" – 6-12 EUR/m ²
Commercial properties	rental price	€6 - €42/m ² Avarage rents for retail park offices in Sofia 8-15 EUR/m ² , for offices in the malls about 35 EUR/m ² . Avarage rents for retail park offices in regional cities 7-10 EUR/m ² .
Industrial properties	rental price	€2 - €6/m ² For logistic areas in Sofia – 3,5-6 EUR/m ²

30 Fair value information (continued)

Land and buildings for own use at fair value

As of December 31, 2023, BACB only owns a building in the city of Burgas, used as an office for its operational activities, worth EUR 276 thousand (2022: EUR 289 thousand). An estimate of fair value in 2022 has been prepared for this office in Burgas, and the difference to the book value is reflected in the accounts as of December 31, 2022.

Description of the evaluation methods and key input data, for determining the fair value of land and buildings for own use:

Property type	Valuation method	Significant unobserved input data	Range of fair values	
			2023	2022
MMA-building		Offer (transaction) price sq.m.	€1,600	€1,600
		Annual growth of market analogues	5-10%	5-10%
MCFCI-building		Estimated monthly rent per sq.m.	€5 - €10	€5 - €10
		Annual growth of rent	0%	0%

Short description of each of the above methods for valuation of land and property:

Method of the market approach (MMA)

According to the market analysis method, the fair value is determined by comparing the evaluated property (land and buildings) to the market price of comparable or similar properties – analogues, taking into consideration the specificities of the evaluated property. The following characteristics of the property are taken into consideration, when selecting market comparables: location, technical characteristics (structure, condition, age, area), function, purpose, infrastructure and transport accessibility of the area etc. The differences of the compared benchmarks and the evaluated properties are adjusted respectively (“plus” or „minus”) according to their better or worse characteristics, applying expert factors (percentages) reflecting the extend of the quantitative and qualitative deviations of the evaluated benchmarks.

Method of real value (MRV)

The method of real value or the method of estimated costs is of major significance for determining the fair value of industrial, warehouse, logistic buildings and houses in suburban or rural areas. When valuation apartments, shops, retail facilities, hotels, offices etc., this method is mainly used for reference. The real value method is based on the calculation of the recoverable value of the building at the moment of the evaluation. This is accomplished, using the unit price per square method of total floor area of newly constructed facilities and buildings with similar function, structure, specificities of performance of the additional, finishing, installation and other works. The unit price includes the costs and expenses for the design and construction of the respective project. The cost of any additional improvements in the evaluated separate facility/site in the building is added to the specified value of the facility/site.

30 Fair value information (continued)

Method of capitalization of future cash income (MCFCI)

The result of the evaluation of the respective property, based on the future cash flows capitalization, is the market value, which is obtained based on the valuation of the expected future yield of the property (net cash flows). The information from advertisements and notices, published in specialized printed media, on the internet or other media, reflect the investment intentions of the investors-sellers (landlords) of properties and is not the most reliable source of market information (market evidences) –that is why, if we rely on bid values, these are adjusted 5-10% below.

31 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Group considers as related parties the members of its key management personnel and entities owned, controlled or significantly influenced by such persons. Furthermore, related parties of the Bank are holders of a substantial proportion of its capital.

In 2023, there is no change in the shareholdings of the persons controlling directly or indirectly BACB. At 31 December 2023, the direct shareholdings in BACB's shares of the major shareholder CSIF AD is 45.68%, and of Mrs. Tzvetelina Borislavova-Karagyozyova - 9.98%. Mrs. Tzvetelina Borislavova-Karagyozyova is a person exercising control over the shareholder "CSIF" AD as: 1) she holds more than 50% of the shares in the General Meeting of Shareholders and 2) she may determine more than half of the members of its Board of Directors.

LTBI HOLDINGS LLC, registered in USA, holds 35.74% of the BACB's share capital and has significant influence over BACB, consequently is a related party to the Bank.

The Group enters into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans, deposits and other banking services. Transactions with the following related parties took place in 2023 in the course of operations:

<u>Related party</u>	<u>Relationship</u>
CSIF AD	shareholder with significant influence over BACB
IDS Fund	Joint venture between BACB Finance and CSIF AD
Other related entities	entities that are controlled or significantly influenced by the main shareholder CSIF AD or a member of the BACB key management personnel
Management	Members of the Supervisory Board and the Management Board of BACB, incl.:
<i>Mrs. Tzvetelina Borislavova-Karagyozyova</i>	<i>Chairperson of BACB's Supervisory Board</i>
<i>Mr. Martin Ganev</i>	<i>Member of BACB's Supervisory Board</i>
<i>Mr. Peter Atanasov</i>	<i>Member of BACB's Supervisory Board</i>
<i>Mr. Ilian Georgiev</i>	<i>Member of BACB's Management Board and CEO</i>
<i>Mrs. Loreta Grigorova</i>	<i>Member of BACB's Management Board and Executive Director</i>
<i>Mr. Alexander Dimitrov</i>	<i>Member of BACB's Management Board and Executive Director</i>
<i>Mrs. Silvia Kirilova</i>	<i>Member of BACB's Management Board</i>

31 Related party transactions (continued)

The information on related parties' transactions and the related income and expense as of 31 December 2023 and 2022 is summarized in the following tables:

Balance as at 31 December 2023	CSIF	Key management personnel	Other related parties	Total
<i>Assets</i>				
Loans and advances to customers	-	20	1,396	1,416
Total	-	20	1,396	1,416
<i>Liabilities</i>				
Deposits from customers	1,008	11,706	26,038	38,752
Total	1,008	11,706	26,038	38,752
<i>Off-balance sheet commitments</i>				
Unutilized commitments on loans	-	34	-	34
Guarantees and letters of credit	-	-	2	2

Expenses and income generated by transactions with related parties in 2023	CSIF	Key management personnel	Other related parties	Total
<i>Expenses</i>				
Interest expense	3	45	237	285
Administrative expenses	547	-	403	950
Total expenses	550	45	640	1,235
<i>Income</i>				
Interest income	-	1	203	204
Fees and commission income	3	1	187	191
Other operating income	-	-	31	31
Total income	3	2	421	426

31 Related party transactions (continued)

Balance as at 31 December 2022	CSIF	Key management personnel	Other related parties	Total
<i>Assets</i>				
Loans and advances to customers	-	29	2,807	2,836
Total	-	29	2,807	2,836
<i>Liabilities</i>				
Deposits from customers	3,029	13,155	19,143	35,327
Total	3,029	13,155	19,143	35,327
<i>Off-balance sheet commitments</i>				
Unutilized commitments on loans	-	25	-	25
Guarantees and letters of credit	-	-	-	-
Expenses and income generated by transactions with related parties in 2022	CSIF	Key management personnel	Other related parties	Total
<i>Expenses</i>				
Interest expense	-	19	1	20
Administrative expenses	476	-	436	912
Total expenses	476	19	437	932
<i>Income</i>				
Interest income	-	1	120	121
Fees and commission income	1	1	153	155
Other operating income	-	-	25	25
Total income	1	2	298	301

Key management remuneration

In the financial years 2023 and 2022, the Bank has accrued remuneration to the key management personnel as follows:

Key management personnel	2023	2022
Supervisory Board	81	74
Management Board	253	248
Total	334	322

32 Financial risk management

32.1. Going concern

The Group financial statements have been prepared under the going concern assumption. However, as disclosed below, the Group's activities are subject to various risk factors, conditions and uncertainties that could impact its future performance or its ability to continue as a going concern. The management considers that the Group will continue as a going concern through proper risk management, increase in operating efficiency and securing of sufficient funds through self-financing ability improvement, diversifying the sources of financing and adequate capital position.

32.1.1. Main risk factors

The risks to which the Group is exposed can be successfully managed and mitigated by applying preventive measures, appropriate control systems and process automatization. Some risks are outside the Bank's control and cannot be mitigated. The principal factors described below should not be regarded as complete and comprehensive statements of all potential risks and uncertainties because there may be risks or uncertainties of which the Group is not aware or which the Group does not consider significant but in the future may become such.

The Group's continued growth and success depend substantially on the health of the Bulgarian and the global economy, which in turn affects the growth of lending, interest income and expense, and the ability of borrowers to repay their obligations on time. Any adverse change in one or more macroeconomic factors, such as interest rates, inflation, wage levels, unemployment, foreign investments, international trade, etc., may have material adverse effect on the Group's business, results from operations and financial condition.

Impact of the war between Russia and Ukraine heightened global geopolitical tensions as a result of the Middle East conflict

The consequences of the ongoing war between Russia and Ukraine and the sanctions imposed by the European Union, the United Kingdom and the United States of America have led to high volatility in energy markets, disruptions in the supply chains of basic raw materials for industry and high uncertainty for the development of the world economy. Although energy markets saw prices normalize and volatility recede in 2023, prices rose in October 2023 due to concerns about the impact of the war in the Middle East. Although large EU stocks and unusually warm weather limit supply risks in the short term, the dependence of the Bulgarian energy market on Russian gas supplies and existing opportunities to secure alternative sources put pressure on prices and contribute to containing high inflation and slowing down economic growth.

The Group has no significant direct exposures to counterparties from Russia, Belarus and Ukraine. As of 31 December 2023, less than 2.0% of attracted funds were from citizens of Russia, Belarus or Ukraine. As of 31 December 2023, only 0.06% of credit exposures were granted to individuals – citizens of these countries with permanent residence in Bulgaria. The Group is indirectly exposed to the risks arising from the military conflict due to their impact on energy prices, potential difficulties in supply chains and a slowdown in external demand – factors that may have a negative impact on the business climate, economic activity and financial condition of companies and households.

The Group has taken all necessary measures to comply with the sanctions imposed by the competent authorities. Management closely monitors development and periodically assesses the impact they may have on the Group's operations and financial position.

32 Financial risk management (continued)

32.1.1. Main risk factors (continued)

Like all other banks, BACB, the main Group company is subject to various risks. The Bank has established risk management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The risk management policy is adopted by the Management Board and approved by the Supervisory Board. The document governs the organization of the activities for the fulfillment of the strategic objectives, the risk management framework and the risk tolerance, adopted by the Supervisory and Management Boards of the Bank. The Group companies follow the risk management policies which are valid in the Bank and are managed by executive directors who report and agree the subsidiaries' activity with the Bank's Management board. They apply the policies based on the specifics of their business activity and the limits of their volumes and organization.

The risk management and control policy and rules set evaluation methods for various types of risks to which the Bank is exposed (including, but not limited to: credit risk, liquidity risk, interest rate risk, foreign currency risk and contractor credit risk, define the connections between the individual structural units in the management of the risks and establish an early warning system of limits and indicators, reflecting the risk tolerance, adopted by the Group. The main objective of the risk policy is to impose clearly defined parameters on the Group's operations in order to minimize potential adverse effects on its financial performance. Compliance with the various requirements of the risk policy is reviewed on a regular basis, depending on the level of risk and potential impact on the operations. Any variances from the Group's standards are reported to the management for remedial action as provided for in the internal rules. The risk management policy is reviewed on an annual basis in order to apply adequate and efficiently functioning risk management and control systems. In addition, internal audit is responsible for the independent review of risk management systems and the compliance with the adopted policies.

Recovery plan of the Bank / Directive 59/15.05.2014

In accordance with the requirements of Directive 2014/59 of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions, art. 6 of the Recovery and Resolution of Credit Institutions and Investment Firms Act, art. 73g of the Credit Institutions Act and art. 25 of Ordinance No. 7 of the Central Bank (BNB) on the risk organization and management in banks, all banks prepare a recovery plan, consisting of actions and measures, which are to be taken in order to recover their financial position, in case of financial difficulties.

The recovery plan is adopted with a decision of the Management Board and approved by the Supervisory Board in 2014. The Document consists of four main parts, which detail the plan development process, the rules for its activation, the recovery options in various scenarios and the rules for internal and external communication in case of plan activation. The recovery plan contains an analysis of the effect of adverse events, which may affect strongly the Group's financial position, including crises, having effect on the entire financial market and on the Group in particular. Also included is a description of the plan development and activation processes, as well as the applied limits and indicators, related to the preventive evaluation of the vulnerability of the liquidity and equity positions, the yield, risk profile and any necessary actions. The plan also details and analyses the structure and key activities of the Group, as well as the main moments in its strategy. A main part of the plan is dedicated to the recovery options –the selected recovery measures, assessment of the quantitative/qualitative effect, implementation period and fulfillment likeliness, as well as an evaluation of the results of the stress scenarios applied. Also developed is a communication plan with the internal structures of the Group and external organizations, as well as stages, order and scope of the actions, related to the recovery plan activation. From its inception, the Plan is reconsidered and updated yearly. The latest update of the Recovery Plan was approved by the Management Board on 25 May 2023 and by the Supervisory Board on 6 June 2023. The latest changes include calibration of the values of the key indicators according to the results of the stress tests performed, review of the main risks facing the financial sector and the Group in particular, analysis of the recovery capacity after the implementation of each of the selected options and identification of possible obstacles / risk factors for the implementation of the selected options / measures.

32 Financial risk management (continued)

32.2. Credit risk

Credit risks the current or potential risk for the income and equity, occurring due to the incapability of the debtor to fulfill the requirements of a signed contract or his incapability to act in accordance with the contractual terms and conditions. A credit risk occurs with respect to the operations, related to the granting of loans, deposits in other banks, as well as any investments in securities. Credit risk is the most important risk for the whole Group's business but mainly for the Bank and the management therefore carefully manages the exposure of the Bank and the subsidiaries to credit risk.

The Group's lending policy and lending manual are developed by the organizational units responsible for lending and risk management as well as the Legal department, and are approved by the Management Board and applied to the operations of all Group's companies (where applicable and based on the specifics of the business activity). The system of internal rules, procedures and standardized loan products reflects the organizational structure and the strategy of the Group, regulates the credit analysis and approval process, defines the loan approval authorities, sets rules on the loan documentation required by the Bank and outlines processes for loan disbursement and ongoing monitoring, type and value of accepted collateral, required insurance and other risk reduction techniques. As further disclosed below, there is loan portfolio concentration of risk in both a limited number of customers and in a limited number of industry sectors, which may be adversely affected in case of worsening economic environment.

The Bank's internal lending rules set out detailed procedures for controlling the spending of credit funds, for regular monitoring of the borrower's financial condition, as well as checks on the current state of the collateral on the loan and the implementation of the agreed contractual terms and conditions. For all exposures to one client or group of related parties amounting to over 1% of the Bank's capital, a periodic review of the borrower's financial condition, compliance with the terms of the contract, the collateral status, as well as other financial indicators is performed at least twice a year.

Pursuant to the EBA Guidelines (2018/06) on management of non-performing and forborne exposures, a Strategy and an Operations program for the management of non-performing exposures and acquired collateral for non-performing exposures were developed, which were adopted by the Management Board and approved by the Supervisory Board. The Strategy and the Operations program, including operating plans for the period 2024-2026, were reconsidered and updated with a decision of the Management board from 23 November 2023 and approved by the Supervisory board on the 5 December 2023. The Strategy aims to improve the risk profile and introduce additional measures related to the process of monitoring and control of non-performing assets by defining the main parameters of the program of reducing the non-performing exposures in the medium term and specific options for individual exposures or portfolios. The insufficiently effective management and maintenance of asset quality or insufficient asset growth could have a negative impact on the Group's business, performance and financial condition.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Maximum exposure to credit risk

The maximum exposure to credit risk is shown below by financial asset classes. The deposits with BNB are not included in the table below, because these have the minimum possible inherent credit risk and the management considers that risk insignificant.

	2023		2022	
	Maximum exposure	Net exposure	Maximum exposure	Net exposure
Loans and advances to banks	9,301	9,301	23,648	23,648
Loans and advances to customers	767,175	112,796	704,995	93,777
Financial assets at FV through profit or loss	735	735	609	609
Financial asset at FVOCI	70,360	70,360	44,233	44,233
Debt instruments at amortised cost	102,714	102,714	65,758	65,758
Other financial assets	747	747	3,458	3,458
Total	951,032	296,653	842,701	231,483
<i>Maximum credit exposure related to off-balance sheet exposures</i>				
Unutilized commitments on loans	92,415	42,198	73,044	39,493
Bank guarantees and L/C issued	22,433	7,327	11,291	1,926

The amount of net exposure of loans and advances to customers and bank guarantees, represents the reduced carrying amount with the amount of highly liquid collaterals, calculated on a loan by loan or guarantee by guarantee basis. The Group calculates the net exposure of unutilized commitments on loans by deducting all other loan securities.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Control on credit limits and acceptance of collateral

The lending process at the Group (primarily for the Bank) is based on the principle of distribution of the functions and competences for the analyzing, decision-making and approval of the loans, the management and control of the loan transactions. Credit risk is managed through the use of limits that set a threshold (the level of risk to be accepted) for a specific borrower or group of counterparties (including related parties).

The management of credit risk and concentration risk is based on:

1. Application of a complex system for timely identification of risk, including:
 - regular internal reviews of sub-portfolios and significant individual exposures – assessments and trends in their development;
 - analysis of external operational environment conditions and periodic review of risks in certain sectors;
 - review of risk reduction techniques used;
 - review of the economic performance of significant debtors;
 - review of sources of funding;
 - periodic review and evaluation of the security levels;

2. Application of a set of limits by type of risk category and business line/unit, as well as regularly reviewed key risk indicators system. The levels of the limits, including pre-threshold values, reflect the risk tolerance that the Group is prepared to accept in its usual course of business;

The Group, through the Bank limits credit risk and concentration risk by setting limits on credit exposures in relation to a single borrower or a group of related borrowers and to industry sectors. The Group (the Bank) also monitors the concentration by geographical location. The observance of the limits is monitored on an ongoing basis and the adequacy of the limits set is subject to a periodic review. The Group carries out regular stress-tests for the evaluation of credit risk exposures, evaluation of the effect on the equity position, identification of critical exposures and determining measures for credit risk mitigation and preservation of the capital position.

Concentration by countries and counterparties

The Group does not have significant investments outside Bulgaria. The exposures to non-residential parties represent up to 10% of total assets and off-balance sheet commitments of the Group and basically result from the current management of liquid funds, namely: amounts placed on the interbank money market and current accounts with foreign banks with a high credit rating, as well as investments in government securities of issuers with an investment rating. The securities portfolio mainly includes government bonds, approximately 44.0% of which are issued by France and Germany, 30% - by USA and 26% - Bulgaria. The majority of the Group's loan portfolio includes loans to customers operating in Bulgaria.

As part of the Bank's operations of the Markets and Liquidity Department, the Bank places deposits and enters into currency transactions with local and foreign banks within certain limits by counterparties. The limits are approved by the Asset and Liability Management Committee of BACB (ALCO), following a proposal by the Markets and Liquidity Department. The exposures are monitored on a daily basis by the Back Office and reviewed periodically at ALCO meetings. Exposure limits for the bank's interbank lines are approved based on a review of the capital strength, liquidity position and shareholding structure of the counterparty bank. The list of the approved counterparties and limits is reviewed and updated at least once a year.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Concentration by industry sectors

The loan portfolio of the Group (the Bank and BACB Finance EAD) is spread across various economic sectors. The decision to increase the weight in a particular sector depends on the Group's assessment of the growth potential of this sector. Proper diversification of the portfolio (as a whole and within each sector) is one of the main goals of the credit risk management of the Group. The annual review process of the risk management policy includes the expansion of the system of internal limits and early warning indicator with the goal of ensuring adequate control and management of risks. For achieving better diversification, the risk management policy sets a limit for exposure to a single economic sector up to 15% of the total portfolio.

The Risk Management Department of the Bank monitors on an ongoing basis the industry concentration ratios and informs Management quarterly and in case the concentration in a particular sector is close to the limit. Although the Group has internal limits on its exposure to particular industry sectors, it does not aim to predetermine a minimum amount for lending to particular sectors. Each potential loan is considered and approved according to the internal lending rules and procedures taking into account its impact on the concentration limits. The structure of the loan portfolio by industry sectors reflects the Group's strategy to diversify credit activity by expending market positions in the retail segment and investments in sustainable and "green" sectors of the economy such as: energy efficiency and electricity production from renewable energy sources, processing and light industry, wholesale and retail trade, agriculture and farming, transportation. As a result of the realization of the strategic goals, the Group was able to achieve visible and qualitative change in the structure of the loan portfolio by industry sectors.

As of 31 December 2023 and through 2023 BACB reports full adherence to the established limits. To assess the concentration risk posed by industry positioning in the loan portfolio, the Group uses the Herfindahl-Hirschman Index (HHI), calculated as the sum of the squares of the Group's (primarily for the Bank) relative share (exposure) in each industry. HHI at perfect diversification is calculated assuming the same volume of exposure in each industry. Under the influence of the dynamics in the sectors with higher concentration (Construction, Hotels and tourism, Wholesale distribution) and the growth in the "retail" segment, the value of the index (HHI) for corporate loans rose slightly - from 445 at the end of 2022 to 456 as of 31 December 2023. Compared to the results of a perfectly diversified portfolio (HHI ~270), the index shows maintenance of moderate levels of concentration risk, with the top 3 industries forming 30.3% of the balance exposure (2022: 29.2%).

The Group continues to diversify its loan portfolio, offering new loan products and new options for financing small and medium-sized companies, and in the last years successfully expanded its activities in the SME segment by projects funded under the EU Operational Programmes.

Concentration by customers

The Group (through the Bank) limits credit risk and concentration risk by setting limits on credit exposures in relation to a single borrower or a group of related borrowers. The observance of the limits is monitored on an ongoing basis and the adequacy of the limits set is subject to a periodic review. Based on evaluation of the market environment, demand and development perspectives for the different economic sectors and in order to achieve better diversification and risk control, the credit policy of the Bank focuses on:

- Providing appropriate working capital loans for well performing manufacturing and commercial businesses;
- Providing investment loans for green economy, energy efficiency, and renewable energy projects;
- Supporting projects utilizing EU funding;

All loans are analyzed extensively and evaluated on a case-by-case basis. The analysis is aimed at evaluating the credit risk of the borrower and includes review of the solvency and legal status of the borrower, background / reference checks, related parties checks, company analysis (i.e. products, markets, suppliers, management, finances, etc.), collateral analysis (i.e. clean title, market value, etc.).

32 Financial risk management (continued)

32.2. Credit risk (continued)

Concentration by customers (continued)

The focus of the activity in the last few years is the expansion of the retail segment, not only through the expansion of the share of micro enterprises, but also through growth in the products and services provided for individual customers - natural persons. This goal is ensured by actively offering consumer and mortgage loans, expanding and adapting the product catalogue and meeting customer needs and market conditions.

At 31 December 2023 and 31 December 2022 the twenty largest credit exposures before impairment (including loan exposures, guarantees and other loan instruments) form 28.3% and 31.5% respectively, of the total loan portfolio before impairment.

All loans in amount equal to or exceeding 10% of Bank's capital base are approved by the Management Board and the Supervisory Board of the Bank. All loans in amount equal to or exceeding 15% of Bank's capital base require an unanimous approval. The large exposures to an individual customer or group of related parties are controlled in accordance with regulatory requirements and reported on a regular basis. Exposure to credit risk is minimized by obtaining collateral as well as corporate and personal guarantees.

At the end of 2023 a part of the loan portfolio is concentrated in a limited number of debtors. There is a possibility that the Group's operations, its financial position and the results of its operations are adversely affected in case of slowed down economic growth and worsened business climate, which may result in non-performance on the part of some of the major debtors. Information on the large exposures (an exposure representing 10 or more per-cent of the capital base of the Bank as defined in Regulation 575/2013) at carrying value before impairment*, as of 31 December 2023 and 31 December 2022, is presented in the table below:

	2023		2022	
	<i>(€ 000)</i>	<i>% of capital base</i>	<i>(€ 000)</i>	<i>% of capital base</i>
Largest exposure to a single client group	23,682	16.6	20,280	17.7
Aggregate of five largest exposures	92,766	64.9	91,269	79.5
Aggregate of all exposures-over 10% of capital base	79,589	55.7	182,765	159.3

**The exposure amount is presented prior to the use of credit protection techniques*

Loan commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable commitment that the Group (the Bank) will make the payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The contingent commitments represent unused portions of authorizations on concluded contracts that are expected to be extended in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Collaterals

Loans advanced by the Group (the Bank and BACB Finance EAD) are normally secured by all or part of the borrower's assets and, in some cases security is taken over assets of third parties such as the directors or shareholders of a corporate borrower. For some specific standardized loan products the Management Board of the Bank could approve providing of unsecured financing, and as at 31 December 2023 such products are some retail loans and credit cards issued to individuals or legal entities.

The credit operations policy sets out the applied principles and guidelines on the acceptability of specific assets, accepted as collaterals. The principal collateral types are:

- Mortgage on real estate
- Cash collateral
- Pledge on movable assets and on current/future receivables
- Pledge on securities, stocks or company shares
- Pledge on commercial enterprises
- Various guarantees

Prior to advancing a loan, the Group values the real estate accepted as collateral at market value, and for its determination is used mainly the method of comparable market analogues.

In a more limited scope are used also the real value method and/or the Future cash income capitalization method. For other types of collateral, the Group uses a reduced value (which represents the current carrying amount reduced by a certain percentage depending on the type of collateral) according to criteria approved by the Management Board. According to the internal rules and policies, the Group considers a loan to be sufficiently collateralized in case the discounted value of the proposed collateral covers the loan amount at 100%. The discount rates by type of collaterals applied at inception are an integral part of the lending policy and are approved by the Supervisory and Management Boards. The Management Board could decide for exceptions subject to approval by the Supervisory Board in case the internal rules provide for such exceptions. All real estates are valued by licensed external and/or internal evaluators. At the time of realization the liquidation values may materially change from the ones at inception of a loan.

As a part of the risk management policy, the Group carries out annual real estate market analyses, covering the overall changes in the prices by types of collaterals: residential properties (review by regions), land, industrial, shops, retail facilities, hotels, offices, and provides information on the changes by regions and – if possible – on the concentration by regional centres and resorts. Based on the expert analysis and the observed changes on the real estate market, the Group carries out regular stress tests of the accepted collaterals in order to assess the vulnerability to a potential drop in the prices of assets, used as collaterals for granted loans, as far as a part of the loans are collateralized by real estate.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Collaterals (continued)

The table below contains a breakdown of Loan Portfolio by type of collateral at 31 December 2023 and 31 December 2022:

	2023		2022	
	<i>EUR' 000</i>	<i>%</i>	<i>EUR' 000</i>	<i>%</i>
Real estate	506,268	63.47	441,312	59.98
Cash	17,517	2.20	9,335	1.27
Financial guaranties or insurances	24,301	3.05	49,090	6.67
Pledge on receivables from EU funds	19,055	2.39	15,729	2.14
Equipment	59,609	7.47	55,082	7.49
Inventory	23,503	2.95	26,964	3.66
Other receivables and other assets	97,176	12.18	110,481	15.02
Promissory notes	32,216	4.04	19,810	2.69
Unsecured	18,011	2.26	7,916	1.08
Loans to customers	797,656	100	735,719	100

The value of loans is distributed based on the value of the constituted valid collaterals at the reporting date, according to their type. If there is more than one type of collateral on the exposure the distribution is made by order of liquidity.

Impairment of financial assets

The Group has established an internal policy and procedures for monitoring and classification of its risk exposures and determining the impairment loss (based on the Bank). These documents are used to determine the terms and conditions and the rules for identification of increased credit risk and the formation of impairment losses. The specialized internal body for monitoring, assessment and classification of the risk exposures assesses the available information and determines the amount of the expected credit losses on a monthly basis.

The Group applies a single impairment model to all financial assets that are not measured at fair value through profit or loss, including undrawn loan commitments and issued financial guarantees. The impairment model developed in compliance with the requirements of IFRS 9 is a pattern of the expected credit losses which provides for an earlier recognition of credit losses and allocating of impairment allowances prior to incurring losses.

The Group reports an impairment allowance for its financial assets carried at amortized cost - loans and debt instruments, for debt instruments measured at fair value through OCI, trade receivables, and financial guarantee contracts and other credit commitments. No impairment of equity instruments is reported.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

For the purpose of applying the requirements for impairment under IFRS 9, a Policy was developed for assessment of changes in credit quality and determination of expected credit losses (the Bank). The Policy serves as a framework for defining:

a. Expected credit losses for 12 months or for the entire duration of the instrument

Expected credit losses (ECLs) are recognized on a basis of the probability of default over the entire life of the instrument unless the credit risk after the initial recognition has changed significantly, whereby the expected credit losses for 12 months are taken into account. The expected credit losses for 12 months represent the portion of credit losses over the instrument's life due to a default that may occur within 12 months after the reporting date.

The Group considers its short-term receivables from banks and debt instruments measured at amortized cost or at fair value in the OCI for low credit risk instruments. Under these, the Group always reports 12 monthly credit losses as it considers that the likelihood of default is unlikely. If there are indications that the low credit risk criteria may no longer be met in the subsequent reporting periods, the Group performs an analysis of the change in credit risk relative to the initial recognition in order to assess the need for a loss allowance over the full period of the instrument.

For its trade receivables, which are mainly lease receivables, the Group applies a simplified approach and always defines the ECLs over the life of the asset without tracking changes in credit quality. The Group uses a provisioning matrix for the calculation of ECLs on trade receivables based on past due days and historical loss data. The historical information is refined in order to correct historical experience by including prospective economic information.

b. Approach and models for impairment of financial assets – on a collective and individual basis

The parameters affecting the amount of expected credit losses are determined collectively or individually, depending on the type and nature of the financial instruments under consideration. The Group determines the ECLs individually for all instruments with Stage 3 risk classification, as well as credit exposures to corporate clients, loans to small and medium-sized enterprises in Stage 1 and 2 exceeding a certain amount, investment in debt securities, exposures to banks as short-term bank receivables, funds blocked as collateral on repurchase transactions, etc. The collective approach applies to exposures with a Stage 1 or Stage 2 risk classification. On a collective basis, the risk parameters are estimated for loans grouped into portfolios based on common product and risk characteristics. As at 31 December 2023 and 31 December 2022, the Group has formed the following portfolios for the purposes of determining collectively expected credit losses:

<u>2023</u>	<u>Amortized cost</u>	<u>ECL</u>	<u>Net carrying amount</u>
Loans under EU programs for legal entities	25,455	(69)	25,386
Loans to micro-enterprises	12,281	(220)	12,061
Mortgage loans to individuals	170,830	(22)	170,808
Consumer loans to individuals	45,116	(4,203)	40,913
Financial guarantees for micro-enterprises - nominal size	2,244	(1)	2,243
Total	<u>255,926</u>	<u>(4,515)</u>	<u>251,411</u>

<u>2022</u>	<u>Amortized cost</u>	<u>ECL</u>	<u>Net carrying amount</u>
Loans under EU programs for legal entities	17,952	(51)	17,900
Loans to micro-enterprises	16,819	(128)	16,691
Mortgage loans to individuals	131,604	(12)	131,592
Consumer loans to individuals	39,255	(3,479)	35,777
Financial guarantees for micro-enterprises - nominal size	1,608	(1)	1,607
Total	<u>207,238</u>	<u>(3,671)</u>	<u>203,567</u>

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

c. Criteria for assessing increased credit risk

On each reporting date, for the purpose of determining the loss allowance, the Group compares the credit risk levels, i.e. the probability of default occurring at the reporting date and at the date of the initial recognition of the asset. The analysis of the changes is made on the basis of available relevant information, which is accessible to the Group and which can be justified without the use of unnecessary resources. This information includes:

- historical data on the performance of certain financial instruments or other financial instruments with similar risk characteristics,
- data on the current performance of the instruments under consideration – number of days past due, default on contractual conditions, etc.
- reasoned assumptions and expectations that are expected in the future to affect the credit risk of the assets under consideration

Exposures with restructuring measures applied

Pre-agreed loans include exposures renegotiated at the client's request due to changes in market conditions and restructured loans. Upon change in the contractual terms, the Group continues to report interest income on the exposure based on the initially calculated effective interest rate, and the difference between the old amortized cost and the present value of the newly contracted cash flows is recognized in profit or loss as a result of a modification. Exposures in respect of which the Group has applied discounts due to deterioration in financial condition and inability to service liabilities are considered loans with restructuring measures applied. This may include extending the period and changing credit terms and conditions. Once the terms are renegotiated, any impairment is calculated using the original effective interest rate as calculated before the change in the terms and conditions and the credit is no longer considered overdue.

The performance of the renegotiated terms is subject to periodic review. The loans continue to be measured for a change in credit quality at each reporting date.

In relation to the other companies in the Group, the above is used by analogy where it is applicable and where it is not - for example, for trade receivables, an age analysis is performed and a certain loss in default is applied according to historical experience and available future macro forecast factors, if they have an impact .

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

d. Risk classification according to the credit quality of the financial assets

The analysis of the changes in the credit quality of the financial assets compared to their initial recording determines their risk classification in three main stages as well as the subsequent recognition of impairment allowance:

- Stage 1 (regular exposures) – classifies financial assets without indication of an increase in credit risk compared to the initial measurement. The Group recognizes 12-month ECLs for Stage 1 classified financial assets. The interest income is recognized using the effective interest method on the gross carrying amount of the instrument.
- Stage 2 (exposures with impaired performance) – classifies financial assets with a significant increase in credit risk but without objective evidence of impairment or basis for incurring losses. The Group recognizes ECLs for the entire life of the instrument classified under Stage 2. The interest income is recognized using the effective interest method on the gross carrying amount of the instrument.
- Stage 3 (exposures with credit impairment) – classifies financial assets with a significant increase in credit risk and objective evidence of impairment (defaulted exposures). The Group recognizes expected credit losses for the full term of the instrument, assuming for the classification in Stage 3 that the Probability of Default (PD) risk parameter is 100%. Interest income is recognized using the effective interest method on the net carrying amount of the instrument, i.e. after deduction of the loss allowance.

Definition of credit impaired exposures: A financial asset is considered credit impaired when one or more events have occurred that have a material adverse effect on the future expected cash flows from the asset. Evidence of the occurrence of adverse events may be some of the following circumstances:

- 1) Allowed overdue payments of principal and/or interest exceeding 90 days;
- 2) Significant financial difficulties leading to counterparty cash flow disruptions;
- 3) Renegotiating the terms of the contract with substantial discounts for the debtor caused by financial difficulties;
- 4) Significant probability of commencing insolvency or liquidation of the debtor;
- 5) Material deterioration of the counterparty's market positions or suspension of trading in the financial asset due to financial difficulties;

The Group considers exposures classified in Stage 3 as credit impaired exposures.

“Cured exposures”: Financial assets classified in Stage 3 are considered as “cured” and reclassified to Stage 2 or Stage 1, when none of the default criteria are present for a minimum cure period and after an expert opinion about the indicators for upgraded credit quality of the exposure.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

e. Determination and modelling of risk parameters

The main risk parameters affecting the size of the ECLs are:

- **Probability of Default (PD)** – The probability of a counterparty not complying with contract clauses related to debt repayment. For each individual portfolio of collectively assessed exposures, the Group maintains historical information on the migration of exposures from Stage 1 or respectively Stage 2 to Stage 3 ("default") for a 12-month period. The Group analyses the proportion between loans that were regular at the beginning of the period and are defaulted at the end of the period, compared to the total loan portfolio at the beginning of the period.

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 the retail consumer and mortgage loan portfolios formed, the Group applies a rescue-rate model that adjusts the value of 12m PD and reflects the long-term probability of defaulted exposures to restore their performing status.

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 12-m PD is calculated for each rating scale depending on the number of default cases found. The Group adjusts the estimated historical values of 12m PD to reflect the current or expected economic conditions that may differ from those during the historical periods analyzed. The chosen model for reflecting the macroeconomic context is essentially macroeconomic forecasting (result of 3 macroeconomic scenarios - conservative / baseline / optimistic) and linking macroeconomic forecasts to the Group's key parameters / estimated probability of default with a 12-month horizon, estimated probability of default over the lifetime of the instrument). It reflects the impact of two macroeconomic parameters GDP (for business exposures) and Unemployment Rate (for retail segment).

When determining the macroeconomic scenarios, the latest up-to-date forecasts for Bulgaria, from external sources, such as the European Commission, the IMF, the BNB, the Ministry of Finance etc., have been used. Three scenarios have been modelled on this basis – optimistic, realistic and conservative, used to determine the impact, and the value of the PIT PD, respectively. Based on the latest forecasts for the development of the country's economy and the labor market, the Group has developed new macroeconomic scenarios used as at 31 December 2023.

Parameter	Scenario	Weight	2023	2024	2025	Following years
GDP growth in %	Optimistic	25%	2.00%	3.00%	3.40%	3.40%
	Baseline	50%	1.70%	2.30%	2.90%	2.90%
	Conservative	25%	1.00%	1.50%	2.00%	2.00%
Unemployment rate in %	Optimistic	25%	4.00%	3.80%	3.40%	3.40%
	Baseline	50%	4.10%	4.10%	4.00%	3.90%
	Conservative	25%	4.40%	4.40%	4.20%	4.20%

The ongoing war in Ukraine and the escalation of the conflict in the Middle East, together with all the consequences of geopolitical tensions, disruptions in supply chains, shocks to commodity and capital markets, as well as the increase in household living costs resulting from high inflation, the change in the monetary policy of the central banks in the past year, are a source of high uncertainty in the forecasts. This, in turn, increases the requirements for the developed risk assessment models.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

At this stage, the most appropriate approach for the application of extended / in-depth evaluations, related to the loan quality and impairments, is that of the complex reflecting of the:

- Quarterly forecasts on the development of the economies – using the forecasts in a horizon of 1 from external sources;
- Monitoring and analysis of the level of impact on the various industries and evaluation/transfer of the potential impact on sub-portfolio and/or selected exposures;
- Individual assessments for significant exposures, based on the current financial information, changes in the indebtedness, level of impact of the crisis on the business, suppliers and clients.

In addition, the Group has carried out an assessment of the sensitivity of the risk parameters reflecting the expectations for the development of the main macro-economic indicators. The table below presents the effect on the amount of the expected credit losses in the individual scenarios.

The results show that the amount of the expenses for expected credit losses on loan and advances as of 31 December 2023, would be EUR 188 thousand or 4.7% higher in the conservative scenario and EUR 122 thousand or 3.0 % lower in the optimistic scenario.

2023		<u>Effect on the amount of expected credit loss</u>		
<u>Stage of credit quality</u>	<u>Expected credit loss</u>	<u>Baseline</u>	<u>Conservative</u>	<u>Optimistic</u>
Stage 1	3,141	(27)	160	(103)
Stage 2	760	(2)	28	(19)
Stage 3*	26,415	-	-	-
Total	30,316	(29)	188	(122)

2022		<u>Effect on the amount of expected credit loss</u>		
<u>Stage of credit quality</u>	<u>Expected credit loss</u>	<u>Baseline</u>	<u>Conservative</u>	<u>Optimistic</u>
Stage 1	2,700	(6)	144	(132)
Stage 2	1,374	(4)	74	(68)
Stage 3*	26,570	-	-	-
Total	30,644	(10)	218	(200)

* The scenarios for the development of the main macro-economic indicators reflect the effect of the change in GDP and unemployment rates on the values of the parameter 12 m PIT PD and Lifetime PD, therefor the effect on the amount of the expected credit losses is a function of the exposures in Stage 1 and Stage 2.

<u>Effect on the amount of expected credit loss</u>				
<u>2023</u>	<u>EUR'000</u>	<u>Baseline</u>	<u>Conservative</u>	<u>Optimistic</u>
Expenses for expected credit loss	4,015	-0.7%	4.7%	-3.0%

<u>Effect on the amount of expected credit loss</u>				
<u>2022</u>	<u>EUR'000</u>	<u>Baseline</u>	<u>Conservative</u>	<u>Optimistic</u>
Expenses for expected credit loss	2,577	-0.4%	8.6%	-7.9%

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Definition of default: The Group considers that a default occurs when the debtor is past due for more than 90 days and/or there are other material breaches of the terms of the contract and the debtor is unlikely to repay his obligations without action by the Group (e.g. restructuring measures, sale of collateral, etc.)

- Exposure at Default (EAD) – potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending the type of loan, taking into account both the amount of debt and the agreed undrawn amounts according to the expectation of future drawdown
- Loss Given Default LGD – ratio of the exposure loss due to default of the counterparty to the amount of exposure at default. To determine the LGD on unsecured loans, the Group calculates the potential loss that would arise 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 the difference between the exposure at default (EAD) and the realizable value of the collateral and is presented as a percentage of the EAD.

LGD is determined individually for each exposure in the loan portfolio, depending on its collateral and regardless of whether the probability of default is assessed on an individual or collective basis. To determine the LGD parameter for unsecured loans (consumer loans and credit cards) the Group applies a statistical model for the determination of the recovery rate in case of loss (1-LGL), which calculates the portion that can be collected after the loan cannot be rescued. The recovery rate is that part of EAD for loans considered loss, that could be collected after the exposure is classified as loss. The exposure is classified as loss after passage of defined cure period with no positive development or when written off. The LGL parameter is calculated based on the observed recoveries depending on the product type (e.g. credit card, standard loan, overdraft), and the measured ratio is assumed as the expected LGL value in a given portfolio at a given time in the business cycle by the formula

$$LGL = 1 - \frac{\sum_{\alpha \in A} \frac{R_{\alpha,t(\alpha)}}{(1+r_{\alpha})^{t(\alpha)-T}}}{\sum_{\alpha \in A} \frac{L_{\alpha,t(\alpha)}}{(1+r_{\alpha})^{t(\alpha)-T}}}$$

Where: A is the range of loss exposures in a particular segment

$\alpha \in A$ the number of the exposures in A

T – days in arrear of the exposure in the month of default

$R_{\alpha,i(\alpha)}$ is the refunded amount for the exposure for the last 12 months,

$L_{\alpha,t(\alpha)}$ is the amount due on the loan at the beginning of the period,

$t(\alpha)$ is the overdue of the exposure at the beginning of the period

The recovery rates thus obtained are applied on a collective basis, depending on the type of product in the retail segment.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Acquired collateral

The Group's policy (mainly the Bank) is to determine whether the acquired asset from collateral is best to be realized by the Group or sold. Assets designated to be realized by the Group are transferred to investment property category at acquisition cost, including transaction costs. Assets that are deemed to be better immediately sold are reported in a category held for sale at their fair value at the acquisition date in accordance with the Group's policy.

Assessment of collateral

The Group seeks to use collateral, wherever possible, to reduce the risks of financial assets. Collateral may take the form of cash, securities, financial guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of the collateral is measured at least initially and revalued on a revolving basis. As far as possible, the Group uses market data to measure financial assets held as collateral. Other financial assets whose market value cannot be estimated are measured using models. Non-financial collateral, such as real estate, is recognized on the basis of estimates made by independent appraisers.

f. Methods for calculation and presentation of expected credit losses by types of financial assets

The credit loss estimate is averaged, weighted for the probability of default over the life of the instrument by estimating the range of possible outcomes. Credit losses are the present value of the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive in practice, taking into account the amounts and when they are expected to be received over time. When measuring the expected cash flows, account shall also be taken of the flow of collateral realization and other credit facilities that are an integral part of the contract. For the purpose of determining the expected credit losses, the difference between contractual and expected cash flows is discounted using the initial effective interest rate on the transaction or the credit risk-adjusted effective interest rate for purchased or initially created financial assets with credit impairment. The change in the loss adjustment is recognized as a result of impairment in profit or loss for the period.

For financial instruments measured at amortized cost such as loans and debt securities, the cumulative allowance reduces the carrying amount of the instrument in the statement of financial position. For debt instruments measured at fair value in other comprehensive income, the expected credit loss is part of the negative change in the fair value due to increased credit risk. These assets continue to be reported at fair value in the statement of financial position and the accumulated loss adjustment is reported in the statement of comprehensive income. Upon subsequent deregistration of the instrument, the cumulative adjustment is recognized in the profit or loss for the period.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to banks

The following tables provide information on the credit quality and the maximum exposure to credit risk for exposures with banks as at 31 December 2023 and 31 December 2022, according to the Group's internal risk classification (mainly the Bank). The amounts presented reflect the change in the gross carrying amounts and the impairment allowance during the reporting period.

Changes in gross carrying amount

	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2023	23,653	-	-	23,653
New assets	6,293	-	-	6,293
Amounts paid	(20,644)	-	-	(20,644)
Transfer between stages	-	-	-	-
Amount as at 31 December 2023	9,302	-	-	9,302

Changes in gross carrying amount

	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2022	85,869	-	-	85,869
New assets	19,346	-	-	19,346
Amounts paid	(81,562)	-	-	(81,562)
Transfer between stages	-	-	-	-
Amount as at 31 December 2022	23,653	-	-	23,653

Changes in the impairment allowance

	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2023	5	-	-	5
New assets	1	-	-	1
Paid assets	(5)	-	-	(5)
Transfer between stages	-	-	-	-
Amount as at 31 December 2023	1	-	-	1

Changes in the impairment allowance

	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2022	2	-	-	2
New assets	4	-	-	4
Paid assets	(1)	-	-	(1)
Transfer between stages	-	-	-	-
Amount as at 31 December 2022	5	-	-	5

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers

The following tables provide information on the credit quality and the maximum exposure to credit risk for exposures to legal entities and individuals as at 31 December 2023 and 31 December 2022, according to the Group's internal risk classification (valid for the Bank and BACB Finance EAD). The amounts presented reflect the amortised cost of the exposures before impairment allowance and the change in the amortised cost and the impairment allowance during the reporting period.

The credit quality of the portfolio of loans that are neither overdue, nor impaired is assessed on the basis of the Group's internal risk rating classification methodology. A brief explanation of the allocation classes of loans that are neither overdue, nor impaired:

High class	Performing exposures with PD from 0.04% to 0.50%
Medium class	Performing exposures with PD from 0.50% to 12.00%
Low class	Performing exposures with PD from 12.00% to 29.50%

The Groups reports as impaired the exposures that are classified in Stage 3. Loans overdue up to 90 days are not considered impaired unless there is other objective evidence of impairment as at the reporting date. Such loans are reported in the statement as overdue but not impaired.

Business Exposures

<u>Gross carrying amount as of 31.12.2023</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
1. Neither past due nor impaired				
1.1. Individually assessed	372,773	20,621	-	393,394
High class	68,761	74	-	68,835
Medium class	304,012	12,412	-	316,424
Low class	-	8,135	-	8,135
1.2. Collectively assessed	33,662	1,131	-	34,793
2. Past due not impaired				
2.1. Individually assessed	64,309	16,695	-	81,004
2.2. Collectively assessed	2,222	721	-	2,943
3. Impaired - individually assessed	-	-	68,916	68,916
TOTAL	472,966	39,168	68,916	581,050

<u>Gross carrying amount as of 31.12.2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
1. Neither past due nor impaired				
1.1. Individually assessed	374,827	16,405	-	391,232
High class	55,285	94	-	55,379
Medium class	318,223	5,387	-	323,610
Low class	1,319	10,924	-	12,243
1.2. Collectively assessed	31,187	1,281	-	32,468
2. Past due not impaired				
2.1. Individually assessed	22,904	39,422	-	62,326
2.2. Collectively assessed	1,429	874	-	2,303
3. Impaired - individually assessed	-	-	75,675	75,675
TOTAL	430,347	57,982	75,675	564,004

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Business Exposures (continued)

<u>Changes in the gross carrying amount in 2023</u>	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2023	430,347	57,982	75,675	564,004
New assets originated	135,935	529	1,428	137,892
Paid exposures	(100,020)	(5,836)	(10,708)	(116,564)
Transfers to Stage 1	14,582	(14,582)	-	-
Transfers to Stage 2	(5,127)	5,944	(817)	-
Transfers to Stage 3	(2,751)	(4,869)	7,620	-
Amounts written off	-	-	(4,282)	(4,282)
Amounts at 31 December 2023	472,966	39,168	68,916	581,050

<u>Changes in the gross carrying amount in 2022</u>	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2022	397,784	42,727	86,178	526,689
New assets originated	139,984	2,923	1,545	144,452
Paid exposures	(86,662)	(7,605)	(8,385)	(102,652)
Transfers to Stage 1	5,821	(5,691)	(130)	-
Transfers to Stage 2	(25,302)	34,463	(9,161)	-
Transfers to Stage 3	(1,278)	(8,835)	10,113	-
Amounts written off	-	-	(4,485)	(4,485)
Amounts at 31 December 2022	430,347	57,982	75,675	564,004

<u>Changes in the impairment allowance in 2023</u>	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2023	1,881	1,057	23,981	26,919
New assets originated	890	329	4,253	5,472
Paid exposures	(879)	(359)	(899)	(2,137)
Transfers to Stage 1	415	(415)	-	-
Transfers to Stage 2	(39)	44	(5)	-
Transfers to Stage 3	(28)	(153)	181	-
Amounts written off	-	-	(4,282)	(4,282)
Amounts at 31 December 2023	2,240	503	23,229	25,972

<u>Changes in the impairment allowance in 2022</u>	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2022	1,962	519	27,411	29,892
New assets originated	1,068	425	2,629	4,122
Paid exposures	(1,022)	(394)	(1,194)	(2,610)
Transfers to Stage 1	66	(14)	(52)	-
Transfers to Stage 2	(186)	532	(346)	-
Transfers to Stage 3	(7)	(11)	18	-
Amounts written off	-	-	(4,485)	(4,485)
Amounts at 31 December 2022	1,881	1,057	23,981	26,919

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Mortgage loans to individuals

<u>Gross carrying amount as of 31.12.2023</u>	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
Neither past due nor impaired-Collectively assessed	165,059	197	-	165,256
Past due not impaired-collectively assessed	4,771	803	-	5,574
Impaired - individually assessed	-	-	660	660
TOTAL	169,830	1,000	660	171,490

<u>Gross carrying amount as of 31.12.2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Neither past due nor impaired-Collectively assessed	128,146	44	-	128,190
Past due not impaired-collectively assessed	2,231	1,183	-	3,414
Impaired - individually assessed	-	-	856	856
TOTAL	130,377	1,227	856	132,460

<u>Changes in the gross carrying amount in 2023</u>	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
Amounts at 1 January 2023	130,377	1,227	856	132,460
New assets originated	56,719	100	22	56,841
Paid exposures	(17,561)	(108)	(142)	(17,811)
Transfers to Stage 1	1,052	(923)	(129)	-
Transfers to Stage 2	(697)	741	(44)	-
Transfers to Stage 3	(60)	(37)	97	-
Amounts written off	-	-	-	-
Amounts at 31 December 2023	169,830	1,000	660	171,490

<u>Changes in the gross carrying amount in 2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Amounts at 1 January 2022	104,840	1,402	927	107,169
New assets originated	43,663	149	20	43,832
Paid exposures	(18,108)	(296)	(137)	(18,541)
Transfers to Stage 1	892	(803)	(89)	-
Transfers to Stage 2	(720)	826	(106)	-
Transfers to Stage 3	(190)	(51)	241	-
Amounts written off	-	-	-	-
Amounts at 31 December 2022	130,377	1,227	856	132,460

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Mortgage loans to individuals (continued)

<u>Changes in the impairment allowance in 2023</u>	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
Amounts at 1 January 2023	12	-	314	326
New assets originated	18	-	1	19
Paid exposures	(8)	-	(31)	(39)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Amounts at 31 December 2023	<u>22</u>	<u>-</u>	<u>284</u>	<u>306</u>

<u>Changes in the impairment allowance in 2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Amounts at 1 January 2022	31	-	305	336
New assets originated	9	-	13	22
Paid exposures	(28)	-	(4)	(32)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Amounts at 31 December 2022	<u>12</u>	<u>-</u>	<u>314</u>	<u>326</u>

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Consumer loans to individuals

<u>Gross carrying amount as of 31.12.2023</u>	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
Neither past due nor impaired-Collectively assessed	39,482	77	-	39,559
Past due not impaired-Collectively assessed	1,674	374	-	2,048
Impaired - Collectively assessed	-	-	3,509	3,509
TOTAL	41,156	451	3,509	45,116

<u>Gross carrying amount as of 31.12.2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Neither past due nor impaired-Collectively assessed	34,490	64	-	34,554
Past due not impaired-Collectively assessed	1,654	500	-	2,154
Impaired - Collectively assessed	-	-	2,547	2,547
TOTAL	36,144	564	2,547	39,255

<u>Changes in the gross carrying amount in 2023</u>	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
Amounts at 1 January 2023	36,144	564	2,547	39,255
New assets originated	19,402	183	347	19,932
Paid exposures	(13,726)	(125)	(160)	(14,011)
Transfers to Stage 1	190	(170)	(20)	-
Transfers to Stage 2	(258)	271	(13)	-
Transfers to Stage 3	(596)	(272)	868	-
Amounts written off	-	-	(60)	(60)
Amounts at 31 December 2023	41,156	451	3,509	45,116

<u>Changes in the gross carrying amount in 2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Amounts at 1 January 2022	33,967	534	3,450	37,951
New assets originated	17,104	153	466	17,723
Paid exposures	(14,206)	(101)	(378)	(14,685)
Transfers to Stage 1	169	(141)	(28)	-
Transfers to Stage 2	(355)	376	(21)	-
Transfers to Stage 3	(535)	(257)	792	-
Amounts written off	-	-	(1,734)	(1,734)
Amounts at 31 December 2022	36,144	564	2,547	39,255

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Consumer loans to individuals (continued)

<u>Changes in the impairment allowance in 2023</u>	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
Amounts at 1 January 2023	804	317	2,358	3,479
New assets originated	507	193	751	1,451
Paid exposures	(481)	(28)	(158)	(667)
Transfers to Stage 1	118	(99)	(19)	-
Transfers to Stage 2	(16)	29	(13)	-
Transfers to Stage 3	(55)	(155)	210	-
Amounts written off	-	-	(60)	(60)
Amounts at 31 December 2023	877	257	3,069	4,203

<u>Changes in the impairment allowance in 2022</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>TOTAL</u>
Amounts at 1 January 2022	743	249	3,145	4,137
New assets originated	411	235	978	1,624
Paid exposures	(380)	(16)	(152)	(548)
Transfers to Stage 1	89	(64)	(25)	-
Transfers to Stage 2	(16)	35	(19)	-
Transfers to Stage 3	(43)	(122)	165	-
Amounts written off	-	-	(1,734)	(1,734)
Amounts at 31 December 2022	804	317	2,358	3,479

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Changes in the terms of the contracts (modification)

The contractual terms for individual loan exposures in the Bank's portfolio may be changed due to various factors. After contractual terms are changed, the Group continues to recognize interest income on the exposure based on the original effective interest rate calculated at inception, with the difference between the carrying value and the net present value of the new contracted cash flows being recognized currently in the profit or loss as a modification effect. The terms of a contract may undergo certain changes caused by changes in the market conditions and/or specific strategic objectives for attracting and retaining customers, without such factors being related to the deterioration of the borrower's financial position or his ability to service his obligations. Such changes are considered by the Group as "renegotiation" of the contractual terms and conditions. When changes to the contractual terms are mainly related to financial difficulties of the borrower, they are considered as restructuring. In both cases changes could result in the recognition of modification effect in the financial statements.

The following table presents information on changes resulting from changes in the contractual terms of loan exposure at the reporting date, that did not lead to derecognition.

<i>Loans modified during the year</i>	<u>2023</u>	<u>2022</u>
Amortised cost	74,481	94,023
Effect of modification	(32)	(250)
Expected credit losses	(1,415)	(475)
<i>Loans modified after initial recognition</i>		
Loans, that have cured since modification and are now measured using 12mECL (Stage 1)	14,269	4,409
Loans that reverted to (Stage 2/3) LT ECL having once cured	1,507	12,989

Loan exposures with restructuring (forbearance) measures

In cases, when the borrower has encountered difficulties performing its financial obligations or shows signs of deteriorating financial performance, the Group (mainly the Bank) may initiate a change in the original terms and conditions of the contract, by giving concessions to the debtor in order to enable debt servicing and accordingly to reduce the risk of default.

Such changes, which the Group would not have carried out, should the debtor not had financial difficulties, are considered "restructuring", i.e. these are considered "forbearance measures" and may include:

- Extension of the contractual period by more than 2 years after the original period (more favorable terms, compared to those, that may be offered to other debtors with a similar risk profile)
- Debt reduction (complete or partial derecognition)
- Replacement of a part of the debt by property;
- Refinancing

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Loan exposures with restructuring (forbearance) measures (continued)

The Group considers that the restructuring of an exposure might be an objective indicator, which requires assessing whether credit risk is significantly increased after the initial recognition. Any change in the terms of the contract for an exposure is considered by the Credit Committee, which decides whether it represents implementation of restructuring measures. In the process of monitoring the quality of the loan portfolio, the specialized body for monitoring, assessment, classification and provisioning of risk exposures should review and analyze received information for modification of the contractual conditions on specific exposures and shall decide on the respective risk classification.

The following tables provide information on credit exposures restructured on 31 December 2023 and 2022 respectively:

	31 December 2023			
	<u>Corporate</u>		<u>Individuals</u>	
	<i>EUR' 000</i>	<i>Number</i>	<i>EUR' 000</i>	<i>Number</i>
Neither past due nor impaired	13,995	8	72	7
Past due but not impaired	-	-	-	-
Impaired loans	45,544	49	251	24
Total before impairment	59,539	57	323	31
Less: ECL allowance	(11,156)		(182)	
Restructured loans, net	48,383		141	

	31 December 2022			
	<u>Corporate</u>		<u>Individuals</u>	
	<i>EUR' 000</i>	<i>Number</i>	<i>EUR' 000</i>	<i>Number</i>
Neither past due nor impaired	11,139	12	80	7
Past due but not impaired	8,414	3	76	4
Impaired loans	51,826	58	244	23
Total before impairment	71,379	73	400	34
Less: ECL allowance	(11,082)		(187)	
Restructured loans, net	60,297		213	

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Financial guarantees and letter of credits (LC) issued

As at 31 December 2023 the Group issued financial guarantees with a total nominal value of EUR 22,433 thousand (2022: EUR 11,291 thousand). All exposures under issued guarantees are to legal entities.

Maximum credit exposure on issued guarantees and LC at 31.12.2023

	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
1. Neither past due nor impaired				
1.1. Individually assessed	20,179	-	-	20,179
<i>High class</i>	5,975	-	-	5,975
<i>Medium class</i>	14,204	-	-	14,204
<i>Low class</i>	-	-	-	-
1.2. Collectively assessed	2,245	-	-	2,245
2. Past due not impaired	-	-	-	-
3. Impaired	-	-	9	9
TOTAL	<u>22,424</u>	<u>-</u>	<u>9</u>	<u>22,433</u>

Maximum credit exposure on issued guarantees at 31.12.2022

	<u>Stage1</u>	<u>Stage2</u>	<u>Stage3</u>	<u>TOTAL</u>
1. Neither past due nor impaired				
1.1. Individually assessed	9,674	-	-	9,674
<i>High class</i>	2,558	-	-	2,558
<i>Medium class</i>	7,116	-	-	7,116
<i>Low class</i>	-	-	-	-
1.2. Collectively assessed	1,608	-	-	1,608
2. Past due not impaired	-	-	-	-
3. Impaired	-	-	9	9
TOTAL	<u>11,282</u>	<u>-</u>	<u>9</u>	<u>11,291</u>

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Financial guarantees and letter of credits (LC) issued (continued)

<u>Change in maximum credit exposure on issued guarantees and LC in 2023</u>	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2023	11,282	-	9	11,291
New guarantees issued	15,262	-	-	15,262
Matured guarantees	(4,120)	-	-	(4,120)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2023	22,424	-	9	22,433

<u>Change in maximum credit exposure on issued guarantees and LC in 2022</u>	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2022	15,587	-	9	15,596
New guarantees issued	3,596	-	-	3,596
Matured guarantees	(7,901)	-	-	(7,901)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2022	11,282	-	9	11,291

<u>Change in the impairment allowance on issued guarantees and LC in 2023</u>	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2023	7	-	-	7
New guarantees issued	17	-	-	17
Matured guarantees	(4)	-	-	(4)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2023	20	-	-	20

<u>Change in the impairment allowance on issued guarantees and LC in 2022</u>	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2022	9	-	-	9
New guarantees issued	3	-	-	3
Matured guarantees	(5)	-	-	(5)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2022	7	-	-	7

32 Financial risk management (continued)

32.2. Credit risk (continued)

Analysis, based on the credit rating of the financial assets

The rating category of the debtor is one of the main aspects of the "price", which is to be paid in order to overcome a credit risk. The Group has specified in the table below the agencies and the respective ratings of its financial assets at net carrying value:

Credit rating	Agency	2023				
		Balances with the Central Bank	Loans and advances to banks	Financial assets at FVTPL	Financial assets at FVOCI	Debt instruments at amortised cost
AAA	S&P	-	-	-	4,993	-
AA+	S&P	-	-	-	17,989	31,250
AA	S&P	-	-	-	12,304	53,259
A-	S&P	-	3,658	-	-	-
Aa3	Moody's	-	-	735	-	-
BBB+	Fitch	-	-	-	-	1,051
BBB	S&P	404,347	5,643	-	25,336	17,154
BB+	Fitch	-	-	-	1,581	-
B	Fitch	-	-	-	1,005	-
Unclassified		-	-	-	7,152	-
Total		404,347	9,301	735	70,360	102,714

Credit rating	Agency	2022				
		Balances with the Central Bank	Loans and advances to banks	Financial assets at FVTPL	Financial assets at FVOCI	Debt instruments at amortised cost
AA+	S&P	-	-	-	-	18,848
Aa2	Moody's	438,596	-	-	-	-
Aa3	Moody's	-	-	609	-	-
A1	Moody's	-	437	-	-	-
A2	Moody's	-	6,263	-	-	-
A3	Moody's	-	1,445	-	-	-
AAA	Fitch	-	-	-	-	9,982
AA	Fitch	-	-	-	-	9,978
BBB	Fitch	-	15,503	-	37,164	26,950
BB	Moody's	-	-	-	1,489	-
B	Fitch	-	-	-	983	-
Unclassified		-	-	-	4,597	-
Total		438,596	23,648	609	44,233	65,758

32 Financial risk management (continued)

32.2. Credit risk (continued)

Geographical concentrations of assets, liabilities and off-balance sheet items

The Group's operations are concentrated primarily in Bulgaria. As of 31 December 2023, there are some exposures to other countries as placements with foreign banks in the amount of EUR 2,371 thousands (2022: 6,865 thousands) and investments in government bonds as follows:

- EUR 4,993 thousands (2022: EUR 9,980 thousands) - Germany government bonds
- EUR 65,618 thousands (2022: EUR 9,979 thousands) - France government bonds
- EUR 49,255 thousands (2022: EUR 18,848 thousands) - USA government bonds .

32.3. Market risk

The Group is exposed to different market risks which have main impact on the activity of the Bank and to insignificant extent to the other Group companies. The market risks are associated with the risk of adverse effects of the changes in the prevailing market conditions on the financial position of the Group. Market risks arise in relation to the Group's positions in interest rate, foreign exchange, equity and other financial instruments that are, to some extent, dependent on the changes in the general or specific market conditions such as changes in interest rates, credit margins, foreign exchange rates, equity instruments prices and the like. The Group has developed and established policies and procedures to identify, manage and control the levels of risk to which it is exposed during operations.

The policies and procedures for managing market risk are approved by the Management Board of the Bank. The main objective of the risk policy is to impose clearly defined parameters on the Group's operations to adequately limit the exposure to different risks. The Group estimates the market risk of its open exposures and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The internal risk management systems of the Group evolve with the growth of the Group's operations to ensure maximum control on each risk category. For the other Group companies the responsible employees follow the risk parameters but their exposure to market risk is insignificant.

32.3.1. Exchange rate risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group operates in Euro, US dollars, Leva and occasionally in GBP and Swiss Francs. It has relatively limited foreign exchange exposure because since 1997, the Lev has been pegged to the Deutsche mark and, subsequently to the Euro through a currency-board system. Compliance with foreign exchange limits is monitored on an on-going basis by the Markets and Liquidity Department of the Bank and is reported to the ALCO on a monthly basis.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts and time limits of its liabilities denominated in USD with its receivables denominated in that currency. The limit for overnight maximum open foreign exchange positions in customer transactions is EUR 100,000. Due to the currency board arrangement, there is no limit for the position in EUR. In special circumstances, the above limits for open positions may be exceeded with the approval of the Executive Directors. In the course of its operations, the Group may conclude short-term foreign exchange swaps to manage its currency flows and as an instrument to reduce the cost of borrowed funds in some of the currencies concerned, taking advantage of their existing differences in interest rates. As at 31 December 2023 and 31 December 2022 there are no open foreign currency swaps. Except for the Bank, the other Group companies are not exposed to significant currency risk.

32 Financial risk management (continued)

32.3.1. Exchange rate risk (continued)

The information about the Group's exposure in the different currencies at 31 December 2023 and 2022 is presented in the tables below:

31 December 2023	<u>USD</u>	<u>EUR</u>	<u>BGN</u>	<u>Other</u>	<u>Total</u>
Cash and balances with the Central Bank	1,073	72,889	337,251	-	411,213
Loans and advances to banks	5,193	2,768	1,292	48	9,301
Loans and advances to customers	16,038	248,582	502,555	-	767,175
Financial assets at FVTPL	735	-	-	-	735
Debt instruments at FVOCI	17,989	28,300	21,784	-	68,073
Equity instruments at FVOCI	-	-	2,287	-	2,287
Debt instruments at amortised cost	31,251	63,990	7,473	-	102,714
Investment properties	-	-	46,921	-	46,921
Tangible and intangible assets	-	-	6,731	-	6,731
Investments in joint ventures	-	-	-	-	0
Other financial assets	-	30	717	-	747
Other non-financial assets	-	-	11,301	-	11,301
Total assets	<u>72,279</u>	<u>416,559</u>	<u>938,312</u>	<u>48</u>	<u>1,427,198</u>
Deposits from banks	-	165	12	-	177
Deposits from customers	76,439	395,058	756,080	-	1,227,577
Debt securities in issue	-	15,016	-	-	15,016
Other borrowed funds	-	3,510	1,131	-	4,641
Other financial liabilities	346	2,142	7,928	1	10,417
Other non-financial liabilities	16	340	2,082	-	2,438
Total liabilities	<u>76,801</u>	<u>416,231</u>	<u>767,233</u>	<u>1</u>	<u>1,260,266</u>
Net foreign currency gap	<u>(4,522)</u>	<u>328</u>	<u>171,079</u>	<u>47</u>	<u>166,932</u>
Foreign currency spot contracts	<u>4,862</u>	<u>195,135</u>	<u>(200,000)</u>	<u>-</u>	<u>(3)</u>
Net foreign currency gap	<u>340</u>	<u>195,463</u>	<u>(28,921)</u>	<u>47</u>	

32 Financial risk management (continued)

32.3.1. Exchange rate risk (continued)

31 December 2022	<u>USD</u>	<u>EUR</u>	<u>BGN</u>	<u>Other</u>	<u>Total</u>
Cash and balances with the Central Bank	1,100	252,013	191,790	99	445,002
Loans and advances to banks	5,756	16,562	1,282	48	23,648
Loans and advances to customers	23,404	255,208	426,383	-	704,995
Financial assets at FVTPL	609	-	-	-	609
Debt instruments at FVOCI	-	23,553	18,588	-	42,141
Equity instruments at FVOCI	-	-	2,092	-	2,092
Debt instruments at amortised cost	18,848	39,921	6,989	-	65,758
Investment properties	-	-	42,016	-	42,016
Tangible and intangible assets	-	-	7,182	-	7,182
Investments in joint ventures	-	-	115	-	115
Other financial assets	-	2,236	1,222	-	3,458
Other non-financial assets	-	-	21,636	-	21,636
Total assets	<u>49,717</u>	<u>589,493</u>	<u>719,295</u>	<u>147</u>	<u>1,358,652</u>
Deposits from banks	-	11	28	-	39
Deposits from customers	89,508	383,068	705,878	-	1,178,454
Debt securities in issue	-	15,016	-	-	15,016
Other borrowed funds	-	5,722	3,454	-	9,176
Other financial liabilities	2,649	2,679	8,868	4	14,200
Other non-financial liabilities	45	300	2,925	-	3,270
Total liabilities	<u>92,202</u>	<u>406,796</u>	<u>721,153</u>	<u>4</u>	<u>1,220,155</u>
Net foreign currency gap	<u>(42,485)</u>	<u>182,697</u>	<u>(1,858)</u>	<u>143</u>	<u>138,497</u>
Foreign currency spot contracts	<u>(106)</u>	<u>35,106</u>	<u>(35,000)</u>	<u>-</u>	<u>-</u>
Net foreign currency gap	<u>(42,591)</u>	<u>217,803</u>	<u>(36,858)</u>	<u>143</u>	

The potential negative effect of unfavorable exchange rate changes is immaterial given that the open position in USD is about 0.25% (2022: 0.07%) of the capital base as at 31 December 2023. According to the definition of the currency board, effective in Bulgaria since 1997, the exchange rate BGN/EUR is fixed and the positions in BGN and EUR are not considered sensitive to exchange rate fluctuations.

32 Financial risk management (continued)

32.3.2. Interest rate risk

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations on Group's net income and equity. The applied policy is to reduce the interest rate risk by extending floating rate loans combined with fixed interest rate floor in order to limit the potentially negative impact as a result of non-parallel movements in interest rates for the assets or liabilities. Additionally, the Group charges pre-payment penalties as a percentage of the principal balance outstanding, in order to limit the interest rate risk, reducing the possible early repayment of business loans (granted to small and medium-sized enterprises, corporate clients and municipalities). This, however, does not apply to the granted consumer and mortgage loans to individuals, where the provisions of the Consumer Loans Act and the Consumer Loans Related to Immovable Property Act apply and pre-payment penalties are charged, as required by law.

The Group does not trade in derivatives on interest rate. This policy means that the risk that the Group may suffer significant losses in case of major fluctuations of the market interest levels is relatively mitigated.

The Group's interest rate position is monitored by the Markets and Liquidity department and reported to the ALCO every month. ALCO assesses the interest rate risk for the Group in the general context of all banking operations and activities, as well as for the other companies of the Group, where applicable and in relation to the specifics of their activity. The Department "Operational, Market and Other Risks" under the Risk Management Department carries out periodically assessments of exposure to interest rate risk, including stress tests and calculations of changes in the economic value of capital or income under various scenarios, monitors risk indicators in relation to interest rate imbalances and prepares quarterly reports to management.

Sensitivity of the assets and liabilities

The interest rate risk for the Group is mainly caused by the operations carried out in the operational activity of BAKB. The risk of a possible negative change of the net interest income and the financial results, is measured by the Group through analysis of defined interest scenarios for within one year period. The effect on the capital is based on a standardized methodology of the Basel Committee and interest rate scenarios according to the European Banking Authority (EBA) Guidelines EBA/GL/2018/02 on the management of the interest rate risk arising from activities outside the trading books, reflecting the absolute values of the sensitivity in all maturity intervals when the yield curve changes.

A sensitivity analysis as of 31 December 2023 and 31 December 2022 prepared by the Group as part of its internal capital adequacy analysis, is presented below.

	<u>31 December 2023</u>		<u>31 December 2022</u>	
Change in interest rates	Change in the economic value of capital	Change in the 12-month interest income	Change in the economic value of capital	Change in the 12-month interest income
+ 200 bp.	(4,887)	(3,133)	(4,717)	(2,918)
- 200 bp.	2,460	2,870	2,429	2,748

The results in the above table shows that based on the data as of 31 December 2023, if the interest rates on the floating interest rate positions of BACB increase by two hundred basis points (+2%), then the economic value of the capital would decrease by EUR 4,887 thousand or 3.42% of capital base and the profit would decrease by EUR 3,133 thousand.

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities (continued)

Information on interest rate change sensitivity by periods is set out in the tables below. It includes Group's assets and liabilities at their balance-sheet value, categorized either by maturity date or by date of the agreed change in the interest rates (whichever is earlier).

	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No interest bearing	Total
31 December 2023							
Cash and balances with the Central Bank	-	-	-	-	-	411,213	411,213
Loans and advances to banks	5,877	-	-	-	-	3,424	9,301
Loans and advances to customers	458,604	263,377	29,258	15,552	384		767,175
Financial assets at FVTPL		-	-	-	-	735	735
Financial assets at FVOCI	16,834	4,586	11,900	25,612	9,141	2,287	70,360
Debt instruments at amortised cost	53,742	13,364	18,396	16,791	421		102,714
Investment properties	-	-	-	-	-	46,921	46,921
Tangible and intangible assets	-	-	-	-	-	6,731	6,731
Investments in joint ventures	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	747	747
Other non-financial assets	-	-	-	-	-	11,301	11,301
Total assets	535,057	281,327	59,554	57,955	9,946	483,359	1,427,198
Deposits from banks	177	-	-	-	-	-	177
Deposits from customers	996,038	84,915	106,683	33,626	36	6,279	1,227,577
Debt securities in issue	-	16	-	-	15,000	-	15,016
Other borrowed funds	4,641	-	-	-	-	-	4,641
Other financial liabilities	442	431	844	2,593	70	6,037	10,417
Other non-financial liabilities	-	-	-	-	-	2,438	2,438
Total liabilities	1,001,298	85,362	107,527	36,219	15,106	14,754	1,260,266
Interest Sensitivity Gap	(466,241)	195,965	(47,973)	21,736	(5,160)	468,605	166,932

Loans and advances to banks represented in column "No interest bearing" in the table above include current accounts with zero interest rate.

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities (continued)

	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No interest bearing	Total
31 December 2022							
Cash and balances with the Central Bank	-	-	-	-	-	445,002	445,002
Loans and advances to banks	4,205	-	-	-	-	19,443	23,648
Loans and advances to customers	440,349	224,764	18,102	21,308	472	-	704,995
Financial assets at FVTPL	-	-	-	-	-	609	609
Financial assets at FVOCI	15,246	40	2,951	16,538	7,366	2,092	44,233
Debt instruments at amortised cost	24,914	14,610	4,857	19,897	1,480	-	65,758
Investment properties	-	-	-	-	-	42,016	42,016
Tangible and intangible assets	-	-	-	-	-	7,182	7,182
Investments in joint ventures	-	-	-	-	-	115	115
Other financial assets	-	-	-	-	-	3,458	3,458
Other non-financial assets	-	-	-	-	-	21,636	21,636
Total assets	484,714	239,414	25,910	57,743	9,318	541,553	1,358,652
Deposits from banks	39	-	-	-	-	-	39
Deposits from customers	943,510	88,794	92,662	25,581	58	27,849	1,178,454
Debt securities in issue	-	16	-	-	15,000	-	15,016
Other borrowed funds	9,176	-	-	-	-	-	9,176
Other financial liabilities	438	427	853	3,289	68	9,125	14,200
Other non-financial liabilities	-	-	-	-	-	3,270	3,270
Total liabilities	953,163	89,237	93,515	28,870	15,126	40,244	1,220,155
Interest Sensitivity Gap	(468,449)	150,177	(67,605)	28,873	(5,808)	501,309	138,497

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

The following table summarizes the information on the effective interest rate by financial instruments as of 31 December 2023 and 2022. The interest rates are calculated based on information on the average daily balances by items of assets and liabilities for the respective period and the recognized interest income by these financial instruments.

Assets	2023	2022
Loans and advances to banks	3.14%	0.72%
Loans and advances to customers	5.76%	4.12%
Debt instruments at FVOCI	3.27%	0.89%
Financial assets at amortised cost	2.66%	0.98%
Liabilities		
Deposits from banks	0.01%	0.01%
Deposits from customers	0.20%	0.06%
Debt securities in issue	5.00%	4.95%
Other borrowed funds	4.85%	1.93%
Liese liabilities	2.18%	1.44%

32.4. Liquidity risk

The liquidity risk refers to the risk that the Group might not have sufficient cash to meet deposit withdrawals or other financial obligations that arises from mismatches in cash flows primarily for the Bank. The Group follows a conservative liquidity management policy.

The main objectives, when managing the liquidity is to ensure the ongoing capability of the Group to meet its financial liabilities, ensure resources, corresponding to the demand of loans and achieve positive financial results from the management of its own funds and the respective borrowings. The Group's strategy and objectives in this respect are closely related to the establishment of a stable funding structure and adequate fulfillment of the liquidity standards. The liquidity management principles are, as follows:

- Centralized control of the liquidity, exercised by the liquidity management body;
- Ongoing monitoring and evaluation of the necessary funds by time periods in the future,
- Evaluation of the liquid asset adequacy of the Group;
- Diversification of the sources of financing;
- Adequate planning of the emergency actions;

The Group has adopted internal rules for determining and monitoring the liquidity buffers (primarily for the Bank) in order to maintain additional liquidity, immediately accessible in case of a liquidity shock for a certain brief period of time. The rules determine the composition of the liquidity buffer, the characteristics and regularity of the applied stress scenarios and sources of financing in the going concern scenario and the liquidity crisis scenarios.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The liquidity position management framework is supplemented by internal limits for ensuring adequate coverage of the borrowings by liquidity assets, regular performance of stress tests for the evaluation of the quality and the stability of the liquidity buffer as well as indicators corresponding to the changes in the regulatory framework - leverage, stable financing ratio, liquidity coverage ratio.

Treasury Department of the Bank manages the operating liquidity of the Group (of the Bank) on a daily basis and prepares periodical reports on the liquidity position and the deposit base. When applicable similar analysis is made for the liquidity position of the other Group companies. The reports are submitted to ALCO and are discussed monthly. Risk Management Directorate of the Bank provides independent review on the liquidity position, controls the internal and statutory liquidity limits and performs periodically stress tests in order to ensure optimal level of liquidity buffers. The results from performed analysis are presented to the Management Board.

The liquidity position of the other Group companies is followed on a regular basis by making analysis of the incoming and outgoing cash flows. This information is presented to the Management Board of the Bank.

When managing its liquid position, the Group (the Bank) uses interbank deposits only to bridge temporary funding mismatches, rather than to fund loans. Targeting optimization of its liquidity sources and higher yield earned, the Group invests in Bulgarian government securities or government securities of issuers with first-class sovereign ratings such as Germany, France, the USA. Investments in Bulgarian corporate bonds and shares are approved by ALCO on a case-by-case basis. The securities acquired for liquidity purposes are currently classified as "debt instruments at FVOCI".

As part of the liquidity risk management, additional internal limits were introduced by the Group (the Bank) in order to mitigate the concentration risk and reinforce the liquidity buffers. When needed the Group extends its financing sources and further stabilizes its liquidity position, by placing mortgage or corporate bonds.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The table below summarizes the contractual maturity structure of the assets and liabilities by time periods, on a discounted basis:

	On demand	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2023						
Cash and balances with the Central Bank	411,213	-	-	-	-	411,213
Loans and advances to banks	7,393	-	-	1,908	-	9,301
Loans and advances to customers	83,448	52,876	122,941	305,367	202,543	767,175
Financial assets at FVTPL	-	-	-	-	735	735
Debt instruments at FVOCI	15,657	4,586	11,900	26,789	11,428	70,360
Debt instruments at amortised cost	53,742	13,364	18,396	16,792	420	102,714
Investment properties	3,640	-	11,491	31,790	-	46,921
Tangible and intangible assets	-	-	-	-	6,731	6,731
Investments in joint ventures	-	-	-	-	-	-
Other financial assets	505	32	62	148	-	747
Other non-financial assets	2,656	4,381	3,614	475	175	11,301
Total assets	578,254	75,239	168,404	383,269	222,032	1,427,198
Deposits from banks	177	-	-	-	-	177
Deposits from customers	985,256	83,816	105,101	39,482	13,922	1,227,577
Debt securities in issue	-	16	-	-	15,000	15,016
Other borrowed funds	22	725	725	3,169	-	4,641
Lease liabilities	6	11	595	3,176	591	4,379
Other financial liabilities	2,922	6	2,964	132	14	6,038
Other non-financial liabilities	151	789	867	392	239	2,438
Total liabilities	988,534	85,363	110,252	46,351	29,766	1,260,266
Maturity Gap	(410,280)	(10,124)	58,152	336,918	192,266	166,932
Cumulative maturity gap	(410,280)	(420,404)	(362,252)	(25,334)	166,932	
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	3,261	22,693	37,875	28,554	32	92,415
Bank guarantees	2,438	3,822	1,696	11,038	1,146	20,140
L/C issued	1,760	-	533	-	-	2,293
Total	7,459	26,515	40,104	39,592	1,178	114,848

The negative difference between short-term assets and liabilities with contractual maturities of up to 6 months is determined by the long years of record low interest rates on the deposit market and the slow transmission of higher interest rates from Europe to Bulgaria in 2023, as a result of which a large part of the attracted funds remain with a short maturity. Actual cash flows typically differ because historically most customer funds have an economically longer remaining term. The bank regularly measures and monitors the rates of renewal of deposits and the movement of attracted funds and assesses the short-term liquidity risk, including intraday. The assessments made show that the available liquidity of the Bank in 2023 significantly exceeds the maximum use of liquidity and the gross amount of payments made.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2022						
Cash and balances with the Central Bank	445,002	-	-	-	-	445,002
Loans and advances to banks	19,893	-	-	3,755	-	23,648
Loans and advances to customers	82,306	62,082	94,569	301,448	164,590	704,995
Financial assets at FVTPL	-	-	-	-	609	609
Debt instruments at FVOCI	13,791	40	2,951	17,993	9,458	44,233
Debt instruments at amortised cost	24,914	14,610	4,857	19,897	1,480	65,758
Investment properties	4,354	-	17,165	20,497	0	42,016
Tangible and intangible assets	-	-	-	-	7,182	7,182
Investments in joint ventures	-	-	-	-	115	115
Other financial assets	3,183	36	50	189	-	3,458
Other non-financial assets	481	8,166	12,715	122	152	21,636
Total assets	593,924	84,934	132,307	363,901	183,586	1,358,652
Deposits from banks	39	-	-	-	-	39
Deposits from customers	961,247	88,128	91,122	29,022	8,935	1,178,454
Debt securities in issue	-	16	-	-	15,000	15,016
Other borrowed funds	38	1,163	1,163	5,862	950	9,176
Lease liabilities	438	427	853	3,289	68	5,075
Other financial liabilities	3,902	286	2,916	107	1,914	9,125
Other non-financial liabilities	261	2,188	220	394	207	3,270
Total liabilities	965,925	92,208	96,274	38,674	27,074	1,220,155
Maturity Gap	(372,001)	(7,274)	36,033	325,227	156,512	138,497
Cumulative maturity gap	(372,001)	(379,275)	(343,242)	(18,015)	138,497	
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	2,816	20,109	21,271	28,848	-	73,044
Bank guarantees	3,224	1,173	1,515	3,942	1,153	11,007
L/C issued	-	95	189	-	-	284
Total	6,040	21,377	22,975	32,790	1,153	84,335

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

Agreed maturities of the non-discounted cash flows of the financial liabilities

The table below shows the maturity structure of the non-discounted cash flows of the Bank's financial liabilities at 31 December 2023 and 31 December 2022:

	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2023						
Deposits from banks	177	-	-	-	-	177
Deposits from customers	985,413	84,063	106,018	41,082	13,927	1,230,503
Debt securities in issue	-	376	376	3,000	15,748	19,500
Other borrowed funds	90	770	840	3,547	-	5,247
Lease liabilities	6	11	607	3,332	658	4,614
Other financial liabilities	2,922	6	2,964	132	14	6,038
Other non-financial liabilities	151	789	867	392	239	2,438
Total (at the maturity date as per the contract)	988,759	86,015	111,672	51,485	30,586	1,268,517
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	3,261	22,693	37,875	28,554	32	92,415
Bank guarantees	2,438	3,822	1,696	11,038	1,146	20,140
L/C issued	1,760	-	533	-	-	2,293
Total	7,459	26,515	40,104	39,592	1,178	114,848
	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2022						
Deposits from banks	39	-	-	-	-	39
Deposits from customers	961,282	88,183	91,255	29,508	8,938	1,179,166
Debt securities in issue	-	374	376	3,000	16,501	20,251
Other borrowed funds	125	1,221	1,317	6,417	978	10,058
Lease liabilities	438	427	853	3,442	84	5,244
Other financial liabilities	3,902	286	2,916	107	1,914	9,125
Other non-financial liabilities	261	2,188	220	394	207	3,270
Total (at the maturity date as per the contract)	966,047	92,679	96,937	42,868	28,622	1,227,153
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	2,816	20,109	21,271	28,848	-	73,044
Bank guarantees	3,224	1,173	1,515	3,942	1,153	11,007
L/C issued	-	95	189	-	-	284
Total	6,040	21,377	22,975	32,790	1,153	84,335

In the column "Over 5 years" for deposits from customers in the table above are indicated deposits with agreed maturity up to one year, which serve as collateral on loans with maturity over 5 years and will therefore be renewed.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

In 2023, The Bank reports liquidity ratios as LCR and NSFR that are over the minimum regulatory required and discloses these ratios according to the requirements of art.447 of Regulation 575.

The Group's liquidity position remains strong, as liquid assets (cash on hand and BNB accounts, short-term loans and advances to banks and liquid government securities) amount to EUR 564.6 million (2022: EUR 549.7 million). The ratio of the liquid assets to the amount of total deposits (from customers and banks) as of 31 December 2023 is 45.81% (2022: 46.28%).

Encumbered assets policy

In accordance with the Recommendation of the European Systemic Risk Board (ESRB/2012/2) regarding the financing of credit institutions, the Group (through the Bank) has developed a policy for the management of the encumbrance of assets, defining the basic principles, regarding the sources of financing, the general approach of the Group regarding the encumbrance of assets and the monitoring framework, the control mechanisms and procedures, which may ensure the timely identification of the risks, related to the encumbrance of assets and their adequate management. The policy has been approved by the Management Board of the Bank. When applicable this policy is applied in the other Group companies. According to that policy, an encumbered asset is asset, which has been openly or indirectly pledged or is the subject of a guarantee, collateralization or credit quality improvement agreement, with respect to a transaction.

The encumbrance of the assets by types is, as follows:

- Cash blocked in bank accounts as collateral
- Governmental securities, used as collaterals for borrowings of budget spending entities;
- Liquidity swaps;
- Repurchase transactions;
- Loan receivables;
- Other.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The tables below present information on encumbered assets and related liabilities rising encumbrance at 31 December 2023 and 2022:

2023

<u>Encumbered assets</u>		<u>Matching liabilities rising encumbrance</u>	
Cash and balances with the Central Bank	2,351	Other liabilities	2,351
Loans and advances to banks	623	Other liabilities	623
Loans and advances to banks	1,284	Nominal value of financial guarantees	1,284
Loans and advances to customers	4,996	Other borrowed funds	4,641
Financial assets at FVOCI	3,656	Deposits from customers	3,541
Financial assets held to maturity	<u>12,710</u>	Deposits from customers	<u>12,310</u>
Total	<u>25,620</u>		<u>24,750</u>
Ratio of encumbered assets to total assets	1.80%		

2022

<u>Encumbered assets</u>		<u>Matching liabilities rising encumbrance</u>	
Cash and balances with the Central Bank	1,814	Other liabilities	1,814
Loans and advances to banks	601	Other liabilities	601
Loans and advances to banks	18,153	Nominal value of financial guarantees	18,153
Loans and advances to customers	7,386	Other borrowed funds	9,176
Financial assets at FVOCI	6,080	Deposits from customers	5,503
Financial assets held to maturity	<u>12,069</u>	Deposits from customers	<u>10,923</u>
Total	<u>46,103</u>		<u>46,170</u>
Ratio of encumbered assets to total assets	3.39%		

32 Financial risk management (continued)

32.5. Trusted assets in custody

The Group is registered as investment intermediary and performs operations for customers in accordance with the requirements of Regulation 38 of the FSC. The Bank has approved a policy with respect to fiduciary operations for customers which is elaborated on the basis of the requirements of Art.28-31 of Regulation 38 of the FSC.

32.6. Capital management

The Group is particularly focused on maintaining a capital adequacy, corresponding to its risk profile, as the bank and the companies. The Bank is focused on the granting of loans to small- and medium-sized businesses and retail customers in a dynamic environment. The capital management policy seeks to ensure adequate coverage of risks arising in the normal course of banking business as well as risks of unforeseen circumstances.

The Group monitors and analyses on a monthly basis its consolidated capital position and prepares quarterly reports for supervisory purposes, which are then submitted to the BNB in accordance with the regulatory requirements. Stress tests are carried out on a regular basis, reviewing the effect of the deterioration of the quality of the portfolio and/or impairment of the existing collaterals, both on the result and the equity position of the Group. The capital buffers are evaluated on a regular basis, specifying measures for their preservation and increase.

The minimum levels of capital adequacy for the banks in Bulgaria are set by *Regulation No. 575/2013*, according to which the credit institutions at any moment must meet the following capital requirements:

- a Common Equity Tier 1 capital ratio of 4,5 %;
- a Tier 1 capital ratio of 6 %;
- a total capital ratio of 8 %;

In addition, Ordinance No. 8 of the BNB on the capital buffers of banks, sets further capital buffers, which the banks must keep above the minimum capital requirements, which, as of 31 December 2023 are:

- protective capital buffer of 2,5% of the amount of the total risk exposure of the Bank;
- anti-cyclical capital buffer – 2% of the total risk exposure of the Bank;
- systematic risk buffer – 3% of the amount of the total risk exposure of the Bank
- a buffer for a global systemically important institution
- a buffer for another systemically important institution

The capital position of the Group depends on numerous factors, including the growth of its credit portfolio and earnings, regulatory capital requirements. Any change that limits the Group's ability to manage the balance sheet and capital resources effectively, including for example deterioration of the credit quality of the loan portfolio, reduction in profits as a result of additional impairment provisions, increase in risk weighted assets, delays in the disposal of certain assets may result in a decrease of the capital buffers and need of additional capital.

Historically the Group has been maintaining a capital adequacy exceeding the regulatory requirements, due to the pursued policy of reinvestment of the profit and timely increase of the capital. As of 31 December 2023 the overall capital adequacy ratio amounts to 20.96% (2022: 18.0%).

Based on the terms and conditions, set out in art. 19 of *Regulation (EC) No. 575/2013* of the European Parliament and the Council, as of 31 December 2023, the Group is not subject to prudential consolidation.

32 Financial risk management (continued)

32.6. Capital management (continued)

The table below contains information on the capital adequacy as of 31 December 2023 and 2022.

<u>Capital base</u>	<u>2023</u>	<u>2022</u>
Paid in share capital	12,624	12,624
Premium reserve	18,944	18,944
Total reserves	106,550	86,605
Unrealized gains /(losses) on financial assets available for sale	287	(1,309)
Recognised profit	12,388	-
Less: Intangible assets	(855)	(925)
Less: CET1 capital elements or deductions – other	(968)	(505)
Other transitional tier one core capital adjustments	(6,122)	(681)
Total capital base	<u>142,848</u>	<u>114,753</u>
Total amount of risk assets	<u>681,431</u>	<u>637,458</u>
<u>Capital requirements</u>	<u>2023</u>	<u>2022</u>
Capital requirements for credit risk	50,337	47,362
Capital requirements for position risk	-	-
Capital requirements for currency and commodity risk	-	-
Capital requirements for operating risk	4,178	3,635
Total Capital requirements - Standardized approach	<u>54,515</u>	<u>50,997</u>
<u>Ratios</u>		
Total capital adequacy (%)	20.96%	18.00%
Capital adequacy of Tier 1 Capital (%)	20.96%	18.00%

32 Financial risk management (continued)

32.7. Operating risk

Operating risk is the risk of loss, resulting from a systematic issue, human error, fraud or external events. When the controls fail to operate efficiently, the operating risks may result in harm to the goodwill, have legal and regulatory consequences or even result in a financial loss. The Group cannot expect all the operating risks to be eliminated, but it tries to manage such risks, by means of an internal control and monitoring system, corresponding to the potential risks. The controls include efficient separation of the liabilities, obligations, accesses, permits and procedures for benchmarking, training of the personnel and evaluation processes, such as the use of internal audit.

The Group (through the Bank) has adopted internal rules for the management of the operating risk, which regulate the process of management and control of that risk. The organizational operating risk management model is based on the principle of separation of the responsibilities between the management and risk control and includes three main pillars:

- identification and management of the risks by the individual business lines;
- independent review, evaluation and reporting the risk by the operating risk management function;
- independent verification of the controls, processes and systems, utilized for the management of the operating risk by internal and/or external auditors.

For the purposes of capital adequacy, the Group applies the base indicator approach.

33 Supplementary information

Information to be disclosed according to the regulations of Art.70 (6) of Credit Institutions Act.

The information for the Bank and its subsidiaries is presented as of 31 December 2023 and does not include consolidation eliminations:

<u>Company</u>	<u>Bulgarian-American Credit Bank</u>	<u>BACB Finance subsidiary</u>	<u>BACB Trade subsidiary</u>
Activity description	The Bank operates a full banking license for offering and performing the full scope of banking operations permitted by CIA	The company provides financial services like finance lease, trade and consumer finance using its own funds or BACB financing if needed	Financial and business consulting, trading activity and all range of business activities permitted by the law
Registered office	Sofia	Sofia	Sofia
Annual turnover	61,000	402	9,824
Number of employees	364	1	1
Profit before taxation	31,204	164	252
Income tax accrued	3,134	16	25
Return on assets	2.0%	5.2%	4.2%
Government grants	none	none	none

* For financial institutions the turnover includes gross interest income, gross lease income, gross fees and commissions income and other operating income gross.

34 Events after the reporting period

No material events have occurred subsequently to 31 December 2023, that would require additional correction or disclosure in the consolidated financial statements of the Group for the year ended 31 December 2023.

DECLARATION

Under art. 100m, para 4 (a) of the POSA

The undersigned

1. Ilian Petrov Georgiev, Chief Executive Officer of “Bulgarian-American Credit Bank”
2. Loreta Ivanova Grigorova, Executive Director of “Bulgarian-American Credit Bank”
3. Katya Svetoslavova Bineva, Chief Accountant of “Bulgarian-American Credit Bank”

Hereby certify that to the best of our knowledge the attached set of Annual Audited Consolidated Financial Statements of Bulgarian-American Credit Bank AD for the year 2023, prepared in accordance with applicable accounting standards, give a true and fair view of the assets and liabilities, financial position and financial performance of Bulgarian-American Credit Bank AD and of the companies included in the consolidation.

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Ilian Georgiev
Chief Executive Director

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Loreta Grigorova
Executive Director

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Katya Bineva
Chief Accountant

DECLARATION

Under art. 100m, para 4 (b) of the POSA

The undersigned, Ilian Petrov Georgiev, Chief Executive Officer и Loreta Ivanova Grigorova, Executive Director, jointly representing “Bulgarian-American Credit Bank”, hereby certify that to the best of our knowledge the attached Annual Activity Report of “Bulgarian-American Credit Bank” on consolidated basis for the year 2023 contains a truthful review of the development and results from the activity of the “Bulgarian-American Credit Bank”, as well as the condition of “Bulgarian-American Credit Bank” and the companies included in the consolidation, together with a description of the major risks and uncertainties faced thereby.

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Ilian Georgiev
Chief Executive Director

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Loreta Grigorova
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Independent auditors' report

To the shareholders of

BULGARIAN-AMERICAN CREDIT BANK AD

Opinion

We have audited the accompanying consolidated financial statements of BULGARIAN-AMERICAN CREDIT BANK AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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 Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (*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 requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

As described in Note 3 Summary of Accounting Policies, Basis of preparation and presentation of the financial statements to the consolidated financial statements, the accompanying consolidated financial statements, presented in EUR, were issued by the Group in addition to the statutory consolidated financial statements presented in BGN. We have audited and reported separately on the statutory consolidated financial statements presented in BGN and issued our auditors' report dated 25 March 2024. Our opinion is not modified in respect of this matter.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of loans and advances to customers</p>	
<p>The Group's disclosures about impairment of loans and advances to customers are included in Note 3 "Summary of Accounting Policies", Note 15 "Loans and advances to customers" and Note 32.2 "Credit risk" to the consolidated financial statements.</p>	
<p>Loans and advances to customers represent a significant part (54%) from the total assets of the Group as at 31 December 2023 with aggregate gross carrying value of EUR 797,656 thousand and accumulated loss allowance of EUR 30,481 thousand. In accordance with the requirements of IFRS 9 "Financial instruments", the Group applies an impairment model based on expected credit loss (ECL) estimation.</p>	<p>In this area, our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • We obtained an understanding of the monitoring and impairment process of the Group focusing on the applied measurement and calibration methodology, the impairment model used, and the underlying key assumptions, judgements and parameters as well as any changes made therein.
<p>The application of such an impairment model relates to a high level of calculation</p>	<ul style="list-style-type: none"> • We assessed whether the Group's impairment policy and estimation

complexity and significant degree of management judgment in the ECL estimations as disclosed in Note 32.2 “Credit risk”.

The key inputs, assumptions and related judgements in the model relate to developing significant increase of credit risk (SICR) criteria for staging of loans and advances to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment), determining the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), incorporating forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECLs estimations. The higher degree of estimation uncertainty is inherent in calculating the ECLs for the portfolios of loans and advances to customers in Stage 1 and Stage 2 assessed for impairment collectively in view of the availability of historical data for back testing and calibrating the PD and LGD estimates. In addition, significant management judgement is also required in calculating the ECLs for loans and advances which are assessed for impairment individually, in particular, in determining the timing and amount of the expected cash flows, probability of scenarios, including from realization of collaterals.

Due to the significance of the recorded impairment on loans and advances to customers, their potential effect on the capital adequacy calculation as well as the high degree of the inherent estimation uncertainty, complexity and management judgments and assumptions involved in ECL calculations under the impairment model applied under the requirements of IFRS 9, this is considered as a key audit matter.

approaches were applied consistently in accordance with the requirements of IFRS 9.

We obtained an understanding and assessed the internal controls at entity level with respect to the development and application of the impairment models, including the model documentation and the update frequency and reasonableness of the parameters and macro indicators applied.

- We obtained understanding and performed walk-throughs of the Group’s processes and controls related to monitoring and assessment for impairment of loans and advances to customers and the implementation of the calibration methodology. We involved our internal IT specialists to assess and test the IT general controls over these processes. We assessed the design and tested the operating effectiveness of key the controls over the monitoring and assessment for impairment of loans and advances to customers processes.
- We assessed the impairment model for application consistency and continuing appropriateness in view of IFRS 9 requirements, the specifics of Group’s loan portfolio and the availability of internal historical and forward-looking information. We assessed the reasonability of SICR criteria and proper staging of loans and advances to customers. In addition, we assessed for reasonableness the PD and LGD calculations by examining supporting information for the key assumptions used and data sources.

- We also analysed the appropriateness of calibration approaches applied and the reasonableness of resulting changes and effects considering our understanding of the development of the loan portfolios and the quality of available data. In addition, we tested the mathematical accuracy of the ECL calculations.
- We performed analytical procedures on a disaggregated data to assess if the relationship in the trends in the recorded impairment loss allowance follow the tendencies of development of the loan portfolios.
- For a risk-based sample of loans and advances to customers from all stages that are subject to an individual impairment assessment and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically assessed the Group's assumptions on the expected future cash flows, including the realization of collateral based on our understanding and available market information. We involved internal experts to assist us in assessing the value of realizable collateral on a sample basis.
- We performed subsequent events procedures focused on the development of the risk-based sample of loans and advances to customers as per the previous paragraph, after the reporting period date to assess the consistency of the Group's assumptions for the expected future cash flows.
- We assessed the relevance and adequacy of the disclosures for the impairment of loans and advances to customers in accordance with the requirements of IFRS 9

Estimates of fair values of non-financial assets used for fair value measurement or for impairment review purposes

Information on the estimates of fair values of non-financial assets used for the purpose of valuation at fair value or for the impairment review of those assets is disclosed in Note 21 “Assets held for sale”, Note 19 “Investment properties” and Note 30 “Fair value information” to the consolidated financial statements.

As disclosed in Note 21 and Note 19 to the consolidated financial statements, as of 31 December 2023 the Bank reports assets held for sale of EUR 4,878 thousand and investment properties of EUR 46,921 thousand comprising real estate acquired mainly from foreclosed collaterals.

The Group’s accounting policy for subsequent measurement of the investment properties is under the fair value model of IAS 40. Considering the general volatility of the real estate market, the Group’s management performs annual valuation of these non-financial assets in order to determine the fair value less costs to sell for assets held for sale (for their impairment testing) and the fair value of the investment properties for their subsequent valuation.

The fair value estimates of investment properties and assets held for sale are determined by independent external appraisers engaged by the Group.

The fair value determination is based on various valuation inputs, assumptions and approaches and are designated at Level 3 of the fair value hierarchy in accordance with IFRS 13.

As the fair valuation of the Group’s non-financial assets involves high degree of estimation uncertainty related to the fair value inputs and assumptions, which might have a significant impact on the carrying value of the non-financial assets as well as potential impact on the capital adequacy calculation of the Group as at 31 December

In this area, our audit procedures included, amongst others:

- We assessed the objectivity, independence, and expertise of the external appraisers.
- For a sample of investment properties and assets held for sale subject to impairment review of subsequent measurement of fair value, we analyzed and evaluated the applied key real estate data inputs for the determination of their fair value involving our real estate valuation experts to assist us in the review and analysis of the applied valuation methods and the underlying key assumptions.
- For a sample of the Group’s investments properties and assets held for sale, we involved our real estate valuation experts to perform relevance test to assess whether the fair value estimates is consistent in relation to a range of comparable market prices for similar assets.
- We assessed the adequacy and relevance of the financial statement disclosures of the Group’s estimates on fair value of the non-financial assets, used for the purpose of the fair value estimation or impairment review.

2023, we have considered this matter as a key audit matter.

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

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the statement of corporate governance prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's 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 and to the extent explicitly specified in our report.

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 presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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 true and 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Audit Firm Ernst & Young Audit OOD with registered number 108:

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Milka Natcheva-Ivanova

Legal Representative

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Registered Auditor in charge of the audit

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Registered Auditor in charge of the audit

Sofia, Bulgaria

25 March 2024