



SEPARATE **FINANCIAL**
STATEMENTS
2023



EUROBANK BULGARIA AD



CONTENT

Report of the independent auditors	1
Separate Annual Activity Report	42
Corporate Governance Statement	59
Non-financial Declaration	76
Separate Financial Statements	76
Separate Income statement	78
Separate Statement of comprehensive income	79
Separate Statement of financial position	81
Separate Statement of changes in shareholders' equity	83
Separate Statement of cash flows	85
Notes to the separate financial statements	



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Independent Auditors' Report

To the shareholders of Eurobank Bulgaria AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Eurobank Bulgaria AD (the Bank) as set out on pages 60 to 190, which comprise the separate statement of financial position as at 31 December 2023 and the separate income statement, separate statement of comprehensive income, separate statement of changes in shareholder's equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2023, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Separate Financial Statements" section of our report. We are independent of the Bank 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 separate 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.

Key Audit Matters

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

We have determined the following key audit matters:

Impairment of loans and advances to customers

As at 31 December 2023, the separate financial statements include:

- Gross loans and advances to customers of BGN 12,906,517 thousand (31 December 2022: BGN 10,410,620 thousand) and ECL allowance of BGN 366,275 thousand (31 December 2022 ECL allowance: BGN 347,187 thousand), as presented in note 18 to the separate financial statements.
- Impairment charge for credit losses recognized in the separate income statement of BGN 100,780 thousand (2022: BGN 75,985 thousand), as presented in note 12 to the separate financial statements.

Also refer to the following notes to the separate financial statements:

- 2.2.15 Impairment of financial assets
- 3.1 Impairment losses on loans and advances
- 5.2.1 Credit risk

Key audit matter	How this key audit matter was addressed in our audit
<p>Impairment allowances for loans and advances to customers (collectively, "loans", "exposures") represent the Bank's best estimate of expected credit losses ("ECL") associated with these exposures at the reporting date. Measurement thereof requires the Bank to make complex judgements and assumptions.</p> <p>As described in note 3.1 to the separate financial statements, the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures.</p> <p>For performing exposures (stage 1 and stage 2 loans in the IFRS 9 hierarchy), as well as stage 3 exposures not exceeding specific thresholds set for different segments as per the Bank's "Accounting policy for impairment of lending exposures", the expected credit losses are determined based on statistical models using the Bank's historical debt service data and also forward-looking information and macroeconomic scenarios. The key assumptions in this area are,</p>	<p>Our audit procedures, performed, where applicable, with the assistance of our financial risk management, valuation and IT audit specialists, included among others:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the loan impairment accounting policies and related methods and models against the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; • Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL estimation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for access and program change;

among other things, the probability of borrower's default ("PD"), the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default", "LGD") and of the amount of exposure at default ("EAD"). In the wake of the economical volatility caused by the ongoing post-pandemic normalisation of global trade, heightened geopolitical tensions and weak economic activity in the euro area, measurement of the collective impairment allowance was associated with additional complexities and an increased estimation uncertainty. Among other things, the application of post-model adjustments was required from management in arriving at the year-end estimate of collective impairment losses.

For Stage 3 exposures in excess of specific thresholds set for different segments as per the Bank's "Accounting policy for impairment of lending exposures", expected credit losses are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the sale of the related collateral and minimum period for collateral disposal.

Given the above factors and complexities, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the separate financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.

- Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, stage allocation and calculation of the ECL;
- For a sample of loans, critically assessing, by reference to the underlying loan documentation (updated financial indicators, repayment pattern, default events, forbore status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2023;

For ECLs estimated on a collective basis:

- Obtaining the Bank's relevant macroeconomic forecasts and critically assessing the forward-looking information and macroeconomic scenarios used in the calculation of the ECL by inspecting publicly available information;
- Challenging the collective PD, LGD and EAD parameters for a sample of the Bank's portfolios, by reference to, among other things, our own analysis of the Bank's data on past default occurrence, realized losses on those defaults, contractual cash flows and contractual lifetime;
- Testing post-model related adjustments to reflect the current market volatility not reflected in the original ECL models. As part of the procedure, we evaluated the data, assumptions and methods used in calculating the adjustments;
- Recalculating the expected credit losses as of 31 December 2023 based on the Bank's ECL model for a sample of the Bank's portfolios;

For ECLs estimated on an individual basis:

- For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows in the impairment calculation, including time to sell and any realizable value of the collateral, by reference to the underlying collateral agreements and

	<p>appraisals, whose relevance and reliability we independently assessed;</p> <p>For loan exposures in totality:</p> <p>Examining whether the Bank's ECL-related disclosures in the separate financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.</p>
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Acquisition of BNP Paribas Personal Finance S.A. Bulgaria Branch

As at 31 December 2023, the separate financial statements include Goodwill of BGN 82,126 thousand (31 December 2022: nil), as presented in note 38 to the separate financial statements.

Also refer to the following notes to the separate financial statements:

- 2.2.1 Shares in subsidiary undertakings
- 38 Acquisition of BNP Paribas Personal Finance S.A. Bulgaria Branch by Eurobank Bulgaria AD

Key audit matter	How this key audit matter was addressed in our audit
<p>As disclosed in Note 38, in December 2022, the Bank announced that it concluded an agreement with BNP Paribas Personal Finance SA for the acquisition of its business in Bulgaria.</p> <p>On 31 May 2023, the acquisition was concluded, following the receipt of the relevant regulatory approvals.</p> <p>The acquisition was accounted for as a business combination using the purchase method of accounting. In accordance with the terms of the agreement, the funding arrangements of the Bulgarian branch were excluded from the liabilities assumed. The final consideration for the acquisition amounted to BGN 766,179 thousand which has been settled in cash.</p> <p>As a result of the acquisition the Bank recognised goodwill at the amount of BGN 82,126 thousand.</p> <p>The accounting of this acquisition is complex due to the significant judgements and estimates that are required to determine the values of the consideration transferred and the identification and measurement of the fair value of the assets acquired and liabilities assumed.</p> <p>Due to the size and complexity of the above transaction, we considered this to be a key audit matter.</p>	<p>Our audit procedures performed, where applicable with the assistance of our valuation specialists, included among others:</p> <ul style="list-style-type: none"> • Challenging the valuations prepared by the Bank and the methodology used to identify the assets acquired and liabilities assumed, in particular: <ul style="list-style-type: none"> • assessing the competence, capabilities and objectivity of the external expert appointed by the Management Board for determination of the fair value of the loan portfolio acquired; • critically reviewing the methodologies applied and key assumptions used by the external expert in valuing the loan portfolio, which included: <ul style="list-style-type: none"> • benchmarking of the discount rates used by the external expert to the interest rate statistics for new consumer loans published by the Bulgarian National Bank ("BNB"); • evaluating the appropriateness of adjustments applied to the discount rates in the form of a premium to be applied to the market rate due to the riskiness of the acquired portfolio;

	<ul style="list-style-type: none"> evaluating the reasonableness of expected credit loss adjustments applied for stage 1, stage 2 and stage 3 loans. challenging the Bank's determination of the fair value of the remaining assets and liabilities having regard to the completeness of assets and liabilities identified and the reasonableness of underlying assumptions used in the valuation; testing on a sample basis the existence of acquired assets and liabilities assumed, including obtaining evidence of legal title to land and buildings; checking the mathematical accuracy of the calculation performed in determination of the fair value of the assets and liabilities and recalculation of the resulting goodwill.
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Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate annual activity report, the corporate governance statement and the non-financial declaration, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate annual activity report, the corporate governance statement and the non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- The information included in the separate annual activity report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

- The separate annual activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The corporate governance statement for the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.
- The non-financial declaration referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

Management is responsible for the preparation of separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional reporting in relation to Ordinance No 58/2018 issued by the Financial Supervision Commission

Statement in relation Art. 11 of Ordinance No 58/2018 of FSC on the requirements for protection of financial instruments and deposits of clients, for management of products and for granting or receiving remunerations, commissions, or other monetary or non-monetary benefits

Based on the audit procedures performed and the knowledge and understanding of the Bank's activity (Investment intermediary), in the course and context of our audit of the separate financial statements as a whole, we identified that the designed and implemented organization for safeguarding of customers' assets complies with the requirements of Art. 3 – 10 of Ordinance No 58 of the FSC and Art. 92-95 of the Markets of financial instruments Act in relation to the activities as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

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

- KPMG Audit OOD and Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2023 by the general meeting of shareholders held on 3 April 2023 for a period of one year. The audit engagement was accepted by signing the Joint Audit Engagement Letter on 10 November 2023.

- The audit of the separate financial statements of the Bank for the year ended 31 December 2023 represents sixth total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and sixth total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Sofia, 29 March 2024

For KPMG Audit OOD:

Registered under No 045 in the Register of registered auditors

SEVDALINA
NIKOLAEV
A DIMOVA

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Sevdalina Dimova

Authorised representative and registered auditor, responsible for the audit

For Baker Tilly Klitou and Partners EOOD:

Registered under No 129 in the Register of registered auditors

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Nedkova

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SEPARATE ANNUAL ACTIVITY REPORT

**The management presents the separate
annual Activity report as of 31 December 2023.**

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company (its shares are not traded publicly on any stock exchange) established in accordance with Bulgarian regulations. The Bank is a licensed credit institution and an investment intermediary providing retail, corporate and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.

The activities of the Bank are governed by the applicable legislation regulating the credit institutions and the investment intermediaries. Its principal regulators are Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC). Since 1 October 2020 Postbank is directly supervised by the European Central Bank (ECB) as part of the close cooperation process between the ECB and the BNB.

BUSINESS OVERVIEW

Macroeconomic Environment

Although the growth of the world economy decelerated in 2023, it was better than expected due to the stronger performance of the economies of the United States and several developing countries. The factors that hampered the growth in 2023 were the same as in the previous year – the conflict in Ukraine, the tightening of the monetary policy triggered by the still higher rising inflation and the weak world trade. Being far from the European conflict and reaping the benefits from the falling energy prices and easing supply-side restrictions, the emerging markets and developing economies managed to maintain the momentum and repeat the growth rate from the previous year. On the other hand, most of the advanced economies saw a harder landing, in some cases even going into technical depression.

The prospects for 2024 are mildly optimistic. Global growth is expected to be 3.1% in 2024 – same as in 2023; rising slightly in 2025 to 3.2%. The above is based on the assumptions that once again, the developing countries will be the drivers of growth, while the advanced economies will be struggling with high interest rates and the withdrawal of fiscal support. Any change in the last two assumptions will result in a stronger growth than expected. Faster disinflation will allow the central banks to speed up the loosening of the monetary policy and will improve business sentiment, easing the pressure for government intervention.

The main downside risks are higher geopolitical risk from intensified conflict in the Middle East and the Red Sea, persistent inflation and tighter fiscal policy. The latter prospect is highly worrying as the indebtedness of the countries continues to rise and in an environment of elevated interest rates it might necessitate tax increases and deep spending cuts which the private consumption will not be able to compensate. In addition, a persistent high inflation will increase the pressure for wage increases, especially in the advanced economies with the risk of a renewed wage-price spiral, which was avoided thus far. Last but not least, escalation of the conflicts in the Middle East and the Red Sea could have a negative impact on the world trade and the prices of oil which will cause a spillover effect on the inflation and might trigger the previous two scenarios.

Although the EU economies have largely avoided recession, the economic activity has lost momentum, trying to adjust to the changed environment. Various factors contributed to the decline – consumption was hit by the decline of the real wages and the phasing out of the fiscal support, the investment lagged behind as companies limited borrowing because of the high interest rates, while the contribution of the external sector was only positive because of falling import. Overall, the EU economy is expected to grow by just 0.6% in 2023 (the same rate valid for the eurozone countries), before mildly rebounding to 1.3% in 2024 and 1.7% in 2025. The eurozone's prospects are slightly worse for the next two years – 1.2% and 1.6% respectively.

The decisive actions of the central banks helped tame the inflation which was in a constant and higher than expected decline throughout last year. The Federal Reserve raised its policy rate from 4.25-4.5% at the end of 2022 to 5.25-5.5% by end of July 2023, but has not touched it since. ECB actions were slightly behind and more conservative as usual, but still the rates on the deposit facility were increased by 2 percentage points to 4% in 2023. In parallel, ECB has stopped reinvesting the principal payments from maturing securities under the Asset purchase programme (APP), while the same is expected to happen for the Pandemic emergency purchase programme (PEPP) from the middle of 2024, which will reduce the portfolio at a rate of €7.5bn per month on average. With inflation falling towards the target levels, speculations are that the two central banks will start easing the monetary policy in the second half of 2025.

In 2023 Bulgaria's economy has decelerated towards the projected level of 1.8%. In the fourth quarter of the year, GDP growth was 1.6%, compared to 1.8%, 2.0% and 2.4% in the previous three. Consumption grew by 3.1% YoY following a downward trend. Growth of the gross capital formation (4.2% YoY) was positive for a third consecutive quarter, but the country still falls behind the level of local investments needed to increase productivity as the population ages and the wages are rising with double digit rates. The contribution of the external sector was positive, however, due to faster drop of imports, compared to exports.

In nominal terms Bulgaria's foreign trade was hit by the falling prices of energy resources and commodities as well as by the restrictions on imports from Russia. The value of exports was BGN 86.6 billion, or 6.8% lower than a year ago. The value of imports was BGN 96.9 billion, 10.2% below the level in 2022. The exports to non-EU members experienced a modest decrease of 2.9% YoY as the drop of the export of energy products and arms was partially compensated by the higher exports of foods and machinery. In contrast, the imports from non-EU members dropped by close to 20%, most of it because of the lower prices of energy resources and the restrictions on the imports from Russia and Ukraine, in case of the latter mostly grains. The exports and imports to EU countries were also lower on an annual basis – by 8.9% and 2.5% respectively. The biggest trading partner of the country was Germany with a share of more than 12% of the foreign trade in 2023, followed by Romania (8.4% YoY) and Turkey (7.3% YoY).

In 2023 the foreign direct investment continued to grow, reaching €3.37bn (28% increase YoY) – the highest level in history in nominal terms. Little more than €3bn, or close to 90% of the investments, were reinvested profit as many foreign owned companies enjoyed a boom fueled by inflation and falling energy prices. Equity investments decreased by about 20% to €530m as there were fewer deals and green-field investments last year. The flow of the debt instruments was negative (-€172m) as rising interest rates made it cheaper for the companies to finance themselves locally rather than from abroad. The biggest net inflow of investments came from Switzerland (€821m), Austria (€377m) and Belgium (€336m), while the biggest net outflows were to Israel (€27m) and Ireland (€22m).

Inflation has been in constant decline over the last year. Measured through the consumer price index it fell to 4.7% at the end of December 2023, compared to 16.9% a year earlier and a peak of 18.7% in September 2022. Only few goods and services had lower prices compared to last December – mostly oils, energy resources and electronics, while the index was below zero in none of the main categories.

Despite the preferential VAT rates enjoyed by the Hospitality sector, its prices rose at highest rate – 9.5% YoY, followed by Education (8.2%) and Health (8.1%). The average Harmonized Index of Consumer Prices which is the benchmark for the country convergence report has also been falling during the year, but at a level of 8.6% in December it is still well above the threshold, jeopardizing the adoption of the euro as the national currency of Bulgaria in the beginning of 2025.

The slowdown of the economy was felt in the labor market. The unemployment rate rose by half a percentage point to 4.3%, according to the data by the National Statistical Institute. The number of unemployed was 127 thousand – some 14 thousand more than a year ago. The employment ratio in the age group 15-64 years fell to 70.5% - 1.2 pp lower than in 2022. The workforce shrank by about 50 thousand people last year, in line with the general decline of the population.

The number of long-term unemployed (unemployed for more than 2 years) increased slightly – by 1.4 thousand people to 39.4 thousand. More worryingly, the youth unemployment (age 15-24) jumped significantly – from 9.1% in 2022 to 14.1% in 2023, suggesting that for the people with basic and lower education it is increasingly harder to find work in the current environment. The Northwestern region has the highest unemployment rate (8.2%), followed by the Northcentral (5.2%). The lowest unemployment rate is recorded in the South Central region (around Plovdiv) – 2.5%, being also one of the two regions where the unemployment level is decreasing. The Southwestern region (which includes Sofia) is moving in the opposite direction and although it has the second lowest unemployment rate in the country (3.6%), it is 0.6 pp. higher than in 2022.

The rising unemployment and the economic slowdown didn't seem to have a profound effect on the wages. The average salary in the country rose by 12% YoY to BGN 2,173 at the end of December – or more than twice the inflation rate for the same period which makes Bulgaria one of the few countries in EU with real wage growth in 2023. A more detailed analysis, however, shows that the salaries in the lowest paid sectors which were booming last year such as construction and hospitality are rising by more than 20% YoY, while the salaries of the agricultural workers have barely moved. IT continues to be the best paying sector with an average salary of BGN 5,043 (8% YoY), well ahead of the second (Electricity and gas) where the average salary is BGN 3,455 (6% YoY).

The public sector was paying an average salary of BGN 2,344 (10% YoY). Although the salaries in the private sector rose faster – by 12% YoY to BGN 2,115, the public sector is still paying some 10% more than the private one.

One of the main priorities of the new Government which took office in the beginning of June was Bulgaria to become a member of the Eurozone in the beginning of 2025, thus emphasizing on a strict fiscal discipline in order to comply with the Maastricht criteria. The budget for 2023 which was finally adopted at the end of July targeted a deficit below 3%. The preliminary data by the Ministry of Finance showed that the budget finished with a deficit of 3.1% on a cash basis (BGN 5.62 billion). On an accrual basis, according to the European System of National and Regional Accounts 2010 (ESA 2010) methodology, the deficit is expected to be 2.2%, or well below the threshold.

Budget revenues were BGN 67 billion, BGN 2.3 billion higher than in 2022 and at 96.5% of the projected level. Although projected revenues were not met mostly due to the delayed second tranche from the Recovery and Resilience Facility, none of the major tax and nontax items was above the target either. The tax revenues were BGN 52.3 billion which is 12% higher than in 2022, but around BGN 850 million below the budgeted revenues. The expenditures rose by 10% (BGN 6.4 billion) to BGN 70.8 billion. In contrast to previous years, the capital expenditures are above the projected level as more money has been paid for EU projects and because of the advance payment on a cash basis for the investment program for municipal projects. On an annual basis, the capital expenditures rose by 63% (BGN 3.5 billion) to BGN 9.1 billion – a record amount. The interest expenses jumped by 27% YoY to BGN 831

million and will keep growing because of the newly issued debt and the projected deficits for the next years. The revenues of the social security funds (mainly pensions and health insurance) were BGN 15.6 billion (12% higher than in 2022), while the expenditures were close to BGN 30 billion which represents more than 20% increase on an annual basis. In the last few years, the growth of the social security expenditures has outpaced the increase of the revenues (pensions will rise by another 11% from July 2024) and this trend will be difficult to sustain in the long run.

The state debt expanded by BGN 4.3 billion in 2023 to BGN 41.4 billion or 21.5% of GDP. Since the nominal increase of the GDP was higher, the ratio improved vs. 2022 (22.1%). In the beginning of 2023, Bulgaria issued €1.5 billion in 10-year bonds to cover maturing debt, while in November 2023 another €2.3 billion bonds (with maturities of 7.5 and 12.5 years) were issued for financing the projected budget deficit. No local debt was issued in 2023.

In 2023 the rating agency FITCH did two reviews of Bulgaria's credit rating and in each of them confirmed the rating of the country at BBB with a positive outlook. S&P did one review confirming the rating at BBB but improving the outlook to positive. The third big rating agency, Moody's did its first review since 2020, keeping the rating and the outlook unchanged at Baa1 / stable.

Banking system

The Bulgarian banking system had another successful year. While in many other countries the tightening of the monetary policy resulted in higher borrowing costs and reduced demand for loans, Bulgaria's banking system remained largely insulated from these trends and continued to break records. Bulgarian banks were able to gain higher income from their operations linked to the international markets such as deposits in other banks, securities and index-based loans, while at the same time keeping the retail rates largely intact which resulted in unimpeded demand and solid portfolio quality. The net profit of the Banks surged by close to two-thirds to a new high of BGN 3.4 billion. The return on equity improved substantially – from 12.3% in 2022 to 18.3% a year later, while the return on assets was 2.1% (2022: 1.4%).

In 2023 lending was growing with almost the same pace as in the previous year – 13.2% and 13.5% respectively. In nominal terms, total loans increased by BGN 11.3 billion to BGN 97.4 billion, where growth was almost equally balanced between companies and households – loans to companies rose by BGN 5.8 billion (11.1% YoY) to BGN 57.9 billion, while loans to households were up by BGN 5.5 billion (16.3% YoY) to BGN 39.5 billion. However, a significant part of the new lending to companies (BGN 2.1 billion or 36% of the new loans) was to other financial institutions and most of it was probably used for lending to households. In contrast to the previous year, a larger part of the new loans to nonfinancial companies are for long-term lending rather than overdrafts which suggests that the businesses have overcome the liquidity strain in 2022, caused by the high electricity prices and the rising inflation. The demand for consumer loans remained almost unchanged compared to the previous year, and they rose by BGN 1.9 billion (11.8% YoY) to BGN 18 billion. Simultaneously, the improving standard of living, the stable interest rates and the active real estate market shot up the demand for mortgage loans to new heights – BGN 3.66 billion net increase in 2023 to BGN 22 billion or almost 20% growth on an annual basis.

The interest rates on new loans in local currency to nonfinancial companies followed closely the international trends and moved in parallel with the EURIBOR, rising from 3.12% at the end of December 2022 to 4.55% a year later – levels not seen since 2016. This was, however, not observed in the retail segment – rates on new consumer loans in leva were 9.6% at the end of December 2023, compared to 9.7% in 2022, while the mortgage rates oscillated throughout the year at a level of around 2.6%.

Growth of deposits decelerated sharply in 2023 from 15.4% to 8.4% p.a. and for the first time in almost 15 years the increase of the deposits could not cover the disbursed new loans. Total deposits expanded by BGN 10.6 billion to BGN 136.8 billion, or BGN 740 million lower than the respective increase of the

lending portfolio. After the abundant 2022, in the current year the companies experienced a liquidity squeeze as new deposits fell almost five times from BGN 10.6 billion (26% YoY) to BGN 2.2 billion (4.3% YoY). Although some key factors for the drop were the lower electricity, oil and natural gas prices, the delayed budget payments and the lower international trade, the higher rates that the large corporate customers could get on their deposits abroad certainly played a part. Households, on the other hand, deposited a new record amount in the Banks – BGN 8.3 billion (a third more than in 2022), bringing the total to BGN 82.6 billion, yearly growth is explained by the higher income enjoyed by Households and the lack of alternatives for depositing abroad. Drawing on the ample liquidity buffers built up in the last few years, the Banks were not in an immediate need to attract new liquidity which subdued the upward movement of the interest rates on deposits. Higher rates were offered for terms deposits and longer maturities both to large corporates and households, but the overall impact is still small – cost of funds has increased by less than 15 bps throughout the year.

Interest income swelled by 62% YoY (BGN 2.2 billion) to BGN 5.9 billion. More than half of the net increase (BGN 1.18 billion) came from the lending portfolio, predominantly from the loans to companies, while the income from the household loans was growing in parallel with the increase of the volumes. Income from deposits with banks more than quintupled in 2023 to BGN 1 billion, while the interest income from securities rose by BGN 216 million to BGN 482 million. Interest expenses jumped 2.5 times to just over BGN 1 billion, but this came predominantly from the increased costs for wholesale funding -banks building up MREL funding, rather than deposits from clients. The latter rose by about BGN 160 million (282% YoY) to BGN 218 million representing just 21% of the interest expenses of the Banks. Net fee and commission income rose modestly by 3% (BGN 45 million) as banks had to compensate the safekeeping fees they charged on large deposits in the first half of 2022. Total income for the year was BGN 6.9 billion, or 31% higher than in 2022.

Expenses for the year were BGN 2.7 billion, largely kept under control and in line with the inflation rate. Staff expenses were BGN 1.26 billion, growing by 14.8% YoY (BGN 163 million) similar to the wage rate increase in the financial economic segment.

As the portfolio quality improved, the Banks had a lower impairment charge on loans and securities – it was down by 30% to BGN 413 million. The nonperforming exposures ratio improved by 121 bps to 3.96%. The volume of the nonperforming loans fell by more than BGN 590 million to BGN 3.85 billion, mostly due to loans overdue more than 180 days (BGN 439 million), written off or sold. At the end of the year the coverage ratio stood at 81% (2022: 77.6%).

Throughout the year the Banks have been building up their capital buffers preparing for the binding MREL requirements which entered into force on 1 January 2024. Total CAD ratio stood at 21.65% as of the end of December or close to 80 b.p percentage point above the level a year ago. The CET 1 ratio was 20.07% as of the same date.

Major Changes in The Regulatory Environment

On 26 April 2023 the Governing Council of BNB adopted a decision on the implementation of Guidelines EBA/GL/2023/04 on policies and controls for the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services, effective from 3 November 2023. The Guidelines set out the policies, procedures and control mechanisms that credit and financial institutions should apply to effectively reduce and manage the ML/TF risks in accordance with Article 8(3) of Directive (EU) 2015/ 849, including measures regarding the provision of payment accounts with basic features in accordance with Article 16 of Directive 2014/92/EU. The Guidelines introduce a requirement for credit and financial institutions to put in place risk-sensitive policies and procedures to ensure that their approach to the application of customer due diligence measures does not unduly deprive customers of legitimate access to financial services.

On 26 April 2023 the Governing Council of BNB amended Ordinance No. 21 on Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks. The amendments include increase of the percentage of the minimum required reserves on the funds attracted by banks from non-residents from 5 to 10 percent as of 1 June 2023 and increase of the percentage of the minimum required reserves on the funds attracted by banks from residents and from non-residents from 10 to 12 percent as of 1 July 2023.

The European Parliament and the Council of the EU adopted on 18 October 2023 Directive (EU) 2023/2225 on credit agreements for consumers, repealing Directive 2008/48/EC (Consumer Credit Directive) from 20 November 2026. The Directive lays down a common framework for harmonization of certain aspects of the laws, regulations and administrative provisions of the Member States concerning credit agreements for consumers. Certain articles shall apply to all open-end credit agreements existing on 20 November 2026. Member States shall adopt and publish, by 20 November 2025, the laws, regulations and administrative provisions necessary to comply with this Directive.

On 30 December 2023 changes in Corporate Income Tax Act were published in the State Gazette implementing the EU Global Minimum Tax Directive applicable in Bulgaria as of 1 January 2024. According to it the minimum effective tax rate of 15% will apply to Bulgarian companies and permanent establishments, part of multinational or purely domestic groups, with a consolidated turnover above EUR 750 million for 2 out of the last 4 years. Respectively Bulgarian companies, falling in the scope defined above, will pay directly to the Bulgarian budget a top-up tax to reach 15% effective tax rate - if their (aggregate) effective tax rate was below 15% – applicable as of 1 January 2024.

Regulation (EU) 2022/2554 on the digital operational resilience of the financial sector (“DORA”) was published at the end of December 2022. The Regulation entered into force on 16 January 2023 as its provisions shall apply from 17 January 2025. The Regulation aims at strengthening the IT security of financial entities such as banks, insurance companies and investment firms and assuring that the financial sector in Europe is able to stay resilient in the event of a severe operational disruption.

State Budget Act of the Republic of Bulgaria for 2023 introduced amendments in The Payment Services and Payment Systems Act. The PSPSA provides an addition in relation to basic operations accounts. It is envisaged that when in an account for basic operations under Art. 118 of the Law on Payment of Disabilities shall be carried out operations on the order of the holder, including cash withdrawals, no fees shall be paid for them when they are at the expense of funds received from salaries, pensions, social security and social assistance benefits, scholarships for pupils, students and PhD students. This provision does not apply to withdrawals through ATM and POS terminals of banks other than the servicing bank. The Basic Operations Account is serviced free of charge when the above funds and the interest on these funds are received and stored. The changes came into force on 01 September 2023.

The new amendments in the Measure against Money Laundering Act (“MAMLA”) aim to increase the compliance of the national legislation against money laundering and terrorist financing with the requirements of the International Standards on Combating Money Laundering, the Financing of Terrorism and Financial Action Task Force (FATF) Recommendations. In Art. 4 of the Act new categories of obliged entities are included in order to achieve a higher level of compliance with the requirements of FATF Recommendations 10 and 15, namely: the persons who by profession provide services for the transfer, exchange, storage and management of virtual assets, and services related to the public offering of virtual assets, the persons who by profession provide access to deposit cassettes in public vaults, as well as the representatives of licensed postal operators providing postal money transfers. The amendments entered into force from 6 October 2023, with the exception of certain provisions regarding the notification obligations of the obliged entities which will enter into force 12 months after the promulgation.

Eurobank Bulgaria performance and key indicators

The year 2023 was by far the best in Eurobank Bulgaria's history. Gaining from the strong market performance and leveraging on the successful acquisition of the business of the Bulgarian branch of BNP Paribas Personal Finance S.A. (BNP Paribas PF) in the middle of the year, Eurobank Bulgaria improved its results by every measure. Net profit for the year reached a new record of BGN 308 million – a sizable annual increase of close to 50%. The return on equity was 14.6% or 3.3 pp better than last year's, while the return on assets was 1.74% (2022: 1.36%).

Gross loans increased by a little less than BGN 2.5 billion (24% YoY) to BGN 12.9 billion, of which approximately BGN 879 million came from the acquisition of BNP Paribas PF, the rest being organic growth. Market share gain last year was 1.2 pp and reached 13.3% - a new high. More than half of the new loans came from the consumer lending segment – the size of the portfolio surged by 74% (BGN 1.38 billion) to BGN 3.25 billion, where the BNP PF non-organic growth supported entirely this segment of business. The favorable interest rates and the strong real estate market helped propel the mortgage portfolio by close to 20% YoY (BGN 588 million) to BGN 3.67 billion. Growth in the SBB segment was more modest – loans to small businesses rose by BGN 112 million (12.3% YoY) to BGN 1.02 billion. Although the performance of the corporate segment seems the weakest compared with the others - 9.2% YoY with a nominal increase of BGN 419 million to BGN 4.97 billion, it is in fact 50% higher than previous year delta and slightly higher than the market, bringing along a small market share gain. Although most of the new lending was funded by the inflow of deposits, Eurobank Bulgaria had to utilize some of its liquid resources to cover the rest – thus the loans and advances to banks shrank by BGN 660 million to BGN 783 million.

Total deposits rose short of BGN 2 billion (14.4% YoY) to BGN 15.65 billion. This was much higher than the market growth (8.4% YoY), allowing Eurobank Bulgaria to improve its market share by 60 bps to 11.45% - the highest on record. Two-thirds of the increase came from retail customers whose deposits exceeded BGN 11.2 billion at the end of the year. Despite the difficult market conditions and the liquidity squeeze felt by the companies, Eurobank Bulgaria managed to attract more than BGN 640 million new deposits from corporate clients, bringing the total to BGN 4.45 billion. Because of the acquisition of BNP Paribas PF, the net loans to deposits ratio climbed by 6 pp to 80%. Other borrowed funds more than doubled to BGN 1.04 billion, because of 3 new medium term loans from Eurobank S.A. which were used to cover the binding MREL target entering into force from the beginning of 2024.

Total operating income was up by 40% YoY (BGN 230 million) to BGN 797.7 million. Net interest income increased by 50% (BGN 210 million) to BGN 637 million with the contribution of the lending portfolio by far having the biggest weight (BGN 227 million). Interest expenses more than quadrupled to BGN 102 million, but close to 60% of them are paid for the expensive wholesale funding, rather than the much cheaper local deposits. Net fee and commission income was up by the more modest 5% (BGN 7 million) to BGN 148.6 million, but income from the transactional business, such as transfers and cash operations, grew with double digit rates.

Total operating expenses increased by roughly a third (BGN 86 million) to BGN 327 million, predominantly because of the acquisition of BNP Paribas PF which affected Bank's cost base. Half of the new costs went for salaries which were also under pressure because of the wage inflation. On the positive side, the higher income more than compensated the increased expenses and the cost-income ratio improved by 1.1 pp to 40.97%.

Provisions for impairment were up by 33% (BGN 25 million) to BGN 101 million, the number including also a one-off effect from the fair value of acquired BNP Paribas PF's portfolio. Even with this, the cost of risk was at the reasonable level of 0.9%. The nonperforming exposures ratio improved considerably – by 1.3 pp to 2.5%, well below the market level (4%). In nominal terms the volume of

NPEs shrank by BGN 67 million to BGN 325 million with a stage 3 coverage ratio of 63%, while the coverage ratio was 113%.

In March 2023, Eurobank Bulgaria obtained a permission from the competent authority to include €110m loan taken from Eurobank S.A. at the end of 2022 in its own funds, easing the pressure on the capital adequacy from the acquisition of BNP Paribas PF. The interim profits were capitalized throughout the year which was enough to cover the expansion of the risk weighted assets. At the end of the year the capital adequacy stood at 20.6%, not including the interim profit for the fourth quarter of 2023 ending on 31 December 2023 or about 0.1 pp below the end of 2022. With the additional medium term loans taken from the mother bank in 2023, Eurobank Bulgaria is also in full compliance with the binding MREL target as of 1 January 2024.

Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2023.

RISK MANAGEMENT

The Bank considers risk taking as an integral part of its activities for achieving its strategic and business objectives. Risk taking is core to the financial business, and the operational risks are inevitable consequences. Therefore, timely and effective risk management is a key priority of the Bank's management.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks. The risk management policies reflect the Bank's objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The Bank's intent is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank's Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Supervisory Board of the Bank (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. Risk Division supports and complements the activities of the Risk Committee. In addition, Internal Audit is responsible for the independent review of risk management and the control environment.

The Bank's risk management function is capturing all material risk sources across all portfolios and operations. Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

The Bank manages with higher priority the following major types of banking risks arising from its activities – credit risk, market risk (including interest rate risk in the Banking book), liquidity risk and operational risk.

Credit Risk

Credit risk is the risk related to the inability or unwillingness of a customer or a counterparty to fully meet the commitments made to the Bank in relation to lending, trading (with financial instruments, currency, etc.), settlement, hedging or other transactions within the agreed time period or schedule.

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them.

Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate. The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letters of guarantee and other financial instruments.

In compliance with its risk strategy, the Bank targets to maintain a low level of credit risk concentration by industries and at a customer level.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in compliance with the requirements of the IFRS framework and Impairment Policy applied on a monthly basis. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

Market risk

The Bank is exposed to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables and thus may influence the Bank's profitability.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market and Counterparty Risk Policy. It is further supported by procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The market risk control and supervision framework set by the Bank aims to protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making.

The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

The market risk measurement system measures risk arising from exposure to the following specific market risk factors:

a) Interest Rate Risk

Banking is related to maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flow dynamics. Interest rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, option risk, volatility risk. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary re-pricing on a monthly basis.

b) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board Arrangements. The management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on an ongoing basis.

c) Equity price risk

Equity price risk is the risk of decrease of the fair values of equities as a result of changes in the levels of equity indices and the value of individual stocks. It may include outright risk, volatility risk, spread risk and dividend risk.

d) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its

financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place. Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and high quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise on the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank. On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios and is the unit that exercises an independent liquidity risk control function, escalating any breaches of limits to the respective management bodies.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR



Postbank, with its legal name Eurobank Bulgaria AD, is the fourth biggest bank in Bulgaria in terms of assets, operating with a wide branch network throughout the country and having a significant customer base of individuals, companies and institutions. It has been a leading player in innovations and a trend setter in the Bulgarian banking sector for more than 30 years now, with multiple awards for its innovations. The financial institution holds a strategic place in both retail and corporate banking in Bulgaria. Postbank is among the leaders in the market for credit and debit cards,

mortgages and consumer loans, savings products, as well as for products targeted at corporate clients from small businesses to large corporate international companies with an established presence in the country. The financial institution has one of the best developed branch networks and modern alternative banking channels, paying special attention to providing high-quality services to its clients.

2023 has been another special and important year for Postbank, filled with numerous achievements and prestigious local and international recognitions for the efforts of the Bank to work with care for people, society and nature, combining the best of traditional and digital banking.

In June 2023, Postbank officially concluded the acquisition deal of the trading enterprise and operations of the Bulgarian branch of BNP Paribas Personal Finance S.A, France. Effective as of June 1, 2023, the branch's operations transitioned to the Postbank family and continue to operate in the Bulgarian market under the brand PB Personal Finance, part of Postbank, maintaining its business model.



In November 2023, Postbank introduced its new brand "PB Personal Finance" with its first-of-its-kind conference "Retail Reload – powered by AI." The special event, organized in partnership with Mastercard Bulgaria, brought together over



250 representatives from leading companies who, along with internationally renowned lecturers, discussed the latest trends and innovations in the field of artificial intelligence in retail business. Driven by the desire to share expertise and global practices, the companies united in their mission to introduce the Bulgarian retail ecosystem to innovative ways in which artificial intelligence is changing the consumer experience and helping with more effective business management.

Grigor Dimitrov was chosen as the ambassador for the new brand "PB Personal Finance" of Postbank (PB Personal finance by Postbank). The world-renowned tennis player is the star of the brand's first communication campaign, carrying the strong message "Finance for Champions." This partnership is a logical step in line with Postbank's mission to be an innovative bank for dynamic people seeking modern concepts, digital and financial products, providing them with an excellent experience. Customers have easy access to personalized banking solutions with high added value, and the latest innovative concept "One Stop Shop for your Beyond Banking ideas" provides users with financing at the next level.



In 2023, the top management of Eurobank chose Sofia to host its most significant meeting of the year. Between March 27 and 29, the Board of Directors of the Eurobank Group gathered for the first time in the Bulgarian capital. Its selection as the host city is an exceptional recognition from the leadership of the financial group for the successes and dynamic development of Postbank, as one of the leaders in the Bulgarian market. During their first official visit to the country, the senior management of Eurobank held meetings with the President of the Republic of Bulgaria, Rumen Radev, and other high-level officials, as well as with corporate clients and employees of Postbank. The discussions involved the Chairman of the Board of Directors of Eurobank Group, George Zanas, the Group CEO, Fokion Karavias, the Group Deputy CEO, Stavros Ioannou, the General Manager of International Operations and Private Banking of the group, Michalis Louis, and the CEO and Chairman of the Management Board of Postbank, Petia Dimitrova..

In February 2023, Mrs. Petia Dimitrova, CEO and Chairman of the Management Board of Postbank, was elected Chairperson of the Board of Directors of the Hellenic Business Council in Bulgaria. This high recognition comes after Mrs. Dimitrova served as Vice Chairperson of the Board of Directors of the Hellenic Business Council in Bulgaria for the past few years. It is one of the most important business organizations in the country, comprising leading Bulgarian companies, as well as representatives of



Greek and Cypriot businesses in our country. Mrs. Dimitrova's chairmanship is not only recognition of the uncompromising standards she imposes in her work but also a great honor for Postbank as a trusted and reliable business partner.

Mrs. Petia Dimitrova was also elected Chairperson of the Supervisory Board of the Association of Banks in Bulgaria in April. The election took place after a meeting of the Supervisory Board of the Association of Banks in Bulgaria and is a recognition of

Mrs. Petia Dimitrova's active role as a member of the governing body of the organization and leader of one of the leading banks in the Bulgarian market.

During the annual "Bank of the Year" awards organized by the "Bank of the Year" Association, Postbank won the award for successful digital transformation, and for another year, triumphed with one of the most important distinctions therein. The award was received after an assessment by a professional jury and was presented to Mrs. Petia Dimitrova, CEO and Chairman of the Management Board of Postbank.



At a ceremonial ceremony in December 2023, the newspaper "BANKER" presented its traditional "Banker of the Year" awards for the 30th time. These prizes are awarded to those managers of financial institutions who have achieved remarkable success during the year. Mr. Dimitar Shumarov, Executive Director, Chief Financial Officer, and member of the Management Board of Postbank, was honored with the "Banker of the Year" award. He received it for achieving high resilience in the current complex macroeconomic environment.

Ms. Petia Dimitrova, CEO and Chairperson of the Management Board of Postbank, and Chairperson of the Association of Banks in Bulgaria, as well as the Hellenic Business Council in Bulgaria, participated in a working meeting with the Minister of Finance, Asen Vassilev. The meeting was attended by representatives of major investors in the metallurgy and metal processing sector, the Banking sector, the cement industry, the construction sector, petroleum product trading, and other sectors, as well as the Ambassadors of the Republic of Greece, Marios Liberopoulos, and the Republic of Cyprus, Haralambos Kafkaridis. In her welcome remarks to the guests, she focused the ensuing lively discussion on topics such as the tax system in Bulgaria, the country's acceptance in the eurozone and Schengen, and projects under the National Recovery and Resilience Plan.



Postbank supported the establishment of the Canadian Chamber of Commerce in Bulgaria, "CanCham". "CanCham" officially announced its establishment at a ceremony at the National Archaeological Museum in Sofia. The financial institution was represented at the event by Petia Dimitrova, CEO and Chairperson of the Management Board of Postbank, and Chairperson of the Association of Banks in Bulgaria. Ms.

Dimitrova also serves as Vice President of "CanCham." The establishment of the chamber aims to strengthen economic ties and reaffirm the common vision for promoting bilateral trade, investment, and cooperation between the two countries. By establishing itself, "CanCham" will contribute to expanding trade and economic relations between Bulgaria and Canada – one of the leading countries in the G-7 and the world's 10th largest economy.

As a leading employer who values its success through the satisfaction of its employees, Postbank



has always sought to develop the skills of its team members and provide an environment for unleashing their potential. Thanks to its active policy in this direction, the financial institution was recognized as a "Top Employer" for 2023 in Bulgaria with a certificate from the international independent Top Employers Institute. Founded over 30 years ago, the Institute has certified over 2,000 companies from more than 120 countries to date. The Bank receives this recognition after a detailed monitoring of the processes in the company

over the past year. The award is for its innovative vision and high standards in implementing globally recognized human resources management practices, care for people, working conditions, employee personal and professional development programs, and more. Postbank is also the first company in the Eurobank group to receive the "Top Employer" recognition.

For another year, Postbank is among the major winners in the prestigious awards for best employer in Bulgaria – the Career Show Awards, receiving a total of four gold and one bronze awards in some of the most attractive and contested categories of this year's competition. The financial institution received the gold award for "Best Employer" in the "Banking" and "Finance" sectors. The recognitions are for the successful implementation of innovative and creative solutions and successful employer practices for talent attraction, training, management, and development. The company was also honored in the overall and most contested category "Best Employer for 2023" for its comprehensive employer brand strategy. Postbank won an award in the category "Use of Technology in HR," where its innovative approach to digital and VR gamification of the employer brand and automation of HR processes was recognized again.



Postbank won two international awards in this year's edition of the prestigious Employer Brand Stars Awards 2023 competition. The awards in the highly competitive categories "Use of Digital" and "Candidate Experience" are recognition of the institution's commitment to implementing innovative strategies and successful employer practices. As the only winner from Bulgaria, Postbank's achievements demonstrate its modern approach to human resource management and are further evidence of its innovative vision for managing its employer brand.

For another year, Postbank is one of the unequivocal winners in the b2b Media Employer Branding Awards competition. The financial institution was awarded a total of two gold and one silver awards in some of the most attractive categories. The Bank won first place in the Creative Thinking category, receiving recognition for its innovative internal project "Together We Are the Face of Postbank." Postbank also dominated with the gold award in the Excellence in Teamwork category. The financial institution was also honored in the Employer Branding Innovation category, where its innovative approach to VR gamification of the employer brand was recognized with a silver medal.



Postbank launched the first sign language academy for banking employees in Bulgaria, "Beyond Sound." With it, financial experts from the institution's branch network will be able to provide their services in an even more accessible way and easily serve clients who use this method of communication. The entire training program will be conducted with the assistance and support of Stray Sheep – a company aiming to popularize sign language in Bulgaria, and in collaboration with the Andy and Ay Academy for Deaf Children, as a result of which bank employees will be fully prepared to offer a comprehensive experience to clients

with entirely non-verbal communication. With this initiative, Postbank once again confirms its position as a responsible company and its commitment to being as helpful as possible to its clients by providing easy, fast, modern, and convenient banking services.

Postbank was also awarded the Distinctive Sign for Significant Achievements in the Field of Gender Equality. The financial institution was the only bank awarded the high prize in the 2023 edition of the competition, organized by the Ministry of Labor and Social Policy (MLSP). The awards were presented by Deputy Prime Minister and Minister of MLSP L. Lazarov and Deputy Minister N. Klisurska.

Postbank received high recognition after being awarded a long-term deposit rating of Baa3 by the international rating agency Moody's (Moody's Investors Service). The outlook for the long-term deposit rating is positive. At the same time, the rating agency – one of the three largest in the world, awarded Postbank a Baa2 long-term Counterparty Risk Ratings (CRR) rating. The stable capitalization, strong recurring profitability, and growing deposit base of Postbank were fully deservedly assessed and reflected in Moody's report. The stable capitalization, strong recurring profitability and growing deposit base of Postbank were deservedly assessed and reflected in Moody's report.



Postbank received the gold award in the "Innovative Bank" category at the annual "Company of the Year" awards. This is another recognition for the financial institution, which has been among the market leaders for 32 years and successfully implements some of the most modern and innovative solutions for the benefit of its clients.

Postbank was the big winner of the first edition of the unique innovative awards, Leaders of Influence Awards 2023, organized by b2b Media. In addition to the most significant prize, Postbank also won gold awards in some of the most contested categories: "Strategy, Leadership, and Success," "Leadership Award," and "Green Influencer." In the "Green Influencer" category, Postbank was the only awarded participant, fully corresponding with its key message – to be a bank for green ideas. The green start towards a sustainable future is realized with every small step, effort, and achievement made by businesses and society in their mission for more environmentally friendly behavior.



Postbank was honored with two awards during the eighth edition of the BAAwards 2023 for outstanding achievements in marketing communications by the Bulgarian Association of Advertisers (BAA). The financial institution won gold in the "New Service" category for the campaign "EVA – Financial Digital Assistant." The socially significant campaign "Universe of Opportunities" by Postbank was assessed by the jury with a silver award in the "Corporate Social Responsibility" category.

Postbank won two awards at the twenty-third edition of the PR Prize 2023 for outstanding achievements in public relations in Bulgaria. At the ceremony held at the Peroto Literary Club, the innovative campaign "The Digital Face of Postbank" triumphed with second place in the "Internal Communications Project" category. The recognition is for building a collective digital image of all over 3000 employees of the Bank in a unique and emotionally engaging way. The innovative, large-scale, and entirely digital project for corporate social responsibility "Universe of Opportunities" was awarded for the second consecutive year, grabbing the honorary third place in the "Digital Communications" category.



The extensive digital platform "Universe of Opportunities" brought another award to Postbank, which won the "Innovative Corporate Social Responsibility Project" category at the annual Charity and Corporate Social Responsibility Awards "Golden Heart". The recognition is part of a series of significant awards that the Bank receives for its multi-layered CSR policy, within which it implements various projects for the benefit of society.

Postbank was awarded three prizes at the ninth edition of the b2b Media Annual Awards 2023. The awards were won in competition with many strong projects. The first gold award the Bank received was in the "Community Branding Campaign" category for the project "The Digital Face of Postbank" – an innovative campaign that built a collective image combining the characteristics of the Bank's employees. The competition's jury awarded the second gold award to the Bank in the "Innovative Campaign in Social Media" category for the digital platform "Universe of Opportunities." In the "Green Initiative" category, the financial institution was awarded second place for its project "Green Classroom," which grew into a successful and sustainable green initiative, implemented in partnership with Mastercard Bulgaria and the Directorate of Vitosha Nature Park.

Postbank received the "Business Honors Cause" award for its active contribution to environmental conservation and the green transformation of business and society. The awards are presented for the second consecutive year by the newspaper "24 Hours" and distinguish companies that are actively engaged in the field of social entrepreneurship. Angel Mateev, Executive Director of the Retail Banking Sector at Postbank, accepted the award, which was presented to him by the Minister of Environment and Water, Julian Popov.



In the 13th edition of the b2b Media Annual Awards for "The Greenest Companies in Bulgaria," Postbank won a gold award in the "Green Project" category for its project "Green Classroom." Once again, Postbank was honored with the first-place prize by the competition's jury in one of the most contested categories – "Green Educational Initiative," and in the "Leader in Green Initiatives" category, the Bank won the third prize, which resonates with its role as a Bank for Green Ideas, where sustainable business development is at the core of its long-term strategic vision.



Postbank won one of the prestigious awards at the ESG Awards competition organized by PwC, held for the second consecutive year, which aims to recognize sustainable business practices and ESG strategies. The award in the "Responsible Management Strategy and Internal Training" category was presented to Dimitar Shumarov, Executive Director and Chief Financial Officer of Postbank, who expressed his gratitude and stated that this award is an exceptionally important recognition for the efforts of all employees who work with tremendous enthusiasm and dedication, and the results prove it. He

emphasized that he admires the opportunity for sharing ideas, as sharing our achievements helps us move in unity towards a common cause, such as ESG.

Throughout the year, the Bank's employees participated in various business forums and conferences, including the international forum The World Ahead 2023, organized by The Economist in Sofia, the "Banks and Business" conference by Capital, the multi-platform project "Inflation – Equations and Solutions," organized by Bulgaria on Air TV, the forum "Strategy for Political and Economic Development of Bulgaria," organized by the Hellenic Business Council in Bulgaria, the conference "Financial Innovation Forum," organized by the Bank of the Year Association, the Investor Finance Forum, the international conference "Prospects and New Opportunities for Pension Markets in Central and Eastern Europe," organized by the European Confederation PensionsEurope (CEEC Forum) and the Bulgarian Association of Supplementary Pension Security Companies (BASSPSC), the 4th RICS International Conference "Investments, ESG, and Market Valuations," the specialized annual financial conference "The Noise of Money," organized by the financial portal profit.bg, Residential Forum 2023, the prestigious "Banking Today" forum organized by the financial portal investor.bg, the leading financial forum for digital finance, fintech, and banking innovations #NEXT DIFI 2023, the traditional conference of the construction-investment industry in Bulgaria – "FORUM REAL," the educational program of the Finance Academy, and others.

Postbank successfully integrates ESG criteria into its portfolio. The successful integration of the ESG strategy into the financial sector was the topic of discussion at the 14th annual Credit Risk Conference organized by ICAP Bulgaria.

For the financial institution, environmental, social, and governance factors are among the leading values, alongside the understanding that our debt to nature is a key element of our care for the well-being of all stakeholders and our society as a whole.



Environmental protection and the fight against climate change are fundamental to Postbank's corporate values. As a responsible financial institution and a leading factor in innovation and shaping the development trends of the sector in the country, the Bank acknowledges the importance of the environmental and climate aspects of its activities in the process of making key management decisions. Among the latest large-scale projects that Postbank undertakes in this direction is the construction of a photovoltaic power plant for its own needs on the roof of its head office building, with a total installed capacity of 388 kWp. It

is expected that the annual production of green energy will reach 432,000 kWh, with the electricity generated by the plant covering at least 30% of the building's electricity consumption for a day with intense sunlight. The implementation of the large-scale photovoltaic project offers several advantages, allowing the company to further reduce its carbon footprint and simultaneously motivate employees to be more responsible. The idea for the project was developed in harmony with Postbank's ESG strategic vision, which outlines the basic principles on which its corporate philosophy for development is based, both in the immediate future and in the long term.



The financial institution was the main partner in 2023 of a series of business discussions in Sofia, Plovdiv, Stara Zagora, Varna, Ruse, Burgas, Veliko Tarnovo, and others, part of the project "Annual Awards of Imoti.net," which has been held for the eighth consecutive year and encourages best practices in the sector. At meetings with representatives of the real estate business, the bank's experts discussed trends in the development of the sector and, as a leader in lending, presented their analysis of the market, the profile of consumers, and the current conditions for housing loans from Postbank in the challenging year.

NEW PRODUCTS

In 2023, Postbank introduced more innovative products and services, focusing on providing support to its customers by developing and implementing modern and high-tech financial solutions that they can use remotely through convenient communication channels, providing them considerable added value. Companies need to be faster in implementing solutions that create conveniences for customers in order to remain successful in the continuous digitalization of the financial sector.



In 2023, Postbank introduced its newest program "Priority by Postbank" with the special participation of actor Kalin Vrachanski as its ambassador. The financial solution provides a combination of comprehensive banking services for convenient and secure daily banking, digital and savings products, as well as additional preferential conditions related to the Bank's credit

offerings. The leading role of Kalin Vrachanski, one of the most beloved and popular Bulgarian actors, in the campaign of the new program once again testifies to its exclusivity and places exceptional focus on the customer and Postbank's commitment to providing impeccable user experience. Customers who prefer not to wait and use the "Priority by Postbank" program can benefit from innovative services created for them - the Digital Sales and Service Center and the Priority Desk - priority service in over 45 of the Bank's branches. Postbank's Digital Center is an opportunity for customers to contact the Bank from anywhere. A team of experts will take care of the desired services quickly and conveniently. Customers can request a video call or contact by phone, with the option to remotely sign the necessary documents instantly. By using the "Priority by Postbank" program, Priority customers save time with each visit to the Bank by choosing service at the Priority Desk.

Postbank and Bulstrad Life Vienna Insurance Group presented their newest joint product, the International Life Insurance with additional health coverage "Premium Insurance," during a special event in Sofia and in the company of leading business media. The new "Premium Insurance" was developed specifically for Premium clients of Postbank seeking high-quality medical care, providing financial support, comprehensive health services, and full service in the country and abroad with a limit of up to 2,000,000 EUR. The special event took place at the recently opened innovative Premium Banking Center "San Stefano Plaza" of Postbank, which is a continuation of the long-term strategy of the financial

institution for the complete renovation of its branch network and with exceptional attitude towards customers from the Premium segment. The specialized centers provide comfort and confidentiality, combined with uncompromising service standards for their high-class clients in luxurious surroundings and spaces with modern high-tech design.



Postbank partnered with "Bon-Bon Music" in a special campaign dedicated to the youth program "Project YOUTH." The talents from the music group at different ages participate in the program,



discussing the advantages of the project in an interesting and exciting way. The soundtrack of the campaign is created by "Bon-Bon Music". The young people from the group are not only the main actors in the videos but also the artists who, through the universal language of music, reach the target youth audience, to which the project's message is directed.

Postbank developed the modern program to encourage the development of useful financial habits and culture in managing their own budget, as well as to help children acquire key skills that build more independence. With "Project YOUTH," Postbank focuses on building a stable relationship with its youngest users, inspiring them, and offering them a service tailored to their needs and age, with which they can discover a universe of new financial opportunities.

During the largest pop culture festival in our country, Aniventure Comic Con 2023, which took place on July 8 and 9 at Inter Expo Center in Sofia, Postbank, together with Visa, created a special interactive corner where they welcomed participants and stimulated their creativity with various entertainment, surprises, and prizes. In order to encourage and allow visitors to show their potential and competitive spirit, the two companies offered participants a fun program with numerous activities on the spot. The culmination during the exhibition at the Postbank and Visa booth was the



organized raffle with the grand prize PlayStation 5, which attracted the interest of visitors, and over 500 people registered to participate. Each of the areas in the dedicated space was inspired by Postbank's special Youth program "Project YOUTh," and the design of each installation in the modern corner was painted with the help of teachers from the National Academy of Arts.



Postbank launches a new comprehensive program through which customers can save for a new home and avail themselves of housing loans under preferential conditions. "Towards Home" is a value-added financial solution designed to assist in the journey towards owning a dream home by combining two banking products. Under the program, customers can open a deposit account with special conditions to save their own contribution towards purchasing a home, as well as apply for a housing loan with promotional terms.

Postbank introduced to the Bulgarian market a housing loan with a fixed interest rate for the first 10 years in euros. With its new financial offering, the institution reaffirms its customer-centric approach and provides consumers planning to purchase property with long-term security and predictability for the future. The loan can be up to 350,000 euros, with a maximum term of up to 35 years, and can be used for purchase, renovation, construction, or finishing activities for a home, as well as for refinancing other obligations. The talents from the music group at different ages participate in the program, discussing the advantages of the project in an interesting and exciting way. The product offers an optimal solution to a specific expectation of the consumers to be able to plan their expenses long-term. Its creation is driven by the growing interest and inquiries from the bank's clients for a loan with a fixed interest rate and is in line with the Bank's long-term strategy to provide value-added financial solutions that meet the needs of consumers and the market environment.

**ЖИЛИЩЕН КРЕДИТ С
ФИКСИРАНА ЛИХВА В ЕВРО
за първите 10 ГОДИНИ**

МАКСИМАЛЕН РАЗМЕР: 350 000 евро
СРОК: 35 години
ВАЛУТА: EUR

ЛИХВЕН ПРОЦЕНТ: фиксиран за първите 10 години



ЦЕЛ: покупка, ремонт, строителство или довършителни дейности по жилище, рефинансиране на други задължения

ПРЕДИМСТВА ЗА ТЕБ: осигурява дългосрочна сигурност, спокойствие, гъвкавост и по-добро планиране на разходите

Utilizing the functionalities of one of the world's most popular communication platforms, Postbank is the first financial institution in Bulgaria to develop its own career chatbot on Viber to provide an excellent experience for its new candidates. SKY by Postbank allows users to profile themselves according to their interests and desires, helping them engage with the company through various games, raffles, as well as for personal communication when expressing interest. Postbank's career



chatbot SKY will assist users in choosing a position, send them information about new internship and job opportunities, challenge and guide them to discover what matters most to them and more about Postbank as an employer. The creation of the innovative chatbot for young talents coincides with the presentation of the new edition of the Bank's annual internship program. In 2023, the financial institution, for which innovation is a tradition, once again gives young people the opportunity to apply for internships with an Instagram CV in the special channel PostbankSuperstarter on the popular social network.

The Bank continues to offer its customers a fully remote process for issuing credit and debit cards, allowing customers not only to apply for their cards online but also to receive them at their desired address, with the entire procedure taking place without visiting a bank office. In 2023, in over 10 cities across the country, including Sofia, Plovdiv, Varna, Burgas, Ruse, Blagoevgrad, Pleven, Pazardzhik, Gabrovo, and in a total of over 45 locations (financial centers) of Postbank, machines for instant card issuance are operational. Nearly 40,000 clients have benefited from the speed of this modern banking service, and Postbank's goal is to provide even greater coverage and make it accessible to more clients across the country. Thanks to the convenience and increasingly widespread network of locations where the service is available, there has been more than a twofold increase in the number of instantly issued cards in 2022 compared to the previous year, undoubtedly proving their role in consumers' daily lives, along with the time saved and access to a range of other benefits that card products offer to their users.



Postbank reports increasing interest in its innovative program "Project YOUTH," designed for the youngest clients of the institution. Over the past year, their number has increased by 33.5%, which is a clear indication of growing interest and engagement among young people in banking products and financial solutions. Nearly 64% of the Bank's entire youth portfolio utilizes digital services such as Internet banking and/or the modern mobile wallet ONE wallet by Postbank, with among the most active clients, the use of digital services for daily banking exceeding 77%. The latest data from a study by Predicta, commissioned by Postbank, clearly show that the younger generation increasingly relies on remote services and digital banking solutions in their daily rhythm of life, making personal budget management even more secure, easy, and convenient. The data analysis also observes that the largest growth in active users is in the age group of 18-26 years, with over 70%. Increased interest in using online banking among young people is reported in June 2023 compared to the same period a year ago.



In 2023, Postbank added new and attractive features to its innovative mobile application. The current version offers users the opportunity to receive free notifications on their mobile device, informing them of movements in their accounts, as well as with each card transaction made at a POS terminal, ATM device, or online. They also have the option to stagger transactions made with credit cards in the last 30 days, worth over 100 leva, into equal monthly installments for a period of 3, 6, 9, or 12 months directly through the mobile

wallet. Every client can invite a friend to the application, allowing them to discover the exceptional features of Postbank's modern solution together.

Postbank's new digital service allows users to become bank clients and apply for a product completely remotely without the need to visit an office. With just a few clicks, they can apply for a consumer loan and take advantage of the Bank's new Digital program. The online consumer loan comes with preferential conditions - desired financing up to 10,000 leva for a period of up to 72 months. As clients of the Bank, users also receive free access to Internet banking (e-postbank) and mobile banking (m-postbank) by Postbank, as well as the opportunity to take advantage of the benefits of the Digital package program with a payment account and debit card for comprehensive banking services, and to conclude "Payment Protection" insurance on the loan.

Postbank also offers a fully digital registration and application process for Mastercard Standard, Mastercard World, or Mastercard Premium credit cards from any location and at any time, without the need to visit a bank office. With the new credit card, the user has the option to stagger already made payments with it into a different number of equal monthly installments, optimizing their monthly budget. As clients of the Bank, users have the opportunity for free registration for Internet banking e-Postbank and mobile banking m-Postbank, as well as access to the innovative digital wallet ONE Wallet by Postbank for quick payments with just a phone.



The "Green Loan" proposal for corporate clients by Postbank provides financing of up to 90% of the project costs for the construction of a photovoltaic plant for self-consumption, with an installed capacity of up to 2 mWh, with a maximum financing amount of 2 million euros, and a long repayment period - up to 12 years after the facility is put into operation, in addition to a grace period of up to 18 months, necessary to complete the project. When applying for financing for a solar panel, candidates have the opportunity to take advantage of the attractive conditions offered by Postbank, as green financing is among the main priorities of the credit institution. Postbank finances

solar projects under the specified parameters and in cases of selling electricity on the open market.

Postbank offers an attractive proposition for turnover or investment loans with a fixed interest rate for the first three years to every owner managing a business with an annual turnover of up to 4,000,000 leva. The credit can be in Bulgarian levs or euros, with a minimum repayment term of 5 years and a maximum term of up to 10 years, as well as the option for equal monthly installments, enabling them to forecast, optimize, and allocate their company's budget.



Postbank's "Professional Property Manager" product package provides the necessary tools - a current account in Bulgarian levs, a business debit card (Mastercard Business or Visa Business), and internet banking for anyone whose work is related to this field of activity. The professional property manager account at Postbank has no opening fee or minimum balance requirement, and the client can benefit from a lower monthly service fee by activating all products from the package.

For those wishing to take advantage of various opportunities, manage common income and expenses for shared building spaces quickly and efficiently, Postbank provides a comprehensive financial solution for homeowners who are part of the Homeowners' Association under the Property Management Act. The "Property Ownership" product package combines three of the most desired elements - an account for the "Current Expenses" fund, an account for the "Repair and Renewal" fund, and a special account for the "Renovation Program," aimed at easing the owners' obligations by offering them a comprehensive service for their expectations. The Bank is among the first in the country to offer products aimed at this type of activity to facilitate the process of organizing internal procedures and applying for external financing.





Postbank continues to expand its portfolio of deposit products. Structured deposits, as one of the most current and attractive savings products, combine the security of a bank deposit with the possibility of profitability tied to the performance of a certain market index, while ensuring the preservation of the initial invested capital. It is a tool guaranteed under the conditions and in accordance with the Deposit Guarantee Act and has the potential to earn a better interest rate at maturity compared to standard time deposits. The newest savings product with which Postbank complements its portfolio of deposit solutions

is the structured deposit "Index EURO 50," which responds to consumers' exceptional interest. It is a structured deposit for 5 years in euros, where the return consists of two components - a basic fixed annual interest rate and the possibility of additional interest at deposit maturity, which in turn is based on the performance of a stock index. The product has guaranteed principal at maturity and a basic fixed annual interest rate of 3.00% on the deposited amount, payable annually in advance during each year of the deposit term after the expiration of the first (initial) period and can be withdrawn at any time.

Postbank continues to offer targeted consumer loans for business education worldwide, unmatched in the Bulgarian market. It can finance fees for various programs such as Master of Business Administration, Executive Master of Business Administration, Advanced Management, etc. The product is designed to meet the growing interest in financing education that opens the path to career growth and development, registered by the Bank in recent years.

Postbank clients can also benefit from the conveniences of the Online Housing Credit Center, which introduces a new model for quick and convenient customer service. The new digital solution in the housing financing process is an extension of the services offered by the Bank in its specialized Housing Credit Centers. This way, the Bank enhances the service for online housing loan applications to fully meet consumer expectations for remote consulting and communication with the Bank during the loan approval process, transitioning the process into a digital environment.

SUSTAINABLE DEVELOPMENT

In 2023, the Bank implemented a number of socially significant projects in the areas of entrepreneurship, education, environmental conservation, sports, and corporate philanthropy. Postbank is an active member and supports initiatives of KRIB, American Chamber of Commerce in Bulgaria (AmCham), Bulgarian Industrial Capital Association (BICA), British Bulgarian Business Association (BBBA), Association of Banks in Bulgaria in Bulgaria, "Borika" AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donor Forum, Atanas Burov Foundation, Bulgarian Network of the UN Global Compact, Bulgarian Association of Advertisers, and Bulgarian Fintech Association.



In 2023, the financial institution, traditionally a leading partner for businesses in the country, supported for the fifth consecutive year the unique growth program Dare to Scale - the first of its kind in Bulgaria, aimed at businesses with the potential for more extensive expansion of their activities. In the project of the Bulgarian office of the global Endeavor network, due to the significant interest this year, 6 companies were awarded during the closing Demo Day event. The selected entrepreneurs went through training and interactive sessions

led by successful practitioners and leaders from the Endeavor network, with experts from Postbank also participating as mentors. The Dare to Scale growth program will continue in the coming years to encourage the growth of even more new local businesses. By participating in the Dare to Scale growth program, Postbank actively contributes to the development of both promising scale-up companies and the business environment in Bulgaria. This is another expression of its desire to encourage bold ideas, support innovation, and competitiveness of firms and the economy.

For the ninth consecutive year, Postbank was the main partner of the Small Business of the Year competition - "The Big Small", organized by "24 Chasa" newspaper. Every year, small and innovative Bulgarian companies present their ideas, which they have successfully developed into a product or service in the market. The first prize in the "Innovative Company" category was awarded by Filip Popov, Head of Small Business Banking Management at Postbank, and the winners were determined to be Infinity Toy Box.



For the fifteenth consecutive year, the most prestigious annual awards in the insurance and pension insurance sector in Bulgaria were presented. The organizers of the event are the University of Insurance and Finance (VUZF), the Association of Bulgarian Insurers (ABI), the Bulgarian Association of Supplementary Pension Insurance Companies (BADPO), the Bulgarian Association of Insurance Brokers (BAIB), and the "Prof. Dr. Veleslav Gavriyski" Foundation. The prize in one of the leading categories, "Insurance Broker of the Year - Life Insurance", was awarded to "I N G Insurance Brokers" Ltd. The award was presented by Dimitar Shumarov, Executive

Director and Chief Financial Officer of Postbank. In his speech, he pointed out that 2022 was significant and successful for the insurance and pension insurance sector. Dimitar Shumarov congratulated the organizers and emphasized that as a leading financial institution, Postbank develops a number of fruitful collaborations with established life insurance and pension companies.

Quality education and the direct connection between schools, universities, and businesses are a top priority in Postbank's corporate social responsibility. That is why the financial institution participates



in numerous initiatives focused on the young people development.. Postbank continues to develop its joint project with SoftUni in support of Bulgarian education, which started back in 2018. It includes various activities to prepare young people for the professions of the future and their realization in Bulgaria. Through strategic partnership, the two organizations aim to encourage students to develop their potential as IT and digital leaders, prepared for the dynamically changing environment and the new trends in banking. During the SoftUniada 2023 competition, 15-year-old high school student from Pleven, Mario Petkov,

managed to win first place and Postbank's award in the "Competitive Programming - Junior" category. In the contested two-day competition, held entirely online, a total of 238 participants in six categories measured their knowledge and skills, with 183 of them participating in solving algorithmic problems in the two age groups of the most competitive category, "Competitive Programming".

IT specialists from Postbank once again participated in the career online seminar IT Journey, presenting attractive opportunities for work and career development in the company to young students from the Software University. The Bank provides attractive opportunities for internships and professional development for young IT specialists and is a preferred top employer for young software specialists who are at the beginning of their professional journey.

Young bankers from Postbank NEXT rightfully claimed first place among tenth graders in the student competition held as part of the 24th School Fair on the project "Integrated Practical Training." The contested competition at Inter Expo Center involved 23 educational-commercial banks and a total of 63 educational enterprises of students from the National Trade-Banking High School and the Private Vocational High School of Banking, Trade,



and Finance. This year, the school fair is dedicated to the 110th anniversary of the National Trade-Banking High School. The team of the educational commercial bank Postbank NEXT presented a rich portfolio of banking products and services, including its own website, managing to impress visitors and the competition jury. Once again this year, highly qualified experts from Postbank served as mentors to the students - part of the financial institution's extensive initiative to support the education of students from the National Trade-Banking High School and the Private Vocational High School of Banking, Trade, and Finance.

For the second consecutive year, training of students from the 10th, 11th, and 12th grades of the National Trade-Banking High School and the Private Vocational High School of Banking, Trade, and Finance was conducted by leading experts from Postbank. Thanks to a program specially designed for the needs of high school students, top experts from the financial institution introduce young people who have chosen the financial sector for their professional realization to the practical application of



innovations, modern solutions, and the dynamic development of the Banking world. The sustainable strategic partnership between Postbank and the two leading vocational high schools aims to support the improvement of quality education and the establishment of a close connection between education and business - a key process for preparing well-informed business personnel. The series of lectures prepared by the Postbank team are tailored to the material covered by each graduating class. The topics cover the latest trends and processes in the financial sector, including a variety of content: from the structure and organization of a commercial bank and the methodology for developing business strategies and setting goals to the transformation facilitated by virtual reality and modern banking and the rapid development of digital channels.



Experts from Postbank conducted an open lesson on the topic "Let's Talk About Personal Finance" for students from the second and fourth grades of the 131st Elementary School "Kliment Timiryazev" in Sofia. Over 120 children and their teachers participated in the event, organized as part of the international initiative "European Money Week 2023" with the main goal of introducing students to the basics of personal finance and helping to increase their financial literacy from an early age. Through an interactive

format and engaging practical tasks, the lecturers from the financial institution familiarized the young participants with the origin and history of money and their role as a medium of exchange for goods and services, their development over the centuries, and their use today. The focus of the training was on personal and family budgets, and the children learned basic concepts such as "income" and "expenses," the importance of "savings" and why they are important, how to organize a budget easily, and how to manage personal finances. "European Money Week 2023" is an initiative of the European Banking Federation, held annually in several European countries. Its goal is to introduce children, primarily through various educational campaigns aimed at students, to what money is, how banks work, and - generally - to increase their financial literacy and encourage responsible attitudes toward personal finances and saving.



Postbank is a general partner of the Mentor the Young initiative for another season. 10 mentors from the financial institution participated in Season 5 of the program and shared their experience. Postbank believes in the power of mentoring and the exchange of experience between experts and young people because it is fundamental to the development of every professional.

Postbank and Sofia University cooperate in training future financial experts in the Master's program of the Faculty of Economics, "Finance and Banking." Modern disciplines such as "Bank Management" and "Investment Banking" are part of the mandatory curriculum for 2023-2024, and the training in them is led by experts from the Bank.

In November and December 2023, Postbank participated for the eighth consecutive year in the socially responsible initiative "I am Proud of My Parents' Work," organized by the Bulgarian Network of the UN Global Compact. Students visited the central building of the financial institution to learn more details about the professions and work of their parents through specially developed educational programs.

For the eighth consecutive year, Postbank, as a member of the Association of Banks in Bulgaria (ABB), actively participates in the European campaign aimed at combating money laundering schemes and the recruitment of "financial mules."

With the support of Postbank, "Bon-Bon Music" presented the play "The Magic Crown" during the "Apollonia" holidays in Sozopol on August 29 and at the "Stage of the Ages" in the old capital city of Veliko Tarnovo on September 12. Postbank's support and partnership with "Bon-Bon Music" continue the investments in sustainable development and socially responsible policies of the leading financial institution. The Postbank team firmly believes that the long-term sustainability of business is closely linked to the overall well-being and development of society and the



care for children and their talents. From the position of a leading financial institution, Postbank actively supports projects in some of the main spheres of public life such as education, culture, sports, and environmental care.

In June 2023, Postbank was once again the main partner of the charity relay race Postbank Business Run, organized annually by the running club "Runner." A total of 363 teams from 133 companies from various business sectors participated, held in the territory of Business Park Sofia. The initiative brought together 1,452 participants, and for another year, 56 children aged 4 to 16 participated in the Kids Run competition, conducted by certified coaches according to the IAAF - Kid's Athletics program. In the established CEO Dash competition among executive directors, 12 managers from different companies took part.



The largest team-building event in Bulgaria this year supported three causes. The funds raised, exceeding BGN 10,000, will support a project of the "For Our Children" Foundation, the project "Swimming Skills - a program for socialization of children in disadvantaged situations" of the "CONCORDIA Bulgaria" Foundation, and the renovation of the new building, covering the current expenses of the "Pavement 2020" Community Center, which aims to create an environment and community for students, volunteers, and anyone in need of personal development.

Postbank is the only bank in Bulgaria that has its own "Green Board" and Environmental Office unit in its organizational structure, working to protect the environment both in terms of limiting the Bank's resources and its financing activities. Additionally, board members organize various outdoor initiatives, involving other employees as well.



Postbank participated in the large-scale initiative "The New Forest of Sofia - 2" in 2023. The team of the financial institution planted over 2,000 seedlings on Earth Day - April 22. Over 100 volunteers dedicated their time, labor, and efforts to reforesting new forest areas in the outskirts of Sofia, in the lands of the village of Negovan. Postbank has been involved for the second consecutive year in the project, as part of its overall internal environmental conservation program "Green Together with Postbank" and in line with the company's longstanding sustainable policy. Under the motto

"Lend a Hand to the New Forest of Sofia," the institution's team planted over 1,000 trees in the designated area last year. The plan for the spring edition of the campaign in 2023 is to plant new 32 acres with a total of 20,000 broadleaf seedlings of oak tree species.

In August 2023, Postbank and Mastercard beautified the area above the Dragalevtsi Monastery, located in the territory of the Vitosha Nature Park, as a result of which the existing Alley for Access for People



in Disadvantaged Situations, sports and recreation areas were renovated, and the youngest visitors to the mountain now enjoy a completely new children's facility. The event is a continuation of the project "Green

Outdoor Stories" and for the third year is realized with the support of experts from the Directorate of the Vitosha Nature Park. With the socially responsible initiative carrying the message "Rediscovering the Mountain Together with Children," the companies aim to make the mountain a natural, accessible, and even more inspiring place for adventures for both young and old.

This year, the project was also associated with another important cause - supporting beekeepers in our country and preserving bees. Over 130 volunteers participated in the initiative, took part in the final field activities, and became beekeepers for a day by assembling, painting, and decorating 10 beehives, which were later provided to beekeepers from the "Real Honey" network.



The volunteers from both companies, along with their children and representatives of the Directorate of Vitosha Nature Park, participated in all final field activities. They engaged in painting and renovating the existing Alley for Access for People in Disadvantaged Situations, on which educational boards with a special section made with Braille alphabet and interesting information about the centuries-old trees, some of which can be seen in the area, were installed. A board with information about the Dragalevtsi Monastery "Assumption of the Holy Mother of God", located in close

proximity to the site, was also placed on the Alley. Employees actively participated in the refurbishment of sports facilities and recreational areas on the site, lacquered and refreshed all "Vitosha-style" gazebos and tables, installed numerous boards with games and mazes for the youngest, including useful information about honey-producing plants and bees.



"The New ESG Reality and How the World is Moving Towards a Greener Future" was the theme with which the first banking podcast "Finance in Focus" returned to the airwaves, realized by Postbank in partnership with Bloomberg TV. The fourth season of the podcast started with an interesting conversation about the challenges faced by all participants in the green transition, as well as an analysis of Postbank's strategic approach in this direction.

Employees of Postbank are regular donors to the National Center for Transfusion Hematology and participate in blood donation campaigns organized and held at the Central Office.

In 2023, Postbank supported the podcast "Property - Bought or Rented", part of the project "Annual Awards of Imoti.net", which is broadcast with the assistance of the financial institution.

The financial institution supported the fifth edition of the festival "Unbeaten Path", held in Gotse Delchev. The home of the event is once again the Rhodope village of Kovachevitsa, which welcomed hundreds of guests from the country and abroad. This year, the festival ended at the Episcopal Basilica in Plovdiv.

The 18th World Meeting of Bulgarian Media was opened in June in Kazanlak, in the Rose Valley and the Valley of the Thracian Kings, during the Rose Festival, which has been celebrated in the city for 120 years. The theme of the meeting is "Freedom and Media", and traditionally the event is organized by the Bulgarian Telegraph Agency (BTA). Postbank is a partner of the prestigious forum.

Throughout the year, the Bank continued its longstanding support and work with groups in disadvantaged social situations and stimulating their active role in society. Support was provided to children in disadvantaged situations in Kazanlak, elderly people in Ruse, the national campaign "Easter for Everyone" - "Give a holiday to grandma and grandpa", as well as many other smaller initiatives throughout the year.

Postbank traditionally participated in the festive decoration of Sofia. Following its established values, the financial institution believes that the overall well-being and development of society depend on the efforts to improve the environment of each of us. Therefore, along with its other socially oriented projects, for several years it has also taken care of the festive splendor of the capital during the Christmas-New Year holidays.

AWARDS

- For the third consecutive year, Postbank won two prestigious international awards from the World Finance Digital Banking Awards 2022 competition by the authoritative magazine World Finance. The prizes are in the categories of "Best Consumer Digital Banks, Bulgaria" and "Best Mobile Banking Apps, Bulgaria" for users in Bulgaria.
- Postbank was awarded as a "Top Employer" for 2023 with a certificate from the international independent Top Employers Institute.
- Postbank triumphed with three awards in the Employer Branding Awards 2023 competition organized by b2b Media. The Bank won two gold awards in the categories of "Creative Thinking" and "Excellence in Teamwork". For its innovative approach in establishing the employer brand, the Bank received silver in the "Employer Branding Innovation" category.
- Postbank was honored with the Distinctive Sign for significant achievements in the field of gender equality in the competition organized by the Ministry of Labor and Social Policy in Bulgaria.
- Postbank won bronze in the category of "Leader in Green Initiatives" at the "Greenest Companies in Bulgaria" competition, receiving recognition from the jury for the financial institution's overall contribution to sustainable business development and building green awareness.
- The project "Green Classroom" by Postbank won first place in the "Green Educational Initiative" category in b2b Media's competition "Greenest Companies in Bulgaria".
- Postbank won the gold prize in the "Green Project" category at the "Greenest Companies in Bulgaria" awards organized by b2b Media. The prize distinguishes the initiative "Green Classroom," implemented by the Bank in collaboration with Mastercard and Vitosha Nature Park.
- Postbank won second place in the "Internal Communications Project" category with its campaign for building the "Digital Face of Postbank" in the PR Prize 2023 competition.
- The extensive Corporate Social Responsibility project "Universe of Opportunities" was honored for the second consecutive year in the PR Prize 2023 competition, grabbing the prestigious third place in the "Digital Communications" category.
- Postbank won two silver awards in the prestigious international competition Employer Brand Stars Awards. The financial institution triumphed in the categories of Use of Digital and Candidate Experience.
- For its innovative products and services, Postbank was awarded the "Innovative Bank" prize at the annual "Company of the Year" awards.
- The extensive digital platform "Universe of Opportunities" brought another prize for Postbank, which won the award in the category "Innovative CSR Project" at the annual awards for charity and corporate social responsibility "Golden Heart."
- Postbank won the award for successful digital transformation at the annual "Bank of the Year" awards organized by the Association "Bank of the Year."
- Postbank received the "Business Honorary Cause" award for its active contribution to environmental conservation and green business transformation. The awards are presented for the second consecutive year by the newspaper "24 Chasa" and distinguish companies that are actively engaged in the field of social entrepreneurship.

- Postbank won second place in the "Green Initiative" category with its project "Green Classroom" at the Annual Awards of b2b Media 2023.
- The innovative platform "Universe of Opportunities" by Postbank won first place at the Annual Awards of b2b Media 2023 in the category "Innovative Campaign in Social Media."
- Postbank won the gold award in the category "Community Branding Campaign" for the project "Digital Face of Postbank" at the Annual Awards of b2b Media 2023.
- Postbank received well-deserved recognition from the Career Show Awards in the contested category of "Best Employer for 2023" for its overall employer brand strategy.
- Postbank is among the big winners in the prestigious awards for Best Employer in Bulgaria - Career Show Awards, with a total of four gold awards in the categories of "Best Employer" in the sectors of "Banking" and "Finance", "Use of Technology in HR" and "Management and Teams".
- Postbank won one of the prestigious awards in the ESG Awards competition in the category of "Responsible Management and Internal Training Strategy".
- Postbank won a silver award in the category "Corporate Social Responsibility" for the campaign "Universe of Opportunities" from the eighth awards of the Bulgarian Association of Advertisers BAAwards 2023.
- Postbank won the gold award in the category "New Service" for the campaign "EVA - Financial Digital Assistant" from the eighth awards of the Bulgarian Association of Advertisers BAAwards 2023.
- Postbank won the gold award in the category "Green Influencer" from the first edition of the Leaders of Influence Awards 2023 competition organized by b2b Media.
- Postbank won the gold award in the category "Leadership Award" from the first edition of the Leaders of Influence Awards 2023 competition organized by b2b Media.
- Postbank won the gold award in the category "Strategy, Leadership and Success" from the first edition of the Leaders of Influence Awards 2023 competition organized by b2b Media.
- Postbank won the major award Influencer of the Year from the first edition of the Leaders of Influence Awards 2023 competition organized by b2b Media.

SHARE CAPITAL STRUCTURE

As of 31 December 2023 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank S.A. owns 99.99% of Eurobank Bulgaria's AD shares, and 0.01% is held by minority shareholders.

MANAGEMENT BOARD

As of 31 of December, 2023 the Management Board consist of the following members:

- Petia Dimitrova – Chief Executive Officer, Chairperson and Member of the Management Board;
- Dimitar Shoumarov – Executive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin – Executive Director and Member of the Management Board;
- Panagiotis Mavridis – Chief Operating Officer and Member of the Management Board.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Management Board during the year

No member of the Management Board has owned or transferred shares or bonds of the Bank.

2. The Management Board members' rights to acquire shares and bonds of the company.

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Management Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

- Asen Yagodin

Dike - Imoti OOD – partner

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- Petia Dimitrova

Association of Banks in Bulgaria (non-profit legal entity) – Chairperson of the Executive Board;

Foundation Atanas Bourov (non-profit legal entity) – Member of the Management Board;

Hellenic Business Council in Bulgaria (non-profit legal entity) – Chairperson of the Board of Directors up to 19 December 2023 and Member of the Board of Director after;

Association Endeavor Bulgaria – Member of the Board of Director;

Association of the Canadian Commercial Chamber in Bulgaria – Member of the Management Board;

PB Personal Finance EAD – Member of the Board of Director;

- **Asen Yagodin**

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Member of the Board of Director;

Bulstrad Life Vienna Insurance Group JSC, Bulgaria – Independent Member of the Supervisory Board;

Green Finance and energy center (GFEC) (non-profit legal entity) - Member of the Management Board;

- **Dimitar Shoumarov**

PB Personal Finance EAD – Member of the Board of Director;

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2023.

In 2023 the members of the Management and Supervisory boards received remuneration amounting to BGN 3,513 thousand.

SUPERVISORY BOARD

As of 31 December 2023, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairperson and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakakis Louis – Member of the Supervisory Board;
- John David Butts – Member of the Supervisory Board;
- Ivi Vigka – Member of the Supervisory Board;
- Iasmi Ralli – Member of the Supervisory Board;
- Raika Ontzova – Member of the Supervisory Board;
- Oliver Elingham – Member of the Supervisory Board (released as of 21.12.2023);
- Minko Guerdjikov – Member of the Supervisory Board.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during the year.

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

2. The Supervisory Board member's rights to acquire shares and bonds of the company.

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Supervisory Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

3.2 Partners/shareholders holding more than 25 per cent of the capital of another company.

- **Georgios Provopoulos**

Geonamar P.C – Partner (released as of June 2023).

- **John David Butts**

Lex RX Bulgaria EOOD, Bulgaria – Sole Owner;

Ubad - Toro OOD, Bulgaria – Partner;

Lexrx Capital OOD, Bulgaria – Partner and directing Manager.

- **Raika Ontzova**

VPS Lilia & Ontzovi SD – Partner and Chairperson.

3.3 Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Stavros Ioannou**

Eurobank Ergasias Services and Holdings S.A, Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities, Executive Director;

Eurobank S.A., Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities, Executive Director and Member of the Executive Board;

Eurobank Direktna A.D. Beograd, Serbia – Member of the Board of Directors (released as of November 2023);

BE – Business Exchanges S.A. of Business Exchanges Networks and Accounting and Tax Services, Greece – Chairman and member of the Board of Directors;

Eurobank Cyprus Ltd, Cyprus – Vice Chairperson and Member of the Board of Directors;

Grivalia Management Company S.A., Greece - Member of the Board of Directors.

- **Michalakis Louis**

Eurobank S.A, Greece – Head of International Activities General Division & Group Private Banking, Member of the Executive Board;

Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;

Eurobank Direktna A.D. Beograd, Serbia – Member of the Board of Directors (released as of November 2023);

Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer and member of the Board of Directors;

NEU Property Holdings Limited, Cyprus – Chairman and member of the Board of Directors (released as of July 2023);

NEU 03 Property Holdings Limited, Cyprus – Chairman and member of the Board of Directors (released as of July 2023);

ERB New Europe Funding III Limited, Cyprus – Chairman and member of the Board of Directors (released as of August 2023).

- **John David Butts**

Lexrx Capital OOD, Bulgaria – Managing Director.

4. Contracts concluded during the year according to Art. 240 b of the Commercial Law

In 2023, the Bank did not conclude contracts within the meaning of Art. 240 b para. 1 of the Commercial Law.

In 2023 the members of the Management and Supervisory boards have received remuneration amounting to BGN 3,513 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD has one subsidiary as at 31 December 2023 - PB Personal Finance E.A.D. The Bank employees are 4,213 people (2022:3,333).

OBJECTIVES FOR 2024

Completing the successful acquisition of the business of the branch of BNP Paribas Personal Finance SA in Bulgaria (renamed and working under the brand name Postbank Personal Finance), Eurobank Bulgaria plans to return to its long-term strategy focused on three pillars - organic growth, digitalization and customer service aiming at sustainable growth and value creation for the shareholders.

The above will go hand-in-hand with the ongoing preparation for the euro adoption project, for which apart from the preparatory work in the previous two years, additional substantial financial and human resources will have to be committed to finalize it in 2024. Despite the substantial costs involved, the adoption of the euro as a national currency of Bulgaria is expected to bring benefits for the Bank such as higher capital adequacy, reduced minimum reserve requirements and better access to funding.

In 2024 the market is expected to balance the growth of loans and deposits and the strategy of the Bank will be to take its fair share from both markets. The demand for new loans by the households is projected to be similar to the previous year's which would require vigilant credit assessment and asset quality protection. Responsible and sustainable financing will be of growing importance for the Bank, where the its ambitious goals for reducing the impact on the environment have to be promoted to its clients. In order to facilitate this transition and provide more opportunities for improving the competitiveness of the small and medium-sized companies, Eurobank Bulgaria plans to sign new guarantee agreements with international financial institutions.

Strict cost and revenue control will be exercised in order to ensure that profitability will be kept at the same level and that Eurobank Bulgaria will be able to cover the capital and MREL requirements through internal capital generation. Implementing the digital strategy will continue with appropriate prioritization of projects to balance between short-term regulatory driven targets, such as the euro adoption and the long-term strategic goals. Investments in digital channels, self-service zones and end-to-end digital processes will be key to free the front office staff from mundane tasks and devote more time for client consultation and advisory. Given the limited options for competing on price, keeping the existing clientele engaged and winning new clients could only be possible by providing fast, reliable and impeccable service for which Eurobank Bulgaria is renowned for.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company and its financial results as at year end. The management has prepared the enclosed financial statements in accordance with IFRS as adopted by the European Union.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

**Petia Nikolova
Dimitrova**

Digitally signed by Petia Nikolova
Dimitrova
Date: 2024.03.29 14:48:35 +02'00'

Petia Dimitrova

Chairperson of the Management
Board and Chief Executive Officer

27 March 2024
Sofia, Bulgaria

Dimitar Borisov Shoumarov

Digitally signed by Dimitar Borisov
Shoumarov
Date: 2024.03.29 14:11:36 +02'00'

Dimitar Shoumarov

Member of the Management Board,
Executive Director and Chief
Financial Officer

CORPORATE GOVERNANCE STATEMENT 2023

1. Corporate Governance Code and Practices

In compliance with Bulgarian legislation and based on the international best practices on corporate governance, Eurobank Bulgaria AD ("the Bank") observes the National Corporate Governance Code ("Code"), which describes the basic corporate governance principles and practices.

2. Compliance with the National Corporate Governance Code

The Bank observes and complies in entirety with the Code. The Bank's Statute and all adopted internal rules and manuals are in full compliance with the Code and the applicable legislation. Presently there have not been any ascertained cases of non-compliance with the Code.

2.1. Internal Corporate Governance Code

The Bank has developed and adopted its Internal Governance Control Manual ("IGCM") and strictly applies its guidelines. The IGCM of the Bank covers the content and is in full compliance with the framework set by the Code.

2.2. Ethics Code

In the scope of ethics, the Bank has adopted and currently applies a document named Code of Professional Conduct, containing rules in addition to the requirements of the legal framework which aim at setting minimum common internal rules and principles of professional and ethical conduct to be followed by the Staff of the Bank during the performance of their duties.

2.3. Conflict of interest

Procedures for preventing and detecting conflicts of interest in the Bank are incorporated in Internal Rules for Managing Conflict of Interest. In accordance with these procedures, Executive Directors and other members of Management have a duty to inform the Supervisory Board / Management Board respectively of any personal interests they may derive from Bank's transactions that fall under their field of responsibility or any other conflict between their and the Bank's interests that may occur, in carrying out their duties.

2.4. Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and long-term interests of the Bank and incorporates measures to avoid conflict of interest. Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank. Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behaviour.

The 2023 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board, and their Committees

3.1. General Meeting of the Shareholders

The General Meeting of the Shareholders ("GMS") comprises all shareholders with voting rights. They participate in the GMS personally or by a proxy, authorized by a written power of attorney. The shareholders and their proxies shall have in the GMS as many votes as they have shares in the capital of the Bank. The members of the Supervisory Board and the Managing Board may attend the GMS without voting rights unless they are shareholders. The members of the Internal Audit Division and the Bank's auditors elected to audit and certify the Bank's annual financial statements may attend the GMS but without the right to vote.

3.2. Supervisory Board and Supervisory Board Committees

The Supervisory Board ("SB") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The exact number of the members of the Supervisory Board shall be determined by the General Meeting of the Shareholders; however, the Supervisory Board shall consist of at least 3 members at all times.

The composition of the Supervisory Board as of 31.12.2023 is 8 (eight) members, after the decision of the General Meeting of Shareholders, Mr. Minko Guerdjikov was appointed, as a new independent non-executive Supervisory Board member, with a term of office equal to the term of office of the other members of the Supervisory Board, which decision is in force from its entry in the Commercial Register and the Register of the Non-profit Legal Entities, i.e. the current term of office of the members of the Supervisory Board expires on 10.05.2025. Respectively, Mr. Elingham was released as a SB member as of 21.12.2023.

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

As at 31 of December, 2023 the members of the Supervisory Board are:

- Georgios Provopoulos - Chairperson of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakakis Louis - Member of the Supervisory Board;
- John David Butts - Member of the Supervisory Board;
- Ivi Vigka - Member of the Supervisory Board;
- Iasmi Ralli - Member of the Supervisory Board;
- Raika Ontzova – Member of the Supervisory Board;

- Oliver Ellingham – Member of the Supervisory Board (released 21.12.2023);
- Minko Guerdjikov – Member of the Supervisory Board.

The Chairperson and five of the Members are independent members.

The following Committees have been established to assist the Supervisory Board (shortly referred to as “SB”) in discharging its responsibilities:

3.2.1. Risk Committee

The SB has delegated to the Risk Committee (“RC”) the role of approving all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). The RC is in charge of monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks.

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of 4 (four) members.

The RC meets at least quarterly. The RC meeting is effective when there are present three members, but in any case, including a majority of independent non-executive Members, one of whom is the Chairperson.

In 2023 the RC held 4 (four) regular meetings and 5 (five) extraordinary meetings.

3.2.2. Audit Committee

The Audit Committee (“AC”) is appointed by the General Meeting of Shareholders following a proposal by the SB and its purpose is to assist the SB in discharging its oversight responsibilities primarily relating to:

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process;
- The review of the financial reporting process and satisfaction as to the integrity of the Bank’s Financial Statements;
- The External Auditors’ selection, performance and independence;
- The effectiveness and performance of the Internal Audit function;
- The effectiveness and performance of the Compliance function.

In doing so, it is the responsibility of the Audit Committee to provide for open communication channels between the SB, Management, Internal Audit and External Audit.

The Audit Committee shall be comprised of at least three members. As of December 2023, the Audit Committee consisted of three members who are appointed for three years with the option to renew their appointment, but in any case, the service in the Committee should not be more than twelve (12) years in total. Additionally, as of 31.12.2023, two new members were appointed in the Audit Committee, through the GMS. Their mandates started on 14.02.2024, since the meeting was convened on that date.

The Audit Committee members' term of office is until 30th of June 2024.

The AC members possess the necessary skills and experience to carry out the AC's duties.

The AC meets at least 4 (four) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis.

During 2023 the Audit Committee held 4 (four) regular and 5 (five) extraordinary meetings.

3.2.3. Remuneration Committee

The Remuneration Committee ("RemCo") is a SB Committee which provides specialized and independent advice for matters relating to:

- remuneration policy and its implementation and for the incentives created while managing risks, capital and liquidity;
- safeguard the proper exercise of its duties and responsibilities, the efficient alignment of the personnel's remuneration with the risks the Bank undertakes and manages the required alignment between the Eurobank S.A. and the Bank;
- approve or propose for approval all remunerations of the key management personnel.

The Committee consists of at least 3 (three) members. The members are appointed by the Supervisory Board as the tenure of the Committee members coincides with the tenure of the SB, with the option to renew their appointment, but in any case, the service in the Committee should not be more than nine (9) years in total. All of the members are non-executive directors and the majority of them are independent.

In 2023 the Remuneration Committee consisted of three members. During 2023 the Remuneration Committee held 5 (five) meetings.

3.2.4. Nomination and Corporate Governance Committee

The SB has delegated to the Nomination and Corporate Governance Committee the responsibility to lead the process for SB, Management Board (shortly referred to as "MB") and SB Committee appointments. In this context, the Nomination and Corporate Governance Committee is responsible for, amongst other things, the identification, nomination and recommendation of candidates for appointment to the SB and MB. The Nomination and Corporate Governance Committee also considers matters related to the adequacy, efficiency and effectiveness of the MB and SB. Nomination and Corporate Governance Committee, in carrying out its duties, is accountable to the SB.

In 2023 the Nomination and Corporate Governance Committee consisted of three members. During 2023 the Nomination Committee held 6 (six) meetings.

3.3. Management Board and Management Board Committees

The Bank is managed by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders. The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years.

The composition of the MB as of 31 December 2023 is consisted of 4 (four) members as three of the MB members are appointed as Executive Directors. The MB assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As of 31 December 2023, the members of the Management Board are:

- Petia Dimitrova - Chief Executive Officer, Chairperson and Member of the Management Board;
- Dimitar Shoumarov - Executive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin - Executive Director and Member of the Management Board;
- Panagiotis Mavridis – Chief Operating Officer and Member of the Management Board.

Management Committees are set up to assist the MB. Such committees are:

3.3.1. Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has primary responsibility to advise the MB on the strategic management of the Bank's assets and liabilities with the aim to effectively manage the interest rate and liquidity risks of the Bank.

The Committee consists of key management personnel both from Eurobank Bulgaria AD and Eurobank S.A., including executive directors and key management functions representing all Retail and Wholesale business units.

ALCO has the following authority:

- To advise the MB on the strategic management of the assets and liabilities;
- To take all necessary decisions regarding the interest rate gap and liquidity management;
- To set the target parameters of potential external funding;
- To review/monitor/establish business initiatives and/or investments that affect the Bank's market and liquidity risk profile.

3.3.2. Regional Credit Committee

The MB has delegated to the Regional Credit Committee to assess and approve credit lines above € 10 m and/or term exceeding 10 years to borrowers with credit rating ICR and NCR 1 - 6 and respectively MRA 1 - 7.5, i.e., exceeding the limit of the CCC.

The Committee consists of senior management personnel from Eurobank S.A., including an Independent member.

3.3.3. Country Credit Committee

The MB has delegated to the Country Credit Committee the approval of all credit exposures with amounts between €6m and €10m and/or term between 7 and 10 years.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the CEO) and senior management from Credit Sector function of Eurobank S.A.

3.3.4. Special Handling Committee I

The MB has delegated to the Special Handling Committee I the functions to assess and approve proposals related to corporate borrowers with credit rating equal and above MRA 7.6/ICR 7/NCR 7 and delinquent retail borrowers with exposures above € 3 m.

The Committee consists of senior management personnel from Eurobank S.A., including an Independent member.

3.3.5. Special Handling Committee II

The MB has delegated to the Special Handling Committee II the functions to assess and approve proposals related to corporate borrowers with credit rating equal and above MRA 7.6/ICR 7/NCR 7 and delinquent retail borrowers with exposures between € 1m and € 3 m.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the Chief Executive Officer) and senior management from the Credit sector function of Eurobank S.A.

3.3.6. Troubled Assets Committee

The MB has delegated to the Troubled Assets Committee the supervision and control of the management of the troubled assets.

The Committee consists of senior management personnel from Eurobank Bulgaria AD, including the Chief Financial Officer and Executive Director, and other key management personnel in the area of TAG, Risk and Strategic Planning.

The main duties and responsibilities of TAC are the following:

- To monitor the management of loans in arrears and NPLs;
- To determine and implement the strategy regarding management of troubled assets and monitor the effective implementation of this strategy.

3.3.7. Loans and Products Committee

The Loans and Products Committee is responsible for the approval of new loan products, as well as changes in basic credit criteria, both in Retail and Corporate.

The Loans and Products Committee consists of key management personnel including the Chief Executive Officer of the Bank.

3.3.8. Operational Risk Committee

The Operational Risk Committee (“ORC”) has the responsibility to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor, and mitigate operational risk. The ORC’s remit covers all business activities and subsidiaries of the Group in Bulgaria. The Operational Risk Committee consists of key management personnel in the areas of Risk, Operations, IT, Finance, TAG, Retail and Corporate. There is also a non-voting member from Internal Audit Division.

3.3.9. Country Procurement Committee

The Country Procurement Committee (“CPrC”) is a management committee subordinated to the MB. The main responsibilities are related to evaluating the cost, necessity and business justification of procurement capital expenditures and operating expenses.

The Committee consists of senior management personnel including the Chief Financial Officer and Executive Director and Chief Operating Officer.

3.3.10. Related Employees Committee

The Related Employees Committee (“REC”) is responsible for monitoring proper implementation of the Bank’s Relatives Employment Policy and for deciding about cases which deviate from the Policy. The REC is subordinated and reports directly to the ExCo.

The Related Employees Committee consists of senior management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

3.3.11. Environmental, Social and Governance Management Committees (ESGMC)

The ESGMC is a management committee established by the CEO. Its purpose is to provide strategic direction on ESG initiatives, review the ESG Strategy prior to approval, oversee the progress of the ESG goals and performance targets and the proper implementation of ESG related policies and procedures. The Committee consists of senior management personnel including the Chief Executive Officer, and other key management functions.

3.3.12. Special Handling Monitoring Committee

The Special Handling Monitoring Committee (SHMC) is established as a committee that monitors problematic Corporate and NPL relationships.

The Committee consists of key management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

3.3.13. Data Governance Committee

The Data Governance Committee (“DGC”) of the Bank is a Management Committee. The DGC is a steering and operational decision-making body for the Bank regarding Data Governance and BCBS 239 compliance management. It oversees rules, regulations, processes and roles that are established in order to manage operational issues related to Data Governance and BCBS 239 principles.

Committee members are appointed by the Executive Committee and include the CEO and other key positions.

3.3.14. IT Decision Board

The IT Decision Board ("ITDB") was established to assist in overseeing the implementation of the IT project portfolio and the management of critical/large IT services and projects at the local level.

The CFO is the chairperson of ITBDDDB and the members are the heads or senior management representatives.

3.4. CEO Management Committees

The CEO is empowered to establish committees to assist him/her as required, assigning their responsibilities and appointing the members, the chairman and the secretary.

3.4.1. Executive Committee

The Executive Committee ("ExCo") has the responsibility for the day-to-day management of the Bank, considers all issues pertaining to the current activities of the Bank and adopt decisions on them as to manage the implementation of the Bank's strategy, plan, direct and control the Bank's activities to ensure high level of performance and customer satisfaction, establish adequate systems of internal control and ensure they are properly maintained, consider the monthly financial reports before their submission to the MB.

The Committee consists of senior management personnel including the Chief Executive Officer and other Executive Directors and all other key management functions covering all areas of the Bank's activities.

3.4.2. Ethics Committee

The Ethics Committee ("EC") mainly deals with staff cases of fraud and/or gross negligence and meets when there are issues to be considered.

The Ethics Committee consists of senior management personnel including the Chief Executive Officer, Head of HR and one Executive Director.

3.5. Main issues the SB dealt with during 2023

In discharging its responsibilities for 2023 the main issues the Board dealt with are related to:

a) Corporate governance:

- Approval of changes in the Bank's organizational structure;
- Approval of changes in the Supervisory Board Committees' compositions;
- Preparation, convocation and holding of regular and irregular GMS;
- Regular update on MB and SB Committees' meetings;
- Review and participation of significant revamp and approval of Internal Corporate Governance Manual (IGCM);
- Other decisions as per Bank's Statutes'.

b) Capital Adequacy:

- review of the 2023 Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) – Pillar 2 Report. Capital Adequacy report review at each SB meeting; Review of MREL requirements and approval of MREL instruments issuance.

c) Business monitoring and strategy:

- approval of the 2022 Annual Financial Statements;
- review of business developments and strategic projects including integration of the acquired business of BNP PF, Euro adoption, IT digitalization and security;
- review of liquidity.

d) Risk Management and Internal Control:

- review of annual reports on evaluation of Internal Control Systems and Compliance Policies;
- review and approval of the 2022 Pillar 3 Report;
- review on the Risk and Capital Strategy and Risk Appetite Framework;
- review of Audit Committee meeting minutes and Key Audit Issues.

4. Board Diversity Policy

The Diversity Policy (“the Policy”) sets out the approach to diversity on the MB and SB of the Bank and it is in accordance with international best practices and the EU and Bulgarian banking law provisions.

The Bank sees increasing diversity at Boards level as an important element in maintaining a competitive advantage. The diversity in the Boards includes and makes good use of differences in the skills, background, nationality, gender, age and other qualities of members. These differences are considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. All Bank’s Boards appointments are made on merit, in the context of the skills and experience of the members to function effectively.

The Nomination and Corporate Governance Committee is responsible to review and assess, on an annual basis, the structure, size, composition, and performance of the members of the Boards and recommends the appointment of new members. In reviewing the Board composition, the committee considers the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background.

5. Board Nomination Policy and Board Induction Policy

- 5.1.** The Eurobank Bulgaria AD Board Nomination Policy sets out the guidelines and formal process for the identification, selection and nomination and assessment of candidates for members of Eurobank Bulgaria AD Management Board and Supervisory Board, as well as and Key Function Holders selection and appointment. The Boards, supported by the Nomination Committee nominate candidates who meet the fit and proper requirements. The fitness and propriety of nominees is assessed against the following criteria: reputation along with honesty, integrity and trust, knowledge, skills, experience and other general suitability requirements, conflicts of interest and independence of mind; time commitment and collective suitability.

5.2. The Induction Program for the Members of the Management Board and the Supervisory Board aims to induct and train the newly appointed members, as well as current members of the Boards. Depending on the person's background it is evaluated which actions of the program shall be undertaken.

The objectives of the program are to: communicate Eurobank Bulgaria AD vision and strategy, to communicate practical procedural duties so as to reduce the time taken for an individual to become productive in its duties, to integrate an individual as a welcome member of the Board, to ensure retention of individuals for future periods, to become familiar with Eurobank Bulgaria AD organizational structure and to give new Members an understanding of Eurobank Bulgaria AD business and the markets in which it operates, create a connection with the Bank's employees and to provide an understanding of its main relationships with the regulators Bulgarian National Bank and Financial Supervision Commission.

6. System of Internal Controls and Risk Management Main Features

The Bank aims to adopt best practices regarding corporate governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee on Banking Supervision, the European Banking Authority, the European Central Bank, the Bulgarian National Bank as well as any decisions of the competent authorities supervising the Bank.

As part of its overall system of internal controls the Bank has established a number of dedicated control functions whose main responsibility is to act as independent control mechanisms thus reinforcing the control structure of the Bank.

6.1. Principles of Internal Controls System

The Bank has established a System of Internal Controls that is based on international good practices and COSO terminology and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- efficient and effective operations,
- reliability and completeness of financial and management information,
- compliance with applicable laws and regulations.

The key principles underlying the system of internal controls are described below:

- **Risk Management:** The Bank acknowledges that taking risks is an integral part of its business. It therefore sets mechanisms to identify those risks and assess their potential impact on the achievement of the Bank's objectives. Because economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms in place shall be set (and evolve) in a manner that enables to identify and deal with the special and new risks associated with changes;
- **Control Activities:** Internal control activities are documented in the policies and detailed procedures that are designed to ensure that operations are carried out safely and all transactions are recorded accurately in compliance with Management's directives and regulations. They occur throughout the organization and business processes, at all levels and in all functions. One of the prime organizational measures to ensure control effectiveness in the Bank is segregation of duties. Functions that shall be separated include those of approval (limits, limit excesses, specific transactions), dealing, administration (administrative input, settlement, confirmation

checks, transaction approval check, documentation check, file keeping, custody and controlling (reconciliation, limit monitoring, excess approval check, risk management, compliance checks, physical counts);

- **Information and Communication:** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. The Bank has set effective communication channels to ensure that information is communicated down, across and up within the organization. Mechanisms are also in place to obtain appropriate external information as well as to communicate effectively with outside parties including regulators, shareholders and customers;
- **Control Environment:** The control environment is the foundation for all components of Internal Control System, providing discipline, structure and influencing the control consciousness of employees. Integrity and high ethical values stem from management's philosophy and operating style and appropriate recruitment and training policies ensure the competence of the Bank's people. The Bank's organization structure is suitable for its size and complexity with clearly defined responsibilities and reporting lines and clearly specified delegation of authority;
- **Monitoring:** The Bank has established mechanisms for the ongoing monitoring of activities as part of the normal course of operations. These include regular management and supervisory activities and other actions personnel take in performing their duties that assess the performance of internal control systems. There are also independent evaluations of the internal control system by the Internal Audit function, the scope and frequency of which depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to the Management Board, the Audit Committee and the Supervisory Board.

6.2. Internal Audit

The Internal Audit function of Eurobank Bulgaria AD is an independent, objective assurance activity designed to add value and improve the Bank's operations. The Internal Audit Division (IAD) helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Management is responsible for establishing a system of internal controls that is adequate for the size and the complexity of the organisation. IAD is responsible for reporting on the adequacy and effectiveness of the system of internal controls.

In order to safeguard its independence IAD reports to the Audit Committee (AC) of the Bank and is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Supervisory Board has delegated the responsibility for monitoring the activity of the IAD to the Audit Committee.

IAD follows a risk-based methodology which examines the existence and adequacy of controls and assesses specific control objectives. IAD's work normally includes but is not restricted to the following:

- To provide reasonable assurance, in the form of an independent opinion, as to the adequacy and effectiveness of the internal control framework of the Bank. In order to form an opinion, IAD carries out audits based on an audit plan approved by the Audit Committee. The required frequency of audits depends on the level of risk in each business unit and/or process;

- To provide proactive support to the Management of the Bank in the promotion of internal controls and risk management in view of the best practices in the area;
- To assist Management in the prevention of fraud and unethical practices;
- To follow-up aiming to ascertain that appropriate action is taken on reported audit findings within agreed deadlines.

6.3. Compliance

The mission of Compliance Division is to promote within the Bank an organizational culture that encourages ethical conduct and a commitment to compliance with laws and regulations as well as international governance standards.

The Compliance Division has been established under the approval of the Supervisory Board and the Audit Committee of the Bank. It is a permanent function, independent of the Bank's business activities, so that conflicts of interest are avoided. The Mandate of Compliance Division is reviewed at least annually.

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Group Compliance and for administrative purposes to the CEO. The Head of Compliance attends all Audit Committee meetings and submits quarterly reports summarizing the Division's activity and highlighting the main compliance issues. These reports include all matters falling under the scope of the Compliance Division, which the Head of Compliance believes should be reported to the Audit Committee or matters specifically requested by the latter.

The main objective of Compliance Division is to ensure that the Bank has established an adequate system of internal controls that allows it to operate in accordance with the ethical set of values contained in its "Code of Conduct and Ethics" and in compliance with applicable laws, regulations and internal policies as well as international best practices. In brief, for the regulatory topics within its scope of responsibilities, Compliance Division is mandated to:

- Raise compliance awareness throughout the Bank;
- Provide advice to the Management and Supervisory Boards and Senior Management on compliance with applicable laws, rules and standards and keep them informed of related developments;
- Issue policies, procedures and other documents such as compliance manuals, internal codes of conduct & ethics and practice guidelines, in order to provide guidance to staff on the appropriate implementation of applicable laws, rules and standards as well as to assist the business to develop and implement regulatory compliant policies and procedures;
- Review new activities and advise on potential compliance risks;
- Ensure that staff is adequately trained and frequently updated about compliance issues by designing training programs and co-operating with HR for their implementation;
- Ensure the development of a robust compliance risk identification and assessment framework, provide support and challenge, if required, the business line management regarding the effectiveness of the compliance risk management activities;
- Coordinate compliance risk management actions performed by other business units;

- Handle issues related to combating financial crime, in accordance with applicable laws and regulations as well as existing sanctions. The Division is responsible for the development of the necessary policies and procedures related to anti money laundering and combating financing of terrorism, as well as for monitoring adherence to them. Moreover, it is responsible for the provision of relevant training and guidance to the staff, as well as, for the cooperation with the relevant Authorities;
- Monitor and test whether staff effectively apply the internal processes and procedures aimed at achieving regulatory compliance and report to the relevant Business Units any potential breaches in order for the latter to proceed with the required improvements;
- Monitor staff adherence to internal policies and the Code of Conduct and Ethics and identify potential breaches or fraudulent activity;
- Monitor the timely submission of reports to competent authorities and report any delays and fines for any alleged breaches of regulations to the Audit Committee;
- Fulfil any statutory responsibilities and liaise with regulators and external bodies on compliance issues;
- Ensure coordination and cooperation with Group Compliance in line with 'Subsidiaries Compliance Supervision and Cooperation Governance' Group Guideline.

The scope of activities of Compliance Division covers the following core regulatory topics:

- a) Financial Crime including laws and regulations on Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT), and legislation aimed at combatting tax evasion such as FATCA & CRS (tax compliance). The scope includes the provision of timely and accurate responses to requests arising from regulatory and judicial authorities for the lifting of banking secrecy or freezing of assets and co-operation with them.
- b) Market Conduct related regulation regarding the provision of investment products and services to clients including laws and regulations on Market Manipulation, Insider Dealing, Unlawful disclosure of inside information and other financial crimes.
- c) Internal Conduct rules including Conflict of Interest regulatory provisions, internal codes of conduct, anti-bribery and anti-corruption legislation and Antitrust and Competition laws and regulations.
- d) Consumer Conduct laws and regulations.
- e) Any other topic for which there is a law/regulation assigning a responsibility to the Compliance function, including, inter alia, the high-level monitoring of the alignment of the Bank's activities with legal and regulatory requirements concerning personal data protection and corporate governance.

The scope of activities can be expanded with the approval of the Audit Committee.

6.4. Risk management

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented by the Risk function.

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions (e.g. local risk appetite, capital allocation, balance-sheet profile and risk management structure). The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks.

The Risk Committee is empowered to:

- Review and analyze the Bank's risk profile, identify and assess significant risks;
- Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- Inform the SB about significant problems or developments that could have an impact on the Bank's risk profile;
- Monitor the implementation of policies related to the management of significant risks;
- Approve adequate methodologies and models for risk assessment and exposure limitation.

The RC updates the SB on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the SB or to the Eurobank S.A.'s Board Risk Committee.

Acknowledging the fact that Risk is embedded in every business activity undertaken, the organisational governance stems from the Supervisory Board through the Risk Committee, Management Board and Senior Management.

A robust risk management framework provides the cornerstone for implementing the Bank's risk strategy and achieving business goals. The Bank's approach is to provide direction on: understanding the material risks to achieving Bank's strategy; establishing risk appetite; and communicating the risk management framework. The process is then broken down into five steps. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps	Activity
Identify	<ul style="list-style-type: none"> • Establish the policies and processes for identifying and understanding business risks.
Assess	<ul style="list-style-type: none"> • Establish and implement measurement and reporting standards and methodologies.
Control	<ul style="list-style-type: none"> • Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements; • Monitor the operation of the controls and adherence to risk direction and limits; • Provide early warning of control or appetite breaches.
Report	<ul style="list-style-type: none"> • Interpret and report on risk exposures, concentrations and risk-taking outcomes. • Communicate with external parties.
Manage and Challenge	<ul style="list-style-type: none"> • Review and challenge all aspects of the Bank's risk profile; • Assess new risk-return opportunities; • Advise on optimising the Bank's risk profile; • Review and challenge risk management practices.

The above processes are embedded in each of the risk types, supported by the appropriate infrastructure and staffing and are described in detail in the following sections.

Principle 1: The Management Board and Supervisory Board are responsible for approving and periodically reviewing the Risk strategy and Bank's risk policies.

Principle 2: Senior Management is responsible for implementation of the risk strategy approved by the Management Board and for developing policies and procedures for identifying, measuring, monitoring and controlling risks. Such policies and procedures address the risks in all Bank's activities, at both individual and portfolio level.

Principle 3: The Bank has sound processes and procedures for approving new loans and transactions, as well as amendments, renewal and re-financing of existing ones.

Principle 4: All exposures are monitored carefully and appropriate measures are taken to control and mitigate the risks.

Principle 5: The Bank has in place systems, processes and procedures for monitoring the performance of individual exposures, including computation and adequacy of provisions and reserves.

Principle 6: Information systems and analytical techniques are used to assist management in assessing and monitoring all significant risks as well as portfolio composition. The Bank uses internal models for credit risk assessment. For Retail portfolio application and behavioral scorecards are in place. For Corporate customer the Bank is using rating systems depending on the economic activity of the customers. The risk models and rating systems are consistent with the nature, size and complexity of the Bank's activities.

Principle 7: The Bank takes into account potential future changes in the macroeconomic environment when assessing individual loans and loan portfolios. The Bank is assessing its loan exposures and portfolios under stressful macroeconomic conditions.

Principle 8: The Bank has implemented process for independent, ongoing risk review and communicates risk figures to the Senior Management, Management Board and Risk Committee.

Principle 9: The Bank promotes an open risk culture to support trust and confidence.

Principle 10: The management and all employees feel committed to the Bank's risk policy principles and make their day-to-day decisions according to these guidelines.

Principle 11: The Bank's risk management is organized in a way to prevent conflicts of interest among employees and organizational units.

Principle 12: The Bank carries out on an annual basis the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

7. Information under Article 10, paragraph 1, letter "c", "d", "e", "f" and "g" of the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on the proposals for takeover bids

- 7.1.** The Bank has not been involved in any significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Directive 2001/34 /EC of the European Parliament and of the Council of 28 May 2001 on the admission of securities to official stock exchange listing and on information to be published on those securities as amended by Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, namely Art. 9 – 13.
- 7.2.** The Bank has not registered any holders of any securities with special control rights.
- 7.3.** No restrictions have been implemented or exercised on the rights to vote, such as restrictions on the rights to vote of holders of a certain percentage or number of votes, deadlines for exercising the rights aloud or systems through which through the co-operation with the company the financial rights attached to the securities are separated of the possession of the securities. All of the Bank's capital shares are ordinary with a nominal value of BGN 1.00 (one) each, giving voting right, dividend right and liquidation quota proportionate to the nominal value of shares.
- 7.4.** The main Article of Association (AoA), namely Statute of the Bank, regulates the appointment and replacement of Boards members. It incorporates the main provisions and principals of the applicable commercial law. The document is publicly available on the account of the Bank in the Commercial Registry and the Registry of Non-profit Legal Entities to the Registry Agency at the Ministry of Justice. The responsibilities that rest with the Management Board and Supervisory Board members are given in Statute of the Bank and detailed in the Terms of reference (ToR) of the relevant Board. It also contains provisions governing the fundamental powers and manner of interaction between the Boards in the decision making process.
- 7.5.** The provisions providing the competences of buy-back of shares are implemented in Art.11of the Bank's Statute.
- 7.6.** No information for takeover bids, other than stated in paragraph for subsequent events, has been received by the Bank as of the date of issuance of these Financial statements.

¹ Information regarding the Share Capital Structure is included in the relevant section of the Annual Activity Report.

NON-FINANCIAL DECLARATION 2023

BUSINESS MODEL

Detailed information regarding Postbank's business model, objectives, structure and products is presented in the Corporate Governance Statement and the Annual Activity Report.

SUSTAINABILITY POLICY STATEMENT

We at Postbank believe that environmentally and socially responsible actions are an essential part of sustainable business growth.

As a financial services institution, we are aware of the environmental and social impacts of our own operations and we strive for efficiency in our use of natural resources, reduction of waste, pollution prevention, climate change mitigation and protection of biodiversity, in a workplace where human and labour rights, as well as health and safety are treated as matters of highest priority. We also recognise the indirect impacts stemming from our lending and investment activities.

We have committed to regularly assess the environmental and social impact of our activities, establish appropriate objectives and targets, continuously enhance our mechanisms for control and improvement of our performance, and comply with all applicable local national and international environmental laws and regulations.

We also believe that our business and financial activities can contribute to the promotion of sustainable development and economic growth. To this end, we maintain a responsible attitude towards our environment and society, and we encourage our clients, suppliers, shareholders, and other stakeholders to join us in the adoption of advanced sustainability practices.

POSTBANK'S ESG STRATEGIC VISION

Environmental pollution and climate change are among the biggest challenges of our time. They define the quality of life and the future of our planet. They impact all businesses and increasingly affect households. They also cause a number of social issues. Turning all these into opportunities requires the application of best governance practices.

At Postbank, we place environmental protection and fighting climate change at the heart of our beliefs. As a responsible financial institution, we have stepped up to undertake the role that our time is calling for by embedding climate-related and environmental criteria in our management philosophy and key decision-making processes.

We are convinced that our success as a financial institution is tied up to taking into consideration the vast social aspects that our operations have and aspire to apply best governance practices to ensure our values are observed.

We believe that climate change and the physical and transition risks associated with it provide a broad spectrum of opportunities for innovative solutions to the challenges they pose, and we are ready to offer financial solutions to help to alleviate them. We also acknowledge that business opportunities and possibilities to contribute to society are the opposite sides of the difficulties we are facing. We aspire to maintain and expand our position as a leader in sustainability in Bulgaria by undertaking a proactive approach to ESG matters.

Our commitment

Postbank has been a leader in sustainable finance in Bulgaria for the past decade and we commit to maintaining this position by developing further our ESG policies and translating them into actions to support our clients and stakeholders. To this end, we are committed to:

- Offer the best sustainable finance products to our customers;
- Help turn sustainability challenges ahead of our customers into opportunities by providing them with suitable financial solutions;
- Enhance our sustainability impact by providing innovative financial approaches to market demands;
- Act responsibly by closely monitoring ESG risks in our activities;
- Increase staff and stakeholder awareness on ESG issues through involvement in various ESG activities;
- Ensure a positive and inspiring work environment for our staff;
- Manage actively our environmental footprint by maintaining a robust resource efficiency program;
- Add value to society by contributing to various social initiatives.

WE IMPLEMENT OUR ESG VISION BY:

- Orienting our core business activities towards sustainability;
- Managing ESG risks across our commercial portfolio;
- Demonstrating care for the environment through efficient use of internal resources and implementing green procurement practices;
- Enhancing awareness on ESG matters across our staff, stakeholders, and the broader society by acting as an agent of change;
- Investing in human capital by initiating and supporting an array of training and educational programs in sustainability and ESG issues.

Realizing our important role in tackling the pressing environmental, climate, economic and social challenges, we have implemented an ESG management model that facilitates our efforts in the three ESG areas.

We have set up an ESG Management Committee chaired by the Chief Executive Officer and comprising members of the top management of the Postbank with the purpose to:

- provide strategic direction on ESG initiatives;
- review the Bank's ESG strategy;
- integrate the elements of the ESG strategy into Postbank's business model & operations;
- measure and analyze the progress of the ESG goals and performance targets;
- and ensure the proper implementation of ESG related policies and procedures, in accordance with supervisory requirements and voluntary commitments.

In addition, we have created a dedicated ESG Department reporting to the CEO, with the purpose to promote the ESG principles and culture across the Bank. The ESG Department is also responsible for monitoring the Bank's operational impact and for the coordination of the ESG strategy implementation.

We have also established a special Climate and ESG Risks Department within Risk Division, whose overall responsibility is to identify, measure, monitor, control and integrate climate related and ESG risks into the Bank's risk management policies and procedures, so that we are able to manage the relevant risks and comply with supervisory requirements. The unit reports to the Chief Risk Officer and is independent of the business units.

To enhance internal awareness, since 2008 we have set up Green Board – an informal internal organization of volunteers which aims to foster awareness on environmental matters and to come up with initiatives in the area of responsible banking. Throughout the years of its existence, the Green Board has proven to be an efficient channel of innovative ideas from the Bank employees. We have also invested in our own internal program Green Together. Our bank is funding green initiatives which are implemented with the voluntary work of our employees.

Engagement with third parties

Postbank has been a United Nations Environmental Program – Finance Initiative (UNEP FI) member since 2013. In 2020, we also became a signatory of UNEP FI's Principles for Responsible Banking. We are the first, and to date the only, bank in Bulgaria that is a member of this leading international financial initiative promoting sustainability and advanced ESG practices. In addition, Postbank is a member of the United Nations Global Compact Network Bulgaria.

Drawing on international expertise and best practices through engaging with these international organizations enhances our internal expertise and gives us access to a knowledge, tools and resources.

1. Postbank environmental management overview

As one of the largest banks in Bulgaria, we understand that our economy, society, climate and environment are interconnected. We recognise that to be successful in tackling the growing ESG challenges we need to apply a holistic approach with focused efforts for transition to net zero, building resilience and social prosperity while acting responsibly.

We have assessed the ESG aspects of our business through the lens of impact generation. We have identified the two main sources of our impact as operational and financed impact. Our operational impact is the direct impact on the environment and society generated by our own operations (i.e. our operational footprint). Our financed impact is our indirect impact arising from our lending and investment activities (i.e. impact generated by the clients and specific projects that we finance). By managing these two sources of impact, we aim to make a positive contribution to the mitigation of climate change, the protection of our natural environment and the alleviation of the relevant social challenges.

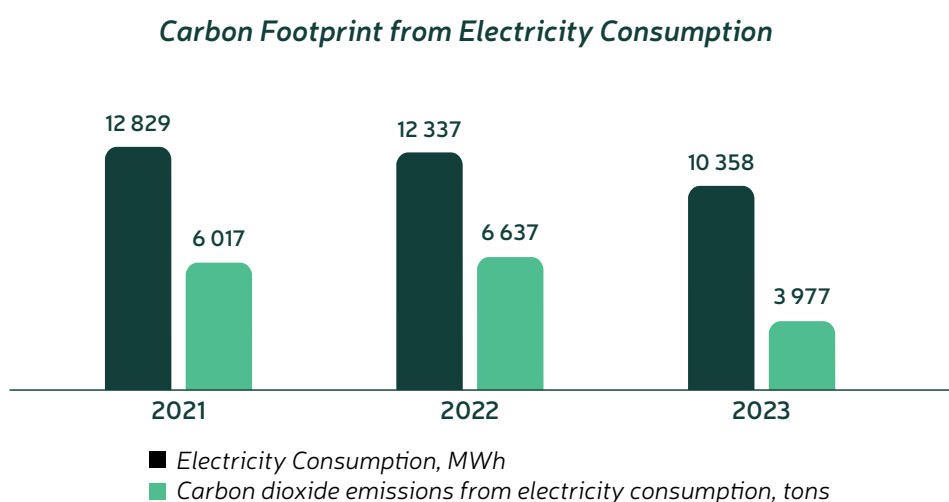
2. Operational impact - resource consumption management

Our direct impact on the environment is directly related to our use of resources. We have identified that the three most significant resources consumed by the Bank are electricity, paper and water. Therefore, over the past 11 years we have concentrated significant efforts on increasing efficiency and reducing our resource consumption. The three key indicators that we have been monitoring since 2012 are electricity consumption, water, and printing paper use.

Electricity Consumption

The importance of climate change mitigation makes the monitoring of our energy consumption a top priority, as this is the largest source of Postbank's carbon dioxide emissions. In 2023, our electricity consumption decreased by 16% compared to the previous year. Consequently, our CO₂ emissions from electricity use decreased by 40% compared to 2022, while the cumulative reduction since 2021 is 34%.

Fig. 1. Carbon Footprint from Electricity Consumption, Postbank, 2021-2023



* Source of CO₂ emissions factors applied in the calculations: Electricity Maps | Live 24/7 CO₂ emissions of electricity consumption (лъпсва линкът).

The observed reduction is a result of our targeted measures to reduce our electricity consumption and the respective carbon dioxide emissions. In 2023, we completed the installation of our own photovoltaic plant on the rooftop of our head office building in Sofia. Its total installed capacity is 388 kWp and its annual production of green energy is expected to reach 432 thousand kWh. The electricity produced on days with intense sunshine will cover at least 30% of the building's electricity daily need.

In addition, our objective is to gradually upgrade our premises into modern and more energy efficient workspaces. The large-scale project for renovation of our head office building in Sofia, which started in 2022, has made good progress during the year. The renovation includes installation of the latest-

generation HVAC system together with a state-of-the-art Building Management System (BMS) for automated monitoring and control of the building's performance. The BMS ensures the optimum use of the installed HVAC and lighting equipment, resulting in increased energy efficiency of the building and improved comfort of the occupants.

In 2023, we also achieved significant progress on our initiative for complete renovation of our branch office network. The renovated offices are not only more attractive and comfortable for our clients and employees but are equipped with energy efficient HVAC systems and LED lighting.

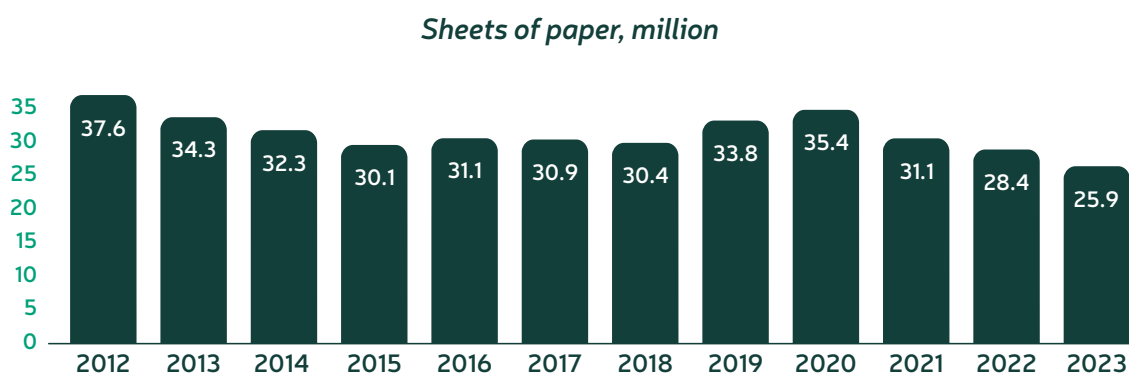
The implementation of modern systems for heating and cooling in our premises has resulted in 25% reduction in our natural gas consumption compared to 2022. This amounts to a saving of 108 tons of carbon emissions from burning of natural gas.

The CO₂ emissions associated with the electricity consumption of PB Personal Finance following its acquisition in 2023 are 106 tons. The total CO₂ emissions of Postbank and PB Personal Finance for 2023 amount to 4,083 tons².

Paper Use

Postbank is constantly looking for ways to reduce the use of printing paper in its operations. In line with the digitalization of our operation, a few years ago, we introduced electronic signing of bank documents on tablets instead of paper in our branch offices. We keep increasing the types and volume of documents that are signed on tablet each year. We have also invested significant resources in systems upgrade, process optimization and digitalization. All these measures have enabled us to reduce our paper usage, despite the constant growth of our business. In 2023, we used 9% less paper than in 2022. The cumulative reduction of our paper consumption since 2012 is 31%.

Fig. 2. Paper Consumption, million sheets of paper, Postbank, 2012-2023



* Note: The paper consumption for 2022 reported in the previous year's non-financial declaration has been amended due to adjustments that were required after the publication of the report.

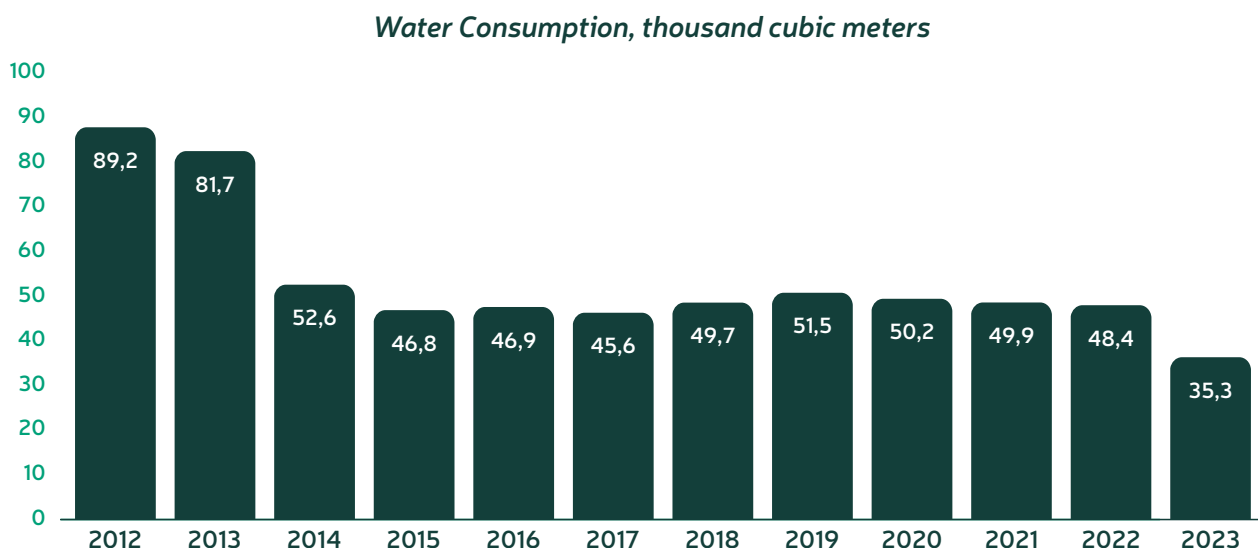
The paper consumed by PB Personal Finance following its acquisition by Postbank is 1.7 million sheets. The total quantity of printing paper usage in Postbank and PB Personal Finance during 2023 is 27.6 million sheets.

² On 1 June 2023, Postbank finalized the acquisition of the commercial enterprise and the activity of BNP Paribas Personal Finance, which continued to operate under the brand PB Personal Finance.

Water Consumption

The responsible use of water is very important for us in the context of saving this precious natural resource. Data for the quantity of water we have used over the past 11 years indicate that our efforts to contain the water consumption in our offices have been effective. The cumulative reduction of our water consumption since 2012 is 60%.

Fig. 3. Water Consumption, thousand cubic meters, Postbank, 2012-2023



The water consumed by PB Personal Finance following its acquisition by Postbank is 816 cubic meters. The total quantity of water usage in Postbank and PB Personal Finance during 2023 is 36 thousand cubic meters.

3. Financed impact. Management of Environmental, Social and Climate Risks in Lending

During the reporting period, Postbank continued to monitor the level of environmental, social and climate risks in its small business and corporate loan portfolio.

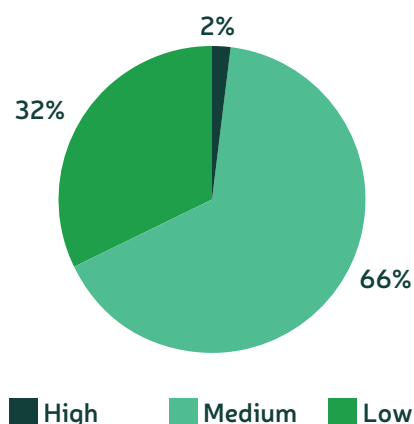
The Bank has in place a procedure for assessment and management of the environmental and social risks in its lending to companies. The procedure defines the methodology for initial climate, environmental and social risk assessment at the loan approval stage and its subsequent monitoring.

Under the procedure, companies applying for financing and their activities are screened against the Environmental and Social Exclusion list. Based on the applicant's economic activity and other criteria such as amount, purpose and term of the loan business financing transactions are classified as low, medium or high risk according to their potential environmental and social impacts. An automated Environmental and Social Risk Screening Scorecard has been implemented. Depending on the results of the risk assessment, further actions are undertaken to ensure that the companies to be financed by the Bank have implemented adequate measures for the management of environmental and social risks, mitigation of impact and compliance with the applicable local, national and international environmental, health and safety, labour laws and regulations.

Based on the above classification methodology, 98% of the commercial loans assessed for environmental and social risk as of 31.12.2023, are associated with low or medium level of risk.

Fig. 4. Distribution of Environmental and Social Risk in Postbank's Commercial Loan Portfolio

Level of Environmental and Social Risk (% of Loan Deals)



4. ESG Internal Management, Staff Awareness, External Engagement

During the reporting period, Postbank continued to create sustainable long-term value for its stakeholders guided by its mission, values and ESG strategic vision.

In line with our ESG vision, in 2023 we enhanced our sustainability governance model to be better positioned to meet the growing requirements and expectations of our external and internal stakeholders.

We established an ESG Management Committee chaired by the Chief Executive Officer and comprising members of the top management of Postbank. The ESG Management Committee succeeded the previous Environmental and Sustainability Committee with the purpose to integrate our ESG strategy Postbank's business model & operations, direct our ESG initiatives and monitor the achievement of our ESG goals and performance targets.

Another important step in 2023 was the establishment of a dedicated ESG Department reporting to the CEO. The responsibilities of the ESG Department include promoting the ESG principles and culture across the Bank, monitoring the Bank's operational impact and coordinating the ESG strategy implementation.

We also created a new Climate & ESG Risks Department, independent of the business units, which will identify, measure, monitor, control and integrate the climate, environmental, social and governance risks into the Bank's risk management framework. The unit will also coordinate with the business units the development and implementation of the Bank's sustainable financing framework and financed impact strategy. The Head of the new unit reports directly to the Chief Risk Officer.

In 2023, Postbank adopted its Sustainable Finance Framework, which outlines the methodology for classifying the sustainable lending solutions, offered by the Bank to its clients. The framework specifies the activities defined as "eligible" to access sustainable financing, along with their respective eligibility criteria and/or the chosen sustainability performance targets and key performance indicators per industry. Credit facilities are classified based on purpose as dedicated-purpose loans, general-purpose loans and recovery and resilience facility loans. To develop the Sustainable Finance Framework, Postbank drew on internationally recognized industry guidelines and principles to ensure that it provides a transparent and comprehensive methodology for classifying, monitoring, and reporting of sustainable financial products.

The Sustainable Finance Framework will serve as one of the tools implemented by the Bank to support the green transition efforts of its current and future clients.

In 2023, Postbank actively participated in the Sustainable Finance Working Group at the Association of Banks in Bulgaria. The Bank also became a member of the ESG Committee at the Confederation of Employers and Industrialists in Bulgaria.

In 2024, we will focus our efforts in several areas:

- Building the capacity and increasing the relevant skills of our employees in the areas of ESG and climate opportunities and risks, so they are able to support our clients on their sustainability journey and their green transition.
- Active promotion of opportunities for greening of our economy by participating in governmental programs and partnerships with international financial institutions providing funds and support for ESG related projects and initiatives of our current and potential clients.
- Automating the process for assessment and monitoring of financing facilities for alignment with the criteria of the Sustainable Finance Framework (SFF).
- Exploring new opportunities and implementing effective measures to further reduce the impact of our own operations.

5. Fines, Sanctions or Cases Brought through Dispute Resolution Mechanisms

During the reporting period, the Bank has not been subject to any fines, penalties or litigation with relation to issues related to environmental management.

6. Reporting under the EU Taxonomy (Regulation (EU) 2020/852 of the European Parliament and of the Council)

In 2020, the European Union adopted Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088 (EU Taxonomy Regulation), which establishes a common classification system that provides criteria for determining whether specific economic activities can be considered "green", "sustainable" or "environmentally friendly". The EU Taxonomy Regulation is a key component of the European Commission's action plan to redirect capital flows towards economic activities most needed for the transition, in line with the objectives of the European Green Deal.

The focus is on the following six environmental objectives:

- 1) Climate change mitigation,
- 2) Adapt to climate change,
- 3) Sustainable use and conservation of water and marine resources,
- 4) Transition to a circular economy,
- 5) Prevention and reduction of pollution, and
- 6) Protection and restoration of biodiversity and ecosystems.

In order to be classified as aligned with the EU Taxonomy, i.e. for an economic activity to be defined as environmentally sustainable, the following criteria must be cumulatively met:

- 1.** The economic activity is eligible under the EU Taxonomy, i.e. whether the economic activity is included in the list of activities in Delegated Act (EU) 2021/2139 (Climate Delegated Act) and/or Delegated Act (EU) 2023/2486 (Environmental Delegated Act) and whether it meets the definition of the activity;
- 2.** The economic activity makes a significant contribution to at least one of the six environmental objectives, i.e. the technical criteria for a significant contribution to at least one of the six environmental objectives under the Climate Delegated Act or the Environmental Delegated Act are met;
- 3.** The economic activity does not cause significant harm to the remaining environmental objectives, and
- 4.** The counterparty complies with the minimum safeguards under Article 18 of the Taxonomy Regulation.

Pursuant to Article 8(1) of the Taxonomy Regulation, companies that are required to disclose non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU of the European Parliament and of the Council (Accounting Directive), as transposed into the Accounting Act, are required to disclose how and to what extent the company's activities relate to economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation. Reporting is based on Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 (Delegated Reporting Act), with phased reporting introduced. According to Article 10 of the Delegated Reporting Act, from 01.01.2022 to 31.12.2023, financial undertakings required to publish a non-financial statement must disclose the share of their exposure to Taxonomy-eligible economic activities and to Taxonomy-ineligible economic activities of their total assets, and from 2024 covered credit institutions are required to disclose the proportion of their green assets for the first two environmental objectives, climate change mitigation and climate change adaptation, using the templates in Annex VI of the Delegated Reporting Act.

The Bank falls within the scope of Article 19a of the Accounting Directive and reports its green asset ratio (GAR) for the first two environmental objectives, and the preparation of the reported information is in accordance with the requirements of Annex V of the Delegated Reporting Act. In accordance with the Environmental Delegated Act, for the remaining four environmental objectives - sustainable use and conservation of water and marine resources, transition to a circular economy, prevention and reduction of environmental pollution, and protection and restoration of biodiversity and ecosystems - this year the Bank reported only the proportion of economic activities eligible for the Taxonomy and those ineligible for the Taxonomy. The Bank's GAR is calculated based on the turnover (Key Performance Indicators) KPI and the capital expenditure KPI of its counterparties.

For the purpose of reporting the proportion of aligned assets, the Bank analyses its portfolio based on the client category (financial corporation, non-financial corporation, individual and institutions) and the type of exposure.

The following accounting categories of financial assets, including loans and advances, debt securities, equity instruments and repossessed collaterals, are included within the analysis of balance sheet items:

- financial assets at amortised cost; financial assets at fair value through other comprehensive income (FVOCI); financial assets at fair value through profit or loss (FVPL);
- investments in subsidiaries; real estate pledged as collateral and obtained by lending institutions by taking possession in exchange for writing down the liability.

Within the reporting of eligible and aligned exposures to corporate clients are included exposures to financial and non-financial corporates which according to Article 19a(1) of the Accounting Directive should report non-financial information, as well as corporates which are part of a large group which, according to Article 29a(1) of the NFRD, exceeds on a consolidated basis the criterion of an average number of employees during the financial year of 500 and whose parent, as a public interest entity, publishes a consolidated non-financial statement. The Bank also includes project finance for photovoltaic systems in the analysis of its green assets, regardless of whether the client meets the above criteria (in accordance with Article 7(4) of the Disclosures Delegated Act).

Exposures to corporates not covered by the obligation to publish non-financial information under Articles 19a and 29a of the Accounting Directive, as well as interbank demand loans and financial assets held for Trading, are excluded from the numerator of the GAR and are only considered within the Bank's³ total GAR assets, which constitute the denominator for the calculation of the GAR.

Exposures to customers that meet the above criteria have been assessed against the eligibility criteria and compliance with the EU Taxonomy with respect to the FINREP customer type. The assessment of the degree of compliance with the EU Taxonomy requires published information from the counterparty on the eligible activities of the counterparty. Full data collection is limited as counterparties have not yet published data for FY 2023 at the time of the Bank's GAR calculation. Therefore, in line with the requirements of the regulation and the guidance in the Q&A published by the European Commission, the assessment of the extent of compliance of exposures to financial and non-financial corporates is based on the published data for 2022. In the event that published counterparty information cannot be found and cannot be collected from the counterparty, a conservative approach is applied: we assume that exposures to these clients are ineligible and therefore non-aligned with the EU Taxonomy.

In addition, financial undertakings meeting the above criteria should only report the proportion of their Taxonomy eligible activities for 2022, but not the proportion of their Taxonomy aligned activities. Therefore, within the Bank's FY 2023 green asset reporting, exposures to financial corporates are only assessed for eligibility, not for Taxonomy compliance due to lack of client data.

Included in the analysis of credit products for customers in the Non-Financial Corporates segment are: loans for working capital purposes, such as overdrafts, revolving loans and instalment loans, providing short-term financing for capital needs relating to the borrowers' operating expenses; investment loans providing medium- and long-term financing for corporate projects and the purchase of tangible assets with pre-agreed repayment instalments matched to cash inflows from trading activities.

The share of turnover from products or services related to Taxonomy-aligned economic activities and the share of capital expenditure from products or services related to Taxonomy-aligned economic activities published by the client as at 31.12.2022 were used in the assessment of the working capital loans (i.e. general purpose loans).

³ Exposures to economic activities eligible under the requirements of the EU Taxonomy as a percentage of total GAR assets.

The assessment of the investment credits is analysed whether the purpose of the financing met the eligibility criteria of the EU Taxonomy. To identify the EU Taxonomy-aligned investment credits for eligibility, the documentation available at the Bank was reviewed and an assessment was made of whether the technical criteria of substantial contribution and no significant harm to other environmental objectives were met, as well as whether the minimum safeguards at the client level were met. In the event that, based on the available information gathered, a full assessment could not be made as to whether all technical criteria were met, a conservative approach was taken, with investment credits reported as non-aligned.

In the analysis of lending products to customers in the Retail Lending segment, the Bank considers loans secured by a mortgage on residential real estate, loans extended for building renovations, and loans for the purchase of an automobile. Mortgage loans and renovation loans are assessed as eligible under the environmental objective of climate change mitigation as the purpose of the financing is within the scope of the definitions of activities 7.2 to 7.7 of Annex I of the Climate Change Delegated Act. Of the auto loans issued to finance the purchase of a vehicle, so-called "Eco Auto Loans" are identified that finance only the purchase of all-electric vehicles (BEVs) or plug-in hybrids (PHEVs - those that can be plugged in or charged at a charging station) and that are reported as meeting the climate change mitigation goal. A conservative approach has been adopted in the assessment of the share of environmentally friendly loans granted to individual customers: due to the lack of sufficient data to assess compliance with the EU Taxonomy, mortgage loans, building renovation and improvement loans and motor vehicle loans cannot be considered as environmentally friendly. The Bank has started work to collect additional information to ensure that the technical criteria for assessing compliance with the EU Taxonomy can be assessed in the coming years. The Bank also analyses the financing granted to municipalities. Loans and advances to finance public housing and green project finance granted to local authorities are not available; therefore, the Bank does not report green financing to municipalities

Exposures to governments, central banks and supranational issuers, as well as cash, derivatives, trading positions and interbank loans on demand are identified under FINREP, and these assets are excluded from the analysis for eligibility and alignment. Exposures to governments, central banks and supranational issuers, as well as trading positions, are excluded from the Bank's total GAR assets taken into account in the calculation of GAR.

Based on the methodology described above, the Bank calculates its key performance indicators (KPIs), its exposures to economic activities eligible under the requirements of the EU Taxonomy, and its exposures to economic activities aligned with the EU Taxonomy as a percentage of total GAR assets as presented in the table below:

	KPI based on turnover KPI of the counterparty	KPI based on CapEx KPI of the counterparty
Eligibility KPI⁴	24.11%	24.19%
Green Asset Ratio (GAR)	0.64%	0.12%

Comparative information for 2022 is not reported because 2023 is the first year that credit institutions must report information on their green assets.

⁴ Exposures to economic activities eligible under the requirements of the EU Taxonomy as a percentage of total GAR assets.

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES

1. Number of employees, gender distribution by areas of occupancy

Sustainable Postbank policy is to treat all the employees equally, irrespective of gender, nationality, age or other traits. The Bank aims to build and develop relationships of mutual trust and respect.

The distribution of employees by gender and age group is presented in the table below:

Fig. 5 Employee distribution based on gender and age group in 2023

Under 25 years		25-34 years		35-44 years		45-54 years		over 55 years	
Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
75.00%	25.00%	78.00%	22.00%	78.00%	22.00%	80.00%	20.00%	80.00%	20.00%

Postbank gives equal opportunities to its employees and values their talent and innovative ideas. Everyone receives remuneration depending on the contribution and the level of responsibility that are determined by the occupied position and the labor market.

Staff distribution by positions and gender is presented in the table below:

Fig. 6 Distributions by areas of occupancy and gender for 2023

	Specialist positions	Expert positions	Managerial positions
Female	89%	79%	66%
Male	11%	21%	34%

2. Development of the Human Capital

Human capital is a key factor in any organization's success. Postbank's management shares the belief that taking care of its employees, their development and motivation is essential for the achievement of both short-term and strategic goals of the organization.

Dynamic environment and intense competition on the Banking market impose ambitious and multidimensional requirements to the management of human resources. They are related from one side to the capability to select the right people for appropriate positions, to be ensured effective trainings in order quickly to develop all the necessary professional skills, and from the other - to develop and motivate talents within the organization.

The successful recruitment process is highly important for having qualified and motivated human capital. Therefore, as it has been so far, this process complies with high professional standards of accuracy, transparency and objectivity.

The selection process takes place entirely online, and providing a good digital experience to applicants has become the main task for all the participants in the process.

The opportunity for professional development and providing professional training to employees is focus of the Bank and one of the most powerful means to achieve its strategic goals. We place a strong emphasis on connecting theoretical learning with real-world practice. When introducing newly appointed employees, we also pay particular attention to the practical part of the training and the opportunities to work in a real environment.

Human Resources Division contributes to the success of the Bank by creating and maintaining the environment, strengthening the achievements of the employees and directing them to continuous improvement of their qualification.

Staff Development Processes include four main stages:

- People Mapping - employee segmentation and talent identification;
- Succession Planning - supporting business continuity and sustainability, building the next generation of leaders;
- Evaluation for development - tools for identifying strengths and areas for development;
- Employee development activities - development programs, trainings.

The processes cover the entire branch network and strategic units in the head office.

In 2023, we continued the strategic partnership with INSEAD, one of the leading business schools in the world, and the implementation of the long-term 3-year employee development programs launched in 2022 - Leadership Development Program for over 300 managers and NEXT Development Program for development of the talents, knowledge, skills of over 160 employees. In 2023, we held and launched internal academies for various positions: Academy for operational risk and service quality managers; we also held the second edition of the SBB Development Academy for employees from the Branch Network in Small Business Banking. At the end of 2023, we launched the first internal mentoring program entirely for women: Women UNLOCK POTENTIAL of Women, and we also launched the first sign language academy for bankers in Bulgaria - "Beyond Sound".

From 01 January 2023, we implemented a completely renewed Concept for onboarding training of newly appointed employees in the Branch network - POSTBANK COMPASS. We have set a new standard for training new colleagues by creating a pool of over 180 specially trained trainers.

In June 2023, we successfully completed the transaction for the acquisition of the commercial enterprise and the activities of "BNP Paribas Personal Finance", the Bulgarian branch of BNP Paribas Personal Finance S.A. With this step, we added another unique company to the large family of Postbank, which increased by nearly 800 new colleagues, for whom we organized electronic introductory training with an attractive digital card.

Through Robotics Process Automation (RPA) technologies and digital solutions we facilitate the work of employees, but we rely on their unique human skills, which no machine can replace. We involve them in teambuilding, internal and volunteer initiatives.

The company's focus is on many innovative projects to improve the employee experience, a wide range of activities to optimize the work environment, continuing professional development and training, engaging employees in corporate social responsibility projects with high added value for society.

In 2023, we built on the following initiatives launched in 2022:

- WE LEAD feel the beat – a newsletter with useful resources as a new source for upgrading leadership training;
- WE SHARE - employees share their knowledge and skills with colleagues in order to strengthen the Speak Up culture of knowledge sharing in our bank;
- WE ATTRACT - Attract a friend to the team - a new program that encourages employees to recommend candidates;
- HR Talks for all managers in our Branch network with regular online meetings where they can share observations, challenges, raise cases in the field of human resources, where we look for solutions together;
- Work.Life – as part of our Wellbeing strategy we organized a series of online webinars with motivational speakers on current and useful topics to promote work-life balance.

We also upgraded the Postbank Dream Team - a new internal site dedicated to the Bank's team, which is a tool for recognition, commitment and additional motivation for employee development. Via the internal e-bulletin, distributed weekly by e-mail, the important new information, relevant to staff members is instantly communicated to all employees.

Postbank actively works in support of building and maintaining a strong employer brand of the company and to enhance organizational performance in the key areas of employees' engagement, recruitment, retention and talent acquisition, as well as to maintain a supportive and trustful working environment, resulting in motivated and committed employees and loyal and satisfied customers.

As a leading employer that measures its success through the satisfaction of its employees, Postbank has always strived to develop the skills of the people in the team and provide an environment for the development of their potential. We were awarded as a "TOP EMPLOYER" 2023 by the international independent Top Employers Institute, which certifies the best places to work in the world.

We also received another high-level international recognition from the prestigious Employer Brand Stars 2022 with two awards in the categories – "Use of Digital" and "Candidate Experience". In the competition for the best employer in Bulgaria - Career Show Awards 2023, the company won 4 gold awards in the categories: "Best employer" for "Banking" and "Finance", "Use of technology in HR" and for "HR team", as well as a fifth award in the general, most contested category "Best Employer 2023". Among the awards are also Employer of Choice 2023 for "Technology in Human Resources Management", as well as "Excellence in Teamwork", "Employer Branding Innovation" and 'Creative Thinking' from b2b media's Employer Branding Awards 2023 competition.

3. Trade Unions, Compensations and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various compensations and social benefits. In this context, the Bank has implemented and strives to extend a consistent policy of providing support human additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for ad hoc cases. All employees of the Bank are provided with an additional health insurance in a private fund fully covered by the employer. The additional insurance provides for medical treatment costs and can be extended to employees' family members at preferential terms upon choice. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of

an insurance event. Moreover, the opportunity to use the Bank's products and services at preferential terms is a significant benefit for Postbank's employees. These include housing and consumer loans, credit cards, overdrafts, online banking.

Postbank continues with its internal donation platform for supporting colleagues in need, called TOGETHER. This is a fund raising charity program of the Bank planned as one of its main long-term projects which aims to upgrade the ongoing efforts to develop loyalty and employee care. The idea of the platform is to create solidarity among colleagues and to be a working mechanism for financially helping employees with serious health problems.

In 2023, we upgraded the benefits program in a number of ways including a number of new corporate discounts.

There are no trade unions in the Bank.

4. Performance Management Policy and Procedure

The Bank's commitment to employees' personal and professional development is one of its major values. In this respect, every year each employee's personal performance is evaluated during the annual performance appraisal process, which supports their further purposeful skill development.

Performance management procedures guarantee transparency and equity. Every employee is assessed based on their position, having in mind employees' responsibilities and tasks. Moreover, the system assesses not only task performance, but also the way they have been fulfilled, which improves the communication between the evaluators and the evaluated, and encourages employees' personal and professional development.

The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

We implement a digital annual assessment and performance management process WE GROW.

5. Health and Safety at Work

The success and productivity of a business relies on the efficiency of its employees. This is why ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees' health. These initiatives are the result of the Bank management's belief that the creation of a safe and healthy work environment is a prerequisite for better employee motivation and conditionality and greater competitiveness.

Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff's health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented on the Health and Safety Committee – a centralized committee based in Sofia and is responsible for the Bank's head office and branches.

Related to the Covid pandemic situation we have done a regular disinfection of office spaces, according to the requirements of the Ministry of Health.

6. Human Rights matters

Postbank opposes to any form of discrimination, inequality or human rights violation as it recognizes and promotes individuality. All the Bank's policies, procedures and human resource management practices are governed by respect for human rights. This ensures that there is no place for discrimination, while diversity is recognized and promoted. Postbank fosters business ethics and excellence, transparency, human rights and accountability. Mutual respect and dignity are core priorities and essential elements in Bank's Code of Conduct. In its selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies.

In 2023, the Bank implemented a number of socially significant projects in the field of education, environmental protection, sports and corporate charity. Postbank is an active member and works in support of initiatives of CEIBG, AmCham, NVSV, Association of Banks in Bulgaria, Borika AD, Association "Endeavor Bulgaria", the Bulgarian Forum of Business Leaders, the Association "Bulgarian Donors' Forum", "Atanas Burov", the Bulgarian Network of the UN Global Compact, the Bulgarian Association of Advertisers and the Bulgarian Fintech Association. Postbank became a corporate member of the Council of Women in Business in Bulgaria.

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives in conjunction with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

As part of the "Green together with Postbank" programs, in 2023 we once again implemented the Green Classroom project with the participation of our colleagues and Mastercard®, which builds on the series of green projects over the past few years, together with the Directorate of the Vitosha Nature Park. We continued with a second edition the large-scale socially responsible initiative UNIVERSE OF OPPORTUNITIES, launched on the occasion of our 30th anniversary. We held another edition of the Postbank Business Run charity relay run.

The education of children and young people in Bulgaria has always been part of the developed and supported projects for corporate social responsibility of Postbank. Therefore, the Bank continued to develop its joint project with SoftUni in support of Bulgarian education, which started in 2018. It includes various activities to prepare young people for the professions of the future and realization in Bulgaria. Through the strategic partnership, the two organizations aim to encourage students to develop their potential as IT and digital leaders, prepared for the dynamically changing environment and new trends in banking.

In 2023, we continued our strategic partnership with Sofia University for the training of future financial experts in the Master's program of the Faculty of Economics "Finance and Banking". The two stand-alone modules - "Bank Management" and "Investment Banking" developed by the Bank's experts were once again part of the compulsory academic program and more than 20 key employees from the management staff took on the role of teachers.

We also upgraded our strategic partnership with the American University in Bulgaria. For the seventh year in a row, we continue to mentor young bankers from the National Commercial and Banking High School in Sofia. Experts from different units of Postbank share their experience and help the next generation of bankers in the Private Vocational School of Banking, Trade and Finance. We are also working to increase financial literacy together with the Finance Academy.

MATTERS RELATED TO ANTI-CORRUPTION AND BRIBERY

Eurobank Bulgaria AD has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.

The Bank's anti-bribery instruction expressly prohibits the direct or indirect participation in any corruption-related activities. The prohibition applies to all employees and persons acting in the name and on behalf of the Bank. It is the duty of all employees to be vigilant and to report any cases or attempts of such deeds, as well as suspicions of such.

UN GLOBAL COMPACT NETWORK BULGARIA

Postbank is an active member of the Bulgarian UN Global Compact Network as part of its purposeful support for initiatives for the benefit of society and the protection of the environment. It's participation in the organization's activity is another proof of the Bank's readiness to pursue a sustainable corporate policy that respects the ten universal principles for social responsibility and environmental protection of the Global Compact, namely:

Human Rights:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards:

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: eliminate discrimination in respect of employment and occupation.

Environment:

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption:

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

SEPARATE FINANCIAL STATEMENTS

Separate income statement

	Notes	Year ended 31 December	
		2023	2022
Interest income calculated using the effective interest method		725,052	438,012
Other interest income		13,751	11,313
Interest expense and similar charges		(102,046)	(22,223)
Net interest income	6	636,757	427,102
Fee and commission income		194,797	181,913
Fee and commission expense		(46,196)	(39,876)
Net fee and commission income	7	148,601	142,037
Net trading income	9	1,642	(862)
Gains less (losses) from trading securities	17	869	(2,090)
Gains less (losses) from investment securities	19b	4,624	(2,919)
Other operating income, net	8	4,695	4,219
Revenue		797,188	567,487
Dividend income		496	601
Negative own assets revaluation		(2,913)	(430)
Repossessed assets impairment		(3,519)	(1,271)
Other operating expenses	10	(326,850)	(240,822)
Deposit Insurance Fund expense		(20,753)	(19,530)
Impairment charge for credit losses	12	(100,780)	(75,985)
Profit before income tax		342,869	230,050
Income tax expense	13	(34,789)	(23,224)
Profit for the year		308,080	206,826

The following notes set out on pages 77 to 227 form an integral part of these separate financial statements.
Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

The separate financial statements were authorized by the management on 27 March 2024.

**Petia Nikolova
Dimitrova**

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Date: 2024.03.29 14:48:35 +02'00'

Petia Dimitrova

Chairperson and Member of the Management
Board and Chief Executive Officer

Dimitar Borisov Shoumarov

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Dimitar Shoumarov

Member of the Management Board,
Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report:

For KPMG Audit OOD, registered under
No 045 in the Register of the registered auditors:

For Baker Tilly Klitou and Partners EOOD,
registered under No 129 in the Register
of the registered auditors:

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Sevdalina Dimova

Registered Auditor responsible for the audit
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**Galina Dimitrova
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Registered Auditor responsible for the audit
Authorized representative

Separate statement of comprehensive income

	Year ended 31 December	
Notes	2023	2022
Profit for the year	308,080	206,826
<i>Items that are or may be reclassified subsequently to profit and loss:</i>	14	30,976 (61,550)
Debt securities at FVOCI		
-net changes in Fair Value, net of tax	33,745	(88,279)
-reclassified to profit or loss, net of tax	(2,769)	26,729
<i>Items that will not be reclassified to profit or loss:</i>	516	3,736
Change in FV of property, plant and equipment, net of tax	(600)	3,234
Remeasurements of retirement benefit obligations, net of tax	1,116	502
Other comprehensive income for the year	14	31,492 (57,814)
Total comprehensive income for the year	339,572	149,012

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The following notes set out on pages 77 to 227 form an integral part of these separate financial statements.
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Separate statement of financial position

	Notes	As at 31 December	
		2023	2022
ASSETS			
Cash and balances with the Central Bank	15	2,365,538	1,571,141
Loans and advances to banks	16	783,234	1,443,596
Trading assets	17	37,272	35,228
<i>of which pledged</i>	17	5,323	14,537
Derivative financial instruments	25	18,655	52,615
Loans and advances to customers	18	12,540,242	10,063,433
Investment securities	19a	3,028,859	2,747,713
<i>of which pledged</i>	19	344,982	593,986
Shares in subsidiary undertakings	37	1,000	-
Deferred tax assets	28	4,734	7,053
Property, plant and equipment, including right of use assets	21	309,951	278,184
Investment property	20	441	488
Intangible assets and goodwill	22	164,641	80,572
Other assets	23	135,251	85,952
Total assets		19,389,818	16,365,975
LIABILITIES			
Deposits from banks	24	140,905	23,904
Derivative financial instruments	25	22,687	36,873
Due to customers	26	15,653,641	13,682,032
Other borrowed funds	27	1,036,249	475,598
Current income tax payable		6,596	476
Provisions for other liabilities and charges	29	32,418	12,237
Retirement benefit obligations	30	4,026	3,389
Other liabilities	31	217,675	195,416
Total liabilities		17,114,197	14,429,925
SHAREHOLDERS' EQUITY			
Share capital		560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		1,432,777	1,093,206
Total shareholders' equity	32	2,275,621	1,936,050
Total shareholders' equity and liabilities		19,389,818	16,365,975

The separate financial statements were authorized by the management on 27 March 2024.

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Separate statement of changes in shareholders' equity

	Share capital	Property revaluation reserve	Fair value reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 01 January 2022	560,323	6,137	5,737	282,521	932,320	1,787,038
Profit for the year					206,826	206,826
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI			(61,550)			(61,550)
Revaluation of property, plant and equipment		3,234				3,234
Remeasurements of retirement benefit obligations, net of tax					502	502
Total comprehensive income for 2022		3,234	(61,550)		207,328	149,012
Balance at 31 December 2022	560,323	9,371	(55,813)	282,521	1,139,648	1,936,050
Balance at 01 January 2023	560,323	9,371	(55,813)	282,521	1,139,648	1,936,050
Profit for the year					308,080	308,080
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI			30,976			30,976
Revaluation of property, plant and equipment	-	(600)		-	-	(600)
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	1,115	1,115
Total comprehensive income for 2023	-	(600)	30,976	-	309,195	339,571
Balance at 31 December 2023	560,323	8,771	(24,837)	282,521	1,448,843	2,275,621

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Separate statement of cash flows

Year ended 31 December
2023 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Interest received	735,338	487,491
Interest paid	(59,984)	(17,768)
Dividends received	496	601
Fees and commission received	195,580	183,612
Fees and commission paid	(39,798)	(37,234)
Amounts paid to and on behalf of employees	(163,979)	(127,245)
Net trading and other income received	(86)	(1,472)
Other operating expenses paid	(138,684)	(108,881)
Tax paid	(29,816)	(14,400)
Cash from operating activities before changes in operating assets and liabilities	499,067	364,704

CHANGES IN OPERATING ASSETS AND LIABILITIES

Net (increase) in reserve with the Central Bank	(301,937)	(67,283)
Net decrease in loans and advances to banks	(17,094)	97,812
Net decrease in trading securities	(2,044)	3,141
Net (increase) in loans and advances to customers	(1,671,232)	(1,347,476)
Net (increase)/ decrease in other assets	(24,301)	(42,257)
Net (decrease)/increase in derivatives instruments	(13,117)	13,766
Net (decrease)/ increase in due to other banks	117,001	14,369
Net increase in amounts due to customers	1,737,912	1,364,510
Net increase/ (decrease) in other liabilities	10,878	(17,976)
Net cash flows from operating activities	335,133	383,310

CASH FLOWS FROM INVESTING ACTIVITIES

Payment for acquisition of BNP Pariba, net of cash acquired (Note 38)	(761,148)	
Purchase of shares in subsidiaries	(1,000)	
Purchase of property, plant and equipment and intangible assets (Notes 21,22)	(56,719)	(59,095)
Purchase of investment securities	(787,015)	(1,362,941)
Proceeds on disposal of property and equipment	7	282
Proceeds from sale of investment securities	535,009	1,146,284
Net cash flow/(used in) from investing activities	(1,070,866)	(275,470)

Year ended 31 December
2023 **2022**

CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES

Long-term financing received	557,412	312,933
Long-term debt repaid	(5,654)	(5,654)
Payment of lease liability	(17,842)	(15,518)
Net cash used in financing activities	533,916	291,761
Effect of exchange rate changes on cash and cash equivalents	592	1,094
Net change in cash and cash equivalents	(201,225)	400,695
Cash and cash equivalents at beginning of year	2,381,110	1,980,415
Cash and cash equivalents at end of year (Note 33)	2,179,885	2,381,110

The separate financial statements were authorized by the management on 27 March 2024.

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The following notes set out on pages 77 to 227 form an integral part of these separate financial statements.
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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Eurobank Bulgaria AD (the Bank), UIC 000694749, was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank operates under a full banking licence issued by the Bulgarian National Bank.

Eurobank Bulgaria AD provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 229 network locations and 12 business centers (2022: 199 network locations and 13 business centers). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employees are 4,213 people (2022: 3,333).

Eurobank Bulgaria AD is a subsidiary of Eurobank Group, Greece (the Group). The parent company is incorporated and is domiciled in Greece.

RELATED PARTY TRANSACTIONS - EUROBANK S.A. SHAREHOLDING STRUCTURE

Eurobank Ergasias Services and Holdings S.A. (the Company or Eurobank Holdings) is the parent company of Eurobank S.A. The Board of Directors (BoD) of Eurobank Holdings is the same as the BoD of the Bank and part of the key management personnel (KMP) of Eurobank S.A. provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities.

Fairfax Group, which holds 32.93% of Eurobank Holdings' share capital as of 31 December 2023 (31 December 2022: 32.99%), is considered to have significant influence over the Company.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

Eurobank Bulgaria AD prepares separate financial statements. The Bank has one subsidiary as at 31 December 2023 - PB Personal Finance E.A.D. The Bank is using the exemption as per the Bulgarian Accountancy act, art.38 (12) and in compliance with IFRS10, para 4 not to prepare consolidated financial statements.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by IASB, as endorsed by the European Union (EU), and with those IFRSs and IFRS Interpretation Committee's (IC) interpretations, issued and effective or issued and early adopted as at the time of preparing these financial statements.

The financial statements have been prepared under historical cost convention as modified by:

- the revaluation of financial assets measured at fair value through other comprehensive income (FVOCI) and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss;
- land and buildings for own use - measured at fair value through other comprehensive income;
- investment property - measured at fair-value-through-profit-or-loss;
- repossessed collaterals - measured at the lower of cost and net realizable value;
- retirement benefit obligations – measured at present value of the retirement benefit obligation;
- assets acquired and liabilities assumed at merger – measured at fair value.

Going concern assessment

The Management board of the Bank, assessing internal and external risks related with macroeconomic conditions and geopolitical environment, including the tension in Ukraine and the Middle East and their impact on the economy and the Banking system and taking into account factors related to Bank's pre-provision income generating capacity, the adequacy of its capital and liquidity position, the ongoing proactive management and improvement of balance sheet asset quality, has been satisfied that the separate financial statements of the Bank can be prepared on a going concern basis.

Use of judgments and estimates

The preparation of the financial statements in conformity with IFRS requires the use of estimates and judgements, described in section 3. Critical accounting estimates and judgments in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The significant estimates, judgments and assumptions made by Management are the same as those applied in the financial statements for the year ended 31 December 2022.

2.1.1. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

(a) New and amended standards adopted by the Bank as of 1 January 2023

The following new standards and amendments to existing standards as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply as of 1 January 2023:

IFRS 17, Insurance Contracts (effective 1 January 2023)

IFRS 17, which supersedes IFRS 4 “Insurance Contracts” provides a comprehensive and consistent accounting model for insurance contracts. It applies to all types of insurance contracts as well as certain guarantees and financial instruments with discretionary participating features. Financial guarantee contracts are allowed to be within the scope of IFRS 17, if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 core general model, the groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted estimates of future cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contracts. Under the model, estimates are remeasured at each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced, or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e. amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

In June 2020, the IASB issued Amendments to IFRS 17. The amendments aim to assist entities to transition in order to implement the standard more easily, while they deferred the effective date, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2023.

In December 2021, the IASB issued a narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 “Financial Instruments” at the same time.

The Bank has not issued contracts within the scope of IFRS 17, therefore, the standard had no impact on its separate financial statements.

IAS 8, Amendments, Definition of Accounting Estimates (effective 1 January 2023)

The amendments in IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” introduced the definition of accounting estimates and include other amendments to IAS 8 which are intended to help entities distinguish changes in accounting estimates from changes in accounting policies.

The amendments clarify how accounting policies and accounting estimates relate to each other by (i) explaining that accounting estimates are developed if the application of accounting policies requires items in the financial statements to be measured in a way that involves a measurement uncertainty and (ii) replacing the definition of a change in accounting estimates with the definition of accounting estimates, where accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. In addition, the amendments clarify that selecting an estimation or valuation technique and choosing the inputs to be used constitutes development of

an accounting estimate and that the effects of a change in an input or technique used to develop an accounting estimate are changes in accounting estimates, if they do not result from the correction of prior period errors.

The adoption of the amendments had no impact on the separate financial statements of the Bank.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective 1 January 2023)

IASB issued amendments to IAS 1 "Presentation of Financial Statements" that require entities to disclose their material accounting policies rather than their significant accounting policies.

According to IASB, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Furthermore, the amendments clarify how an entity can identify material accounting policy information and provide examples of when accounting policy information is likely to be material. The amendments to IAS 1 also clarify that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support the IAS 1 amendments, the Board has also developed guidance and examples to explain and demonstrate the application of the "four-step materiality process", as described in IFRS Practice Statement 2 "Making Materiality Judgements" to accounting policy disclosures.

The adoption of the amendments had no impact on the separate financial statements of the Bank.

The Bank took into account the amendments in disclosing its material accounting policies (note 2.2).

IAS 12, Amendments, Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023)

The amendments clarify that the exemption on initial recognition set out in IAS 12 'Income Taxes' does not apply for transactions such as leases and decommissioning obligations that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Accordingly, for such transactions an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.

The adoption of the amendments had no impact on the separate financial statements of the Bank.

IAS 12, Amendment, International Tax Reform – Pillar Two Model Rules

The amendments introduce a mandatory temporary exception (relief) from the recognition and disclosure of deferred taxes arising from the implementation of the Organisation for Economic Co-operation and Development's (OECD) Pillar Two model rules ("the Pillar Two Income taxes").

Additionally, the amendments require an entity to disclose that it has applied the above exception related to Pillar Two income taxes, while in the periods in which the legislation is (substantively) enacted but not yet effective, an entity is required to disclose of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. Subsequently, in the periods when the legislation is effective it is required to separately disclose its current tax expense (income) related to Pillar Two income taxes.

The Bank has adopted the amendments and the temporary exception, upon their endorsement by the EU in November 2023. Detailed information in respect of the Bank's exposure to Pillar Two income taxes is provided in note 13.

(b) New and amended standards not yet adopted by the Bank

A number of new standards and amendments to existing standards are effective after 2023, as they have not yet been endorsed by the EU or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2024)

The amendments, published in January 2020, introduce a definition of settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, an entity can ignore only those conversion options that are classified as equity.

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) with respect to liabilities for which an entity's right to defer settlement for at least 12 months is subject to the entity complying with conditions after the reporting period. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements.

The adoption of the amendments is not expected to impact the separate financial statements of the Bank.

IFRS 16, Amendment, Lease Liability in a Sale and Leaseback (effective 1 January 2024)

The amendment requires a seller-lessee to subsequently measure lease liabilities arising in a sale and leaseback transaction in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. Any gains and losses relating to the full or partial termination of a lease continue to be recognised when they occur. The amendment does not change the accounting for leases unrelated to sale and leaseback transactions.

The adoption of the amendment is not expected to impact the separate financial statements of the Bank.

IAS 21, Amendments, Lack of Exchangeability (effective 1 January 2025, not yet endorsed by EU)

The amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates", specify how an entity can determine whether a currency is exchangeable into another currency at the measurement date, and the spot exchange rate to use when it is not. In addition, when a currency is not exchangeable an entity should disclose information that would enable users of its financial statements to understand the related effects and risks as well as the estimated rates and techniques used.

The adoption of the amendment is not expected to impact the separate financial statements of the Bank.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures – Supplier Finance Arrangements

The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

Transparency is expected under existing IFRS Accounting Standards. However, the amendments introduce specific requirements for companies to provide the information users need.

Under the amendments, companies also need to disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement.

The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in IFRS 7 on factors a company might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

The amendments are effective for periods beginning on or after 1 January 2024, with early application permitted.

The adoption of the amendment is not expected to impact the separate financial statements of the Bank.

IFRS S1* General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures**

The ISSB's first two standards are designed to be applied together, supporting companies to identify and report information that investors need for informed decision making or information that is expected to affect the assessments that investors make about companies' future cash flows.

To achieve this, the general standard provides a framework for companies to report on all relevant sustainability-related topics across the areas of governance, strategy, risk management, metrics and targets.

The standards are effective from 1 January 2024, but it will be for individual jurisdictions to decide whether and when to adopt.

(c) Standards and interpretations not yet endorsed by the EC

The following amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the EC, and therefore are not taken into account in preparing these separate financial statements of the Bank. The actual effective dates for them will depend on the endorsement decision by the EC.

The following amendments and improvements to standards are not expected to have a material impact on the separate financial statements of the Bank:

- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (issued on 15 August 2023)
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (issued on 25 May 2023)

* The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

** The implementation and the effective dates of IFRS Sustainability Disclosure Standards are subject to local regulation.

2.2. MATERIAL ACCOUNTING POLICY

The accounting policies set out below have been consistently applied to the years 2023 and 2022.

2.2.1. SHARES IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiaries, including investments acquired through common control transactions, are accounted at cost less any impairment losses. Cost is the fair value of the consideration given being the amount of cash or shares issued, or if that cannot be determined reliably, the consideration paid together with any directly attributable costs.

Business combinations

The Bank accounts for business combinations using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which it occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period to reflect the new information obtained about the facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. The measurement period adjustments, as mentioned above, affect accordingly the amount of goodwill that was initially recognized, while the measurement period cannot exceed one year from the acquisition date.

Merger

Mergers that involve the combination of the Bank with one or more of its related parties are accounted in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with reference of other standard-setting bodies that use a similar conceptual framework and comply with the IFRS general principles.

In such transactions, the Bank incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Bank's equity.

Transactions eliminated on merger

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Bank interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2.2. FOREIGN CURRENCIES TRANSACTIONS

The Bank's presentation currency is the Bulgarian Lev (BGN) being the functional currency of the primary economic environment in which the Bank operates ('the functional currency'). Except otherwise indicated, financial information presented in Bulgarian Leva has been rounded to the nearest thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank's exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

At 31 December 2023, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2022: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.564978 (2022: BGN 1 for USD 0.545343).

2.2.3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments:

- (a) whose value is changed in response to changes in a specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
- (b) that require no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- (c) that are settled at a future date.

Derivative financial instruments including foreign exchange contracts, forward currency agreements, FX swaps, interest rate swaps and cross currency interest rate swaps, options and futures are initially recognized in the financial reports on the value/settlement date on which the derivative contracts are entered into.

Forward currency agreements, interest rate swaps (incl. cross currency interest rate swaps), options and futures are subsequently re-measured at their fair value at the end of each reporting month. They are carried as assets when fair value is positive and as liabilities when fair value is negative. Usually the net investment is zero (i.e. the initial net fair value of the receivables and payables is zero). Their fair values are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The changes in the fair value of these derivatives are included in the income statement. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in note 2.2.14 Fair value measurement of financial assets.

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.2.10. In addition, certain derivatives, embedded in financial liabilities, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

Hedge accounting

The Bank has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39, until the project of accounting of macro hedging activities is completed by the IASB. For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument and a related item or group of items to be hedged.

A hedging instrument is a designated derivative or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

Specifically, the Bank designates certain derivatives as: hedges of the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge).

In order to implement hedge accounting, specified criteria should be met. Accordingly, at the inception of the hedge accounting relationship, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Bank also documents its assessment, both at inception of the hedge and on an ongoing basis, an assessment of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80-125%. If a relationship does not meet the abovementioned hedge effectiveness criteria, the Bank discontinues hedge accounting prospectively. Similarly, if the hedging derivative expires or is sold, terminated or exercised, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.

The method of recognizing the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.

Furthermore, the Bank may designate groups of items as hedged items, by aggregating recognized assets or liabilities or unrecognized but highly probable transactions of similar risk characteristics that share the exposure for which they are hedged. Although the overall risk exposures may be different for the individual items in the group, the specific risk being hedged will be inherent in each of the items in the group.

(I) Fair value hedge

The Bank applies fair value hedging to hedge exposures primarily to changes in the fair value attributable to interest rate risk and currency risk.

The interest rate and currency risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps.

The Bank uses the dollar-offset method in order to assess the effectiveness of fair value hedges. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The Bank discontinues hedge accounting in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortized to profit or loss over the period to maturity. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves.

(II) Derivatives that are not designated as hedging instruments

Changes in the fair value of derivative financial instruments that are not designated as a hedging instrument or do not qualify for hedge accounting are recognized in the income statement.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in note 25.

2.2.4. INCOME STATEMENT

(I) Interest income and expense

Interest income and expense is recognized in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate (EIR) method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit-impaired (POCI), the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. For POCI financial assets, the credit-adjusted EIR is used, which is the interest rate that upon the original recognition of the POCI financial asset discounts the estimated future cash flows (including expected credit losses) to the fair value of the POCI asset.

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets only adjusted for the expected credit loss allowance, while the gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.

The EIR calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) or to the amortized cost of financial liabilities respectively.

For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortized cost of the financial asset (i.e. gross carrying amount adjusted for the expected credit loss allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

For financial assets that were credit-impaired on initial recognition (POCI) interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI financial asset's amortized cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation.

Interest income for all debt instruments is recognised in the income statement and are presented in the income statement line of net interest income.

(II) Fees and commissions

Fee and commission received or paid that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income such as account servicing and asset management fees (including performance based fees) is recognised as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

In the case of a contract with a customer that results in the recognition of a financial instrument in the Bank's financial statements which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and subsequently applies IFRS 15 to the residual part.

2.2.5. NET TRADING INCOME

Net trading income comprises gains and losses related to derivative financial instruments (Hedging and Non-Hedging). All changes in fair value of financial assets at fair value at profit and loss are recognized as part of the net trading income in the income statement.

2.2.6. GAINS LESS LOSSES FROM INVESTMENT SECURITIES

Gains less losses from investment securities relate to results deriving from realized gains and losses of securities measured at FVTPL, results deriving from early liquidation of fair value hedging derivative financial instruments (termination fees and reversal of accruals since the last coupon date) associated with OCI bonds, realized gains and losses on sale of securities (bonds) at FVOCI.

2.2.7. PROPERTY, PLANT AND EQUIPMENT (PPE)

Property, plant and equipment are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash or cash equivalent paid or the fair value of other consideration given to acquire the assets. The minimal level for an expenditure to be recognized as an asset, adopted by the Bank, is 300 BGN.

Subsequent expenditure is recognized in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized in the income statement as incurred.

After initial recognition the Bank measures the land and building at fair value. All other PPE classes are recognised at historical cost less accumulated depreciation and impairment losses.

The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

- market prices analogues (where assets are compared to those similar of nature offered on the market);
- present value of future income for rent generating assets (DCF);
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Revaluation of property is performed on an annual basis.

At the date of revaluation, the net amount of the asset is restated to its revalued amount by adjusting its accumulated depreciation, in cases where the accumulated depreciation balance is less than the upward revaluation effect, the gross carrying amount is adjusted with the difference.

If an asset's carrying amount is increased as a result of a revaluation, the increase, net of tax, is recognised in other comprehensive income and accumulated as Property revaluation reserve in shareholder's equity. However the increase shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in the income statement if credit balances in revaluation surplus are not sufficient.

With the exception of the land, the Bank depreciates all PPE. The depreciation charge is calculated using the straight-line method to write down the cost of PPE to their residual values over their estimated useful lives, as follows:

- Buildings – up to 50 years;
- Leasehold improvements and improvements of own buildings – 15 years;
- Improvements of own buildings – 15 years;
- Computer hardware – 4-10 years;

- Other furniture and equipment - 3-20 years;
- Motor vehicles- 5 years.

The carrying amount of an item of property, plant and equipment is derecognised:

- on disposal
- when no future economic benefits are expected from its use or disposal.

The gain or loss from derecognition of an item of PPE is included in the income statement when the item is derecognised. The gain or loss from derecognition of an item of PPE is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. PPE are assessed for indications of impairment at each reporting date. When events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.2.8. INTANGIBLE ASSETS

Intangible assets acquired by the Bank are measured at cost less accumulated amortisation and any accumulated impairment losses.

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original costs of the asset. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Costs incurred in internal development of intangible assets when meet the recognition criterion is recognized as intangible asset. The cost of development activities is capitalised when it is probable that the Bank will obtain economic benefits from the use of the asset and the cost can be reliably measured.

The costs recognised (Note 22) include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc).

Intangible assets are amortized using the straight-line method over their useful lives, as follows:

- Computer software- 10-15 years;
- Licenses - 10-15 years;
- Other intangible assets- 5-15 years.

Intangible assets include software, licenses, internally developed and other intangible assets that are separable or arise from contractual or other legal rights.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.2.9. INVESTMENT PROPERTY

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is measured initially at its cost, including related transaction costs. Under fair value model of IAS 40 “Investment property” after initial recognition, investment property is carried at fair value as determined by independent certified valuers, with any change therein recognized in income statement as part of other income/expense.

Subsequent expenditure is charged to the asset’s carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance costs are recognized to the income statement during the financial period in which they are incurred.

Investment property is derecognised when disposed or when it is permanently withdrawn from use and there is no future economic benefit expected from its disposal. Any arising gain or loss (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized in income statement.

2.2.10. FINANCIAL ASSETS

FINANCIAL ASSETS - CLASSIFICATION AND MEASUREMENT

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortized cost, fair value through other comprehensive income or fair value through profit and loss. Purchases and sales of financial assets are recognized on settlement date, which is the date the Bank commits to purchase or sell the assets. Loans originated by the Bank are recognized when cash is advanced to the borrowers. Receivables from customers arising from the Bank’s activities other than lending are initially measured at the transaction price.

Financial Assets measured at Amortized Cost (“AC”)

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met:

- (a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) and
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method.

Interest income, realized gains and losses on derecognition, and changes in credit impairment losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income (“FVOCI”)

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met:

- (a)** The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model) and
- (b)** The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs.

Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and credit impairment losses, which are recognized in the income statement. Cumulative gains and losses previously recognized in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument at FVOCI. This designation, if elected, is made at initial recognition and on an instrument by instrument basis. Gains and losses on these instruments, including when derecognized, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement. The Bank has no equity instruments designated at FVOCI.

Financial Assets measured at Fair Value through Profit and Loss (“FVTPL”)

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold-to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI, financial assets held for trading and derivative financial instruments.

Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which managed similarly rather than at an individual instrument's level.

The business model is determined by the Bank's key management personnel consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable.

Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Types of business models

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.

The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model.

Financial assets classified within this business model include cash and cash equivalents, bonds, due from banks and loans and advances to customers which are measured at amortized cost, subject to meeting the SPPI assessment criteria.

The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and Non-performing exposures (NPE) strategy.

Cash flow characteristics assessment

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

In case of special lending arrangements such as non-recourse loans, the Bank in its assessment of the SPPI criterion considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets.

In certain cases when the time value of money element is modified in that the financial asset's interest rate is periodically reset but the reset frequency does not match the tenor of the interest rate or when a financial asset's interest rate is periodically reset to an average of particular short-term and long-term interest rates, a quantitative assessment is performed ("Benchmark Test") in order to determine whether the contractual cash flows are SPPI.

In particular, the Bank assesses the contractual cash flows of the "real instrument" (RI), whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the "benchmark instrument" (BI), which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion, and therefore, cannot be measured at amortized cost or at fair value through other comprehensive income. In its assessment, the Bank considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument. This is done, as far as the lifetime of the instrument is concerned, by comparing the cumulative projected undiscounted cash flows of the RI and the BI.

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis or not genuine, it does not affect the classification of the financial asset. A contractual feature does not affect the classification of the financial assets if it could have only a de-minimis effect on the contractual cash flows of the financial asset. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

The Bank performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio the assessment is performed on an individual basis.

The SPPI assessment of debt securities is performed centrally by the Group using an automated solution, at origination and acquisition dates, respectively, by taking into consideration features that introduce variability in the contractual cash flows of a financial instrument which may not result in solely payments of principal and interest.

Derecognition of Financial asset

The Bank derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party. On derecognition of a financial asset, the difference between the carrying amount

of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI for financial assets at FVOCI, is recognized in income statement. The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention.

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the original financial asset is then derecognized. The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

Modifications that may result in de-recognition include:

- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

2.2.11. RECLASSIFICATIONS OF FINANCIAL ASSETS

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's competent Committees and the amendment is reflected appropriately in the Bank's budget and business plan.

Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions), the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the Bank with different business models, are not considered by the Bank changes in business model.

The reclassification is applied prospectively from the reclassification date, therefore previously recognized gains, losses (including impairment losses) or interest are not restated.

2.2.12. FINANCIAL LIABILITIES

Classification and measurement

The Bank may classify its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities at fair-value-through-profit-or-loss.

Financial liabilities at fair-value-through-profit-or-loss comprise two sub-categories: financial liabilities held for trading and financial liabilities designated at fair-value-through-profit-or-loss upon initial recognition.

Financial liabilities held for trading are those liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.

The Bank may, at initial recognition, irrevocably designate financial liabilities at fair-value-through-profit-or-loss when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial liabilities at FVTPL are initially recognized at fair value. Changes in fair value are recognized in the income statement. For financial liabilities designated as at FVTPL using the fair value option, movements are recognised in the Other comprehensive income (OCI) and are not subsequently reclassified to the income statement upon derecognition of the liabilities. However, if such treatment creates or enlarges an accounting mismatch in the income statement, all gains or losses of this financial liability, including the effects of changes in the credit risk, are recognized in the income statement.

As of the end of 2023 and 2022 the Bank classifies all its financial liabilities at amortized cost, except derivatives liabilities measured at fair value.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognized in the income statement.

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

2.2.13. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when and only when there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.2.14. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognized in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortized on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 5.3). For assets and liabilities that are measured at fair value on a recurring basis, the Bank recognizes transfers into and out of the fair value hierarchy levels annually for the year in which a financial instrument's transfer was effected.

2.2.15. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets

The Bank recognizes allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts, and loan commitments. No ECL are recognized on equity investments. ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over

the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of purchased or originated credit impaired (POCI), the loss allowance is based on the change in the ECL over the life of the asset.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. For all other financial assets subject to impairment, the general three-stage approach applies.

Accordingly, ECLs are recognized using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Under IFRS 9, if the credit risk on a lending exposure has not increased significantly at the reporting date in comparison to its origination date, the Bank should measure the loss allowance for that lending exposure at an amount equal to 12-month expected credit losses. The 12-month ECL represents a portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the lending exposure or group of lending exposures, due to loss events that could occur in the next 12 months from the reporting date. The lifetime cash shortfalls that will result if a default occurs in the next 12 months after the reporting date (or a shorter period if the expected life of a lending exposure is less than 12 months) is weighted by the probability of a default occurring (PD) in those next 12 months after the reporting date (or earlier, given a shorter tenor).

For lending exposures with a remaining maturity of less than one year, the 12M PD is applied. For debt securities with a remaining maturity of less than 12 months, a probability of default corresponding to the remaining term to maturity is used. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognized following a substantial modification accounted for as a de-recognition, are classified initially in Stage 1.

- Stage 2 – The Bank should move lending exposures from 12 month ECL to lifetime ECL measurement, providing that there is a significant increase in credit risk of the exposure. The lifetime ECL are the expected credit losses that result from all possible default events over the expected life of a lending exposure (i.e. Stage 2, Stage 3) and POCI. Impairment losses are measured at lifetime ECLs if an instrument's credit risk subsequent to origination has increased significantly. If the credit risk of a lending exposure has not increased significantly on a subsequent period, then the Bank reverses the measurement of the impairment allowances from lifetime ECL to 12-month ECL.
- Stage 3 – Financial instruments that are considered to be credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.
- Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. ECL are only recognized or released to the extent that there is a subsequent change in the assets' lifetime expected credit losses. POCI exposures are not subject to stage allocation as these exposures are credit impaired at the date of initial recognition by the Bank and are always measured on the basis of lifetime expected credit losses. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a de-recognition. Any subsequent favorable changes to their expected cash flows are recognized as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition.

Definition of default

As of 1 January 2021, the Bank adopted the new Definition of Default (New DoD), according to the EBA guideline (Article 178 of Regulation (EU) No 575/2013). Information on the New DoD implementation is provided in note 5.2.1.2 (a).

A financial asset becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.
- For POCI asset, a purchase at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle -based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

Sovereign debt securities

For sovereign debt securities, the Bank determines the risk of default using an internal credit rating scale and considers them as credit impaired if the internal credit rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale). Debt instruments with external rating equivalent to "C" are always considered impaired and carry the equivalent internal rating that presents default.

Significant increase in credit risk (SICR) and stage allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition.

At each reporting date, the Bank performs an assessment as to whether the risk of a default occurring over the remaining expected lifetime of the exposure has increased significantly from the expected risk of a default estimated at origination for that point in time.

The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort including forward looking information and macroeconomic scenarios as well as historical experience

Assessment of SICR for debt securities is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date.

The Bank uses the below criteria in combination, where appropriate, for the purposes of identifying a significant increase in credit risk:

(I) Residual lifetime PD comparison

The Bank considers a significant increase in credit risk (SICR) on a lending exposure when the "Current residual lifetime probability of default" at each reporting date (Current Residual Lifetime PD) is higher than the residual lifetime probability of default at same maturity point on the PD curve expected at the origination by a certain threshold (Residual Lifetime PD threshold).

In cases where the contractual cash flows on a lending exposure have been modified and the original lending exposure has been derecognized, the Bank uses the date of the substantial modification as the origination date of the new modified lending exposure for the purposes of the residual lifetime PD comparison. On the other hand, in cases where the modification is not substantial enough the comparison is performed between the risk of a default occurring at initial recognition (based on the original unmodified contractual terms) and the risk of a default occurring at the reporting date (based on the modified contractual terms).

(II) Forbearance

Concessions granted within the last 24 months to lending exposures as a result of financial difficulty of the borrower that otherwise would not have been considered by the Bank, are identified as associated with significant increase in credit risk SICR and thus allocated into Stage 2.

(III) Backstop indicators

The Bank applies the backstop criterion 30 days past due for the identification of SICR. In particular, lending exposures overdue for more than 30 days and below 90 days, are considered as associated with Significant Increase in Credit Risk and are classified into Stage 2.

Furthermore, Management may apply temporary collective adjustments when determining whether credit risk has increased significantly since initial recognition on exposures that share the same credit risk characteristics to reflect macro-economic or other factors which are not entirely addressed by the current credit risk models. These factors may depend on information such as the type of the exposure, counterparty's specific information and the characteristics of the financial instrument, while their application requires the application of significant judgment.

Transfers from Stage 2 to Stage 1

A lending exposure, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the aforementioned Stage 2 criteria.

Where forbearance measures have been applied in the past and the exposure has been categorized as Performing Forborne (PF) Exposure (either due to the application of forbearance measures to Performing exposures or a result of curing from Non – Performing Forborne status), the following conditions should be met in order to qualify for a transfer back to Stage 1:

- The facility is considered to be performing, including where it has been reclassified from the non – performing category after an analysis of the financial condition of the borrower showed that it no longer met the conditions to be considered as non - performing;
- A minimum of two years' probation period has passed from the date the forborne exposure was considered to be performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period (i.e. one year).

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterized as credit impaired, are no longer valid. Specifically the following criteria should be met:

- Credit exposures with EBA status Non-Performing (NPE) are transferred from Stage 3 to Stage 2, when the EBA status is changed to Performing Exposure (PE), complying at least three

months probation period since the day a criteria for default was last valid, and the days past due are more than 30 days and below 90 days.

- Credit exposures with EBA status Non-Performing Forborne are transferred from Stage 3 to Stage 2 when the EBA status is changed to Performing Forborne Cured NPE (PFC), after meeting all the probation period conditions:

Conditions applied during the whole 12-month probation period:

- Days past due remain 0;
- There is no new forbearance measure applied;
- No other default events occur on exposure level;
- Any breach of the aforementioned conditions will lead to restart of the 12-month probation period.

Conditions applied at the end of the probation period:

- The borrower has paid, via its regular payments in accordance with the restructuring arrangements, a total equal to the sum of the amount that was previously past due and the amount that has been written-off before the NPF classification.

Criteria for grouping of exposures based on shared credit risk characteristics

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to group lending exposures into homogenous pools in terms of estimated PDs and rates of recovery in the event of default.

The shared credit risk characteristics used for the segmentation of lending exposures include the following:

- Instrument type (e.g. lending exposures, debt instruments etc.);
- Portfolio type (e.g. retail, wholesale etc.);
- Asset class (e.g. mortgages, consumer loans, SBBs, large corporate, SMEs etc.);
- Product type (e.g. revolving credit facilities, personal loans, debt consolidation etc.);
- Credit risk rating (i.e. segmentation per rating band);
- Date of initial recognition (i.e. segmentation per vintage);
- Remaining term to maturity (i.e. segmentation based on remaining tenor).

Observed credit history (i.e. characteristics based on the debt service behavior of borrowers recorded in the Bank's books) Lending exposures are allocated into groups based on shared credit risk characteristics upon initial recognition. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics, and the exposures are re-segmented in the case where relevant new information becomes available in respect to the credit risk associated with the

particular exposures or when there is a change on management's perception compared to the initial recognition.

Measurement of Expected Credit Losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered.

The Bank estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources, including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In case of a collateralized financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from liquidation less the discounted costs of obtaining and selling the collateral, irrespective of whether liquidation is probable.

ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument, or in case of revolving credit facilities, by taking into consideration factors such as the Bank's expected credit risk management actions to mitigate credit risk and past practice.

Receivables from customers arising from the Bank's activities other than lending, are presented under Other Assets and are typically short term. Therefore, considering that usually there is no significant financing component, the loss allowance for such financial assets is measured at an amount equal to the lifetime expected credit losses under the simplified approach.

ECL Key Inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF) and the prepayment rate. Generally, the Bank derives these parameters from internally developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon.

The Bank uses Point in Time (PiT) PDs in order to remove any bias towards historical data thus aiming to reflect management's view of the future as at the reporting date, incorporating relevant forward looking information including macroeconomic scenarios.

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.

- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECLs for Stage 2, Stage 3 and POCI exposures.

For sovereign debt securities, implied credit ratings are obtained by an international rating agency data (Moody's Analytics CreditEdge) using risk methodologies that maximize the use of objective non-judgemental variables and market data. The Bank calculates a single weighted average annualized 5 year PD for all acquisitions of the same debt security, then the PD is mapped to the ratings table provided by Moody's Analytics CreditEdge on a monthly basis. Based on the PD ranges defined in the table an implied credit rating is assigned. In case of counterparties for which no information is available, the group assigns internal credit ratings derived from internal models. For corporate debt securities that are part of the Bank's loan portfolio, the loan impairment policies and rules apply.

The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest as per agreed repayment schedule and expected drawdowns on committed facilities. The EAD includes both on and off balance sheet exposures. The on balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on balance sheet exposure.

Furthermore, the Credit conversion factor (CCF) is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

In addition, the prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD.

The Bank distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. For secured exposures, the Bank estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realization, realization costs, etc. for unsecured exposures, the Bank considers at a minimum the cure rates, recovery rates and time to recovery. Where the LGD's component values are dependent on macro – economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

For debt securities, the LGD is typically based on historical data derived mainly from rating agencies' studies but may also be determined considering the existing and expected liabilities structure of the obligor and macroeconomic environment.

Furthermore, the seniority of the debt security, any potential collateral by the obligor or any other type of coverage is taken into account for the calculation.

Regarding the acquired portfolio of BNP Paribas Personal Finance Bulgaria, the Bank applied the following methodology for determining the risk parameters, used in the ECL calculation:

- Probability of Default (PD) – a simulation with the material threshold for overdue payment applied in Eurobank Bulgaria has been prepared in order to obtain historical data of the performance of the portfolio on a deal level. The resulting sample has been used to determine the appropriate logistic regressions for the respective products for determining the 12-month probability of default. Based on the calculated 12-month probability of default, the appropriate PD curve is determined using the Eurobank's IFRS9 PD model;
- Prepayment Rates (PR) – using the PD sample above (given the fact the probability is conditional of two events – the account does not enter in the default classification and is repaid before the contractual maturity), the prepayment rates are calculated for the PF portfolio using the methodology of Eurobank Bulgaria;
- Credit Conversion Factor (CCF) – the values are calculated using the Eurobank Bulgaria's methodology by constructing a decision tree, which takes into consideration the available data from PF;
- Loss Given Default (LGD) - the associated LGD pools for the PF portfolio are those with most conservative values with sufficient number of observations from Eurobank Bulgaria's portfolio.

After the risk parameters are associated to each deal, the calculation of the ECL is performed in the SAS system using Eurobank's methodology.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about reasonable and supportable forecasts of future events and macroeconomic conditions. The estimation and application of forward-looking information requires significant judgment.

The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome.

The scenarios are reflected in the risk parameters, and, namely 12-month PD, Lifetime PD and LGD, hence 3 sets of each of these parameters are used, in line with the scenarios developed.

Each scenario is assigned with weight, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in both SICR assessment and ECL measurement.

Modified Financial Assets

The Bank may, in the normal course of its operating activities, modify the contractual terms of a lending arrangement either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition within the Banking industry, customer retention, etc.

Upon modification of the contractual terms of a lending arrangement, an assessment of whether the modification of contractual terms is substantial should follow in order to conclude on whether the modification qualifies for derecognition of the original loan and the recognition of a new one based on the revised contractual terms.

In general, a lending exposure is derecognised when, and only when, either the contractual cash flows of the lending exposure expire or the exposure is transferred and the transfer qualifies for derecognition.

The decision of whether a modification of the contractual terms of a lending arrangement is considered substantial enough to trigger derecognition accounting requires the exercise of judgement. In that context, the Bank assesses modifications based on their significance on both the variability of cash flows and the risk profile of the lending exposure by using qualitative criteria that indicate whether an expiration of the contractual rights to those cash flows has occurred. Also other factors such as the driver of the modification are taken into account to the extent to which the latter affect the variability of the expected cash flows and the risk profile of the lending exposure, subject to modification.

The Bank may modify the contractual terms of a lending exposure as a concession granted to a client facing or that is about to face financial difficulties. When such a renegotiation is being applied, the main events that constitute a modification are as follows:

- Change in the interest rate above a certain level
- Change in borrower
- Change in the currency that the lending exposure is denominated
- Restructuring products that include debt consolidation features.

In cases where the modification of the contractual cash flows is not considered substantial (following the de-recognition assessment performed using the de-recognition triggers provided above), the modification does not result in de-recognition. The Bank recalculates the gross carrying amount of the financial asset and recognizes the difference as a modification gain or loss, which is reflected in the income statement. When a modification includes debt forgiveness, the portion of the asset subject to forgiveness is de-recognized first and then the calculation of the modification gain/loss is performed.

The Bank has established a structured framework for both the SPPI and de-recognition assessment of its financial assets that takes place to ensure appropriate classification and measurement. The Bank indicatively considers the qualitative criteria listed in its accounting policy as indicators that represent a substantial modification of contractual terms that could lead to a derecognition, including change in the currency that the lending exposure is denominated, change in borrower, changes in interest rates that are considered significant, debt consolidation, etc. In particular, the Bank has introduced several levels of defense by performing reviews both the assessments and their results by senior management with appropriate knowledge for both lending exposures and debt securities.

Presentation of allowance for credit loss

For financial assets measured at amortized cost, credit impairment losses are recognized as a loss allowance in the income statement reducing the gross carrying amount of the debt instruments in the balance sheet. For debt instruments measured at FVOCI, credit impairment losses are recognized in other comprehensive income and the accumulated amount does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial instruments arising from lending activities, allowance for credit losses is presented in Other Liabilities, while the respective ECL is recognised within impairment losses.

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a debt instrument either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against

the impairment allowance. The amount that is written-off is considered as derecognized. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2.2.16. SALE AND REPURCHASE AGREEMENTS AND SECURITIES LENDING

(I) Sale and repurchase agreements

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities while the counterparty liability is included in deposits due to other banks, or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price in case of repos and the purchase and resale price in case of reverse repos is recognised as interest and accrued over the life of repo or reverse repo agreements using the effective interest rate method.

(II) Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

2.2.17. LEASES

(I) ACCOUNTING FOR LEASES AS LESSEE

When the Bank becomes the lessee in a lease arrangement, it recognizes a lease liability and a corresponding right-of-use (RoU) asset at the commencement of the lease term when the Bank acquires control of the physical use of the asset.

Lease liabilities are presented within Other liabilities and RoU assets within Property, plant and equipment. Lease liabilities are measured based on the present value of the future lease payments over the lease term, discounted using an incremental borrowing rate. For the Bank the incremental borrowing rate is equal to the Bank's Deposits cost of funds for the respective currency. The interest expense on lease liabilities is presented within Net interest income.

The RoU asset is initially recorded at an amount equal to the lease liability and is adjusted for rent prepayments, initial direct costs, or lease incentives received. Subsequently, the RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within Operating expenses.

When a lease contains extension or termination options that the Bank considers reasonably certain to be exercised, the expected future lease payments or costs of early termination are included within the lease payments used to calculate the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(II) ACCOUNTING FOR LEASES AS LESSOR

At inception date of the lease, the Bank, acting as a lessor, classifies each of its leases as either an operating lease or a finance lease based on certain criteria.

Finance leases

At commencement date, the Bank derecognizes the carrying amount of the underlying assets held under finance lease, recognizes a receivable at an amount equal to the net investment in the lease and recognizes, in profit or loss, any profit or loss from the derecognition of the asset and the recognition of the net investment.

The net investment in the lease is calculated as the present value of the future lease payments in the same way as for the lessee.

After commencement date, the Bank recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Bank also recognizes income from variable payments that are not included in the net investment in the lease. After lease commencement, the net investment in a lease is not remeasured unless the lease is modified or the lease term is revised. Finance leases are reported as part of Loans and advances to customers.

Operating leases

The Bank continues to recognize the underlying asset and does not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement.

The Bank recognizes lease payments from the lessees as income on a straight-line basis. Also it recognizes costs, including depreciation, incurred in earning the lease income as an expense. The Bank adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognizes those costs as an expense over the lease term on the same basis as the lease income.

Subleases

The Bank, acting as a lessee, may enter into arrangements to sublease a leased asset to a third party while the original lease contract is in effect. The Bank acts as both the lessee and lessor of the same underlying asset. The sublease is a separate lease agreement, in which the intermediate lessor classifies the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease, the sublease is classified as an operating lease; or
- otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

2.2.18. INCOME TAX

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force.

Income tax expense comprises current and deferred tax. It is recognized in the income statement except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at

the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. The Bank shall offset current tax assets and current tax liabilities if, and only if it has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for court cases and provisions for untaken annual leaves, as well as those arisen as a result of the difference between the value of the financial assets of the merging company at the date of the merger and the value at which the same financial assets were recognized by the receiving (parent) company. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

The Bank shall offset deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

The Bank determines and assesses all material tax positions taken, including all, if any, significant uncertain positions, in all tax years that are still subject to assessment (or when the litigation is in progress) by relevant tax authorities. In evaluating tax positions, the Bank examines all supporting evidence (Ministry of Finance circulars, past administrative practices, ad hoc tax/legal opinions etc.) to the extent they are applicable to the facts and circumstances of the particular Bank's case/ transaction.

2.2.19. EMPLOYEE BENEFITS

(I) Short-term employee benefits

Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(II) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognised as an expense in the period to which those relate.

(III) Retirement benefit obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has acquired entitlement to a contributory-service and required retirement age, irrespective of the reason for the termination, the employee shall be entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries where the employee has acquired with the Bank or in the Eurobank Group 10 years length of employment service during the past 20 years. Compensations under this paragraph are payable on a single occasion only.

Provision has been made for the actuarial value of the lump sum payable on retirement using the projected unit credit method. Under this method the cost of providing retirement indemnities is

charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The obligation is calculated as the present value of the estimated future cash outflows using interest rates of Bulgarian government bonds at the end of the reporting period. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations. Actuarial gains and losses that arise in calculating the Bank's obligation are recognised directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Past service costs and interest expense are recognised immediately in the income statement.

2.2.20. REPOSSESSED COLLATERALS

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in 'Other Assets'. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.

In cases where the Bank makes use of repossessed properties as part of its operations, they are reclassified to own occupied or investment properties, as appropriate.

Any gains or losses on liquidation are included in the income statement.

2.2.21. BORROWINGS

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings include deposits from banks, due to customers, other borrowed funds.

2.2.22. PROVISIONS

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.2.23. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less

than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks, short-term government securities and other short term highly liquid investments with a short maturity of 90 days or less from the date of acquisition that are held for trading. Cash and cash equivalents are measured at amortized cost.

2.2.24. FINANCIAL GUARANTEES AND OTHER RELATED COMMITMENTS

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the impairment loss allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9.

Impairment allowance for off-balance sheet exposures (financial guarantees and commitments) is included within Other Liabilities.

Furthermore, commitments to extend credit represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. The Bank recognizes a provision in accordance with IAS 37 only when the commitment contract can be considered to be onerous.

2.2.25. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- (a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members;
- (b) an entity that has significant influence over the Bank and entities controlled by this entity;
- (c) members of key management personnel of the Bank, their close family members and entities controlled or jointly controlled by the abovementioned persons;
- (d) associates and joint ventures of the Bank; and
- (e) fellow subsidiaries.

Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and are conducted on an arm's length basis.

2.2.26. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. For a non-current asset to be classified as held for sale, it is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets, and the sale is considered to be highly probable. In such cases, management is committed to the sale and actively markets the property for sale at a price that is reasonable in relation to the current fair value. The sale is also expected to qualify for recognition as a completed sale within one year from the date of classification. Before their classification as held for sale, assets are remeasured in accordance with the respective accounting standard.

Assets held for sale are subsequently remeasured at the lower of their carrying amount and fair value less cost to sell. Any loss arising from the above measurement is recorded in profit or loss and can be reversed in the future. When the loss relates to a disposal group, it is allocated to the assets within that disposal group.

2.2.27. GOVERNMENT GRANTS

Government grants are transfers of resources to the Bank by a government entity such as government, government agencies and similar bodies whether local, national or international, in return for compliance with certain past or future conditions related to the Bank's operating activities. Government grants are recognized when there is reasonable assurance that the grant will be received and the Bank will comply with the conditions attached to it. The grants are recognized in the income statement on a systematic basis to match the way that the Bank recognizes the expenses for which the grants are intended to compensate. In case of subsequent changes in the Bank's expectations of meeting the conditions attached to the government grants, the effect of such changes is recognised in income statement.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the Bank's accounting policies, the Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities, revenues and expenses recognized in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on current conditions, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant areas in which the Bank makes judgments, estimates and assumptions in applying its accounting policies are set out below:

3.1. IMPAIRMENT LOSSES ON LOANS AND ADVANCES ECL MEASUREMENT

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. In addition, temporary adjustments may be required to capture new developments and information available, which are not reflected yet in the ECL calculation through the risk models.

From January 2021 a new definition of default as per EBA guideline (Article 178 of Regulation (EU) No 575/2013) is implemented in the Bank. The new definition led to the need of calibration of all related models to IFRS9 framework of the Bank. The respective approach is kept similar during the new definition of default model calibration project where all analyses and regressions are performed to predict the new default event. In addition the gained experience during the macroeconomic crisis caused by the Covid-19 pandemic lead to certain model improvements aiming to increase model performance in case of future crisis.

Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk

IFRS 9 does not include a definition of what constitutes a significant increase in credit risk (SICR). An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable information based on current and past experience.

For all lending exposures the primary criterion for allocation from one stage to another is the percentage change in the current residual cumulative lifetime PD compared to origination residual cumulative lifetime PD above specified thresholds. These thresholds are set and vary per portfolio, product type as well as per origination PD level. In general, thresholds for lower origination PDs are higher than those assessed for higher origination PDs.

As of 31 December 2023 and 31 December 2022, the range of lifetime PD thresholds based on the above segmentation, that triggers allocation to Stage 2 for lending exposures are set out below:

Portfolio	Product Type	2023	2023	2022	2022
		Lifetime PD at origination interval of the instrument	SICR Threshold	Lifetime PD at origination interval of the instrument	SICR Threshold
Mortgage	Fixed term loans	0%-20%	140%	0%-5%	100%
	Fixed term loans	Above 20%	10%	Above 5%	80%
Consumer	Fixed term loans	0-20%	40%	0-20%	40%
	Fixed term loans	Above 20%	20%	Above 20%	20%
	Revolving loans	0-5%	100%	0-5%	100%
	Revolving loans	Above 5%	Any increase	Above 5%	Any increase
SBB	Fixed term loans	0-10%	100%	0-10%	100%
	Fixed term loans	Above 10%	80%	Above 10%	80%
	Revolving loans	0-5%	100%	0-5%	100%
	Revolving loans	5.01%-15%	80%	5.01%-15%	80%
	Revolving loans	Above 15%	20%	Above 15%	20%
Large corporates	Revolving loans, LGs and LCs	0-10%	300%	0-10%	300%
	Revolving loans, LG and LC	Above 10%	50%	Above 10%	30%
	Fixed term loans	0-5%	500%	0-5%	500%
	Fixed term loans	5.01%-20%	100%	5.01%-10%	100%
	Fixed term loans	Above 20%	40%	Above 10%	50%
Medium corporates	Revolving loans, LGs and LCs	0%-100%	50%	0%-100%	300%
	Fixed term loans	0-5%	500%	0-5%	500%
	Fixed term loans	5.01%-20%	100%	5.01%-10%	100%
	Fixed term loans	Above 20%	40%	Above 10%	50%

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome.

Each of the scenarios is based on management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. The applied weights of the macro scenarios in the IFRS9 provisioning process as of 31.12.2023 remains unchanged compared to 31.12.2022 – 30%, 40% and 30% for Adverse, Baseline and Optimal scenario, respectively.

The Bank ensures that impairment estimates and macroeconomic forecasts applicable for financial reporting, business and regulatory purposes are fully consistent.

The most recent macro forecast reflecting the conflict in Ukraine, high inflation and rising interest rates, is based on the key assumptions for the baseline forecasts, as follows:

- The conflict in Ukraine continues and along with the escalation in Gaza will keep geopolitical relations strained. Additional shocks to supply chains and international energy prices remain a risk. The inflationary pressures have moderated over the past year, with oil and gas prices decreasing notably. The concerns over the energy crisis for the past winter season were diverted as the EU managed to negotiate and secure enough supply for its needs, but this will likely be a topic to arise again for this year's winter season, as the geopolitical climate remains tense and fragile.
- Bulgarian GDP in 2023 will mark a higher growth than previously forecast, and that would partially be due to stable household consumption as well as reflecting a lower-than-expected growth in imports which provides a positive contribution through the net exports. Some negative effects, however, will affect the growth in 2024 – there are more challenges arising on global scale, as well as the signs of weaker recovery in some leading economies and trading partners (especially the EU). Economic growth for 2023 in Bulgaria's main trading partners is set to be weaker than previously expected, and some unfavourable effects will persist over the coming year as well, denting external demand over the short term. Nevertheless, household demand will remain stable, supported by continued growth in wages and tight labour market condition additionally levied by the moderation in price growth which will help strengthen real incomes. Over the short-term government expenditures will grow only moderately, now targeting a more balanced budget, with most pandemic and supportive measures expiring. Investment activity is expected to pick up next year, underpinned by stable financial markets and more active absorption of EU funds.
- Inflation is expected to ease off further in 2024. There will be a bit of a bounce-back as some support measures get suspended, such as lower VAT rates, compensations for higher energy bills, which will slow down the inflation deceleration slightly. Wage growth will ease but continue to be robust over the short term, underpinned by tight labour market conditions as well as the expected increases in the minimum wage which has been linked to the average gross wage. Moderation in inflation will help strengthen household budgets.
- Inflationary pressures have eased over the past year, but the price level remains elevated. The ECB highlighted that the rate hikes might be reaching an end but the Governing Council will continue to keep an eye on the developments in core inflation and the inflation outlook, ready to act. Any further rate increases are expected to be moderate and take place over the short term followed by a period of no change. BNB has been trying to facilitate a quicker transmission of the effects by requiring higher minimum reserves. That has had some effect on the Bulgarian rates which responded with some delay. Interest rates are expected to pick up in the next few quarters before reaching a stable level.

The following risks have been taken into consideration:

I. Downside risks:

- If geopolitical tension heightens, this will result in additional global shocks and lead to long-term scarring. Inflation will remain elevated over the next few years, as trade conditions worsen, and material and energy costs rise again. Household budgets will take a stronger hit relative to the baseline while businesses struggle with growing production costs, resulting in weak activity and rising unemployment. Consumption will contract as household budgets deteriorate. Quickly rising interest rates and a tightening in credit market conditions will limit access to funds for businesses and households, further obstructing economic activity. Political instability will hinder economic activity, adding further uncertainty. If Bulgaria plans to enter the Eurozone without ensuring a wide informational campaign, consumers' expectations of inflation will rise, uncertainty will increase and the short notice for technical preparations of the public and private sector would raise costs and lead to struggles of both households and businesses over the medium term.

II. Upside risk:

- If geopolitical tensions related to the ongoing conflicts ease over, trade conditions will improve, easing off supply-chain disruptions and inflationary pressures faster. Improvements in the global environment will increase consumer confidence and business sentiment, allowing for stronger economic activity. Improved household budgets will result in stronger demand, and lower production costs will facilitate stronger hiring and investment activity. Interest rates will increase but credit conditions will remain favourable. Political stability and a quicker absorption of the Recovery and Resilience Plan funds will result in stronger economic growth. Joining the Euro Area and adopting the Euro is expected to have favourable effects for business activity and investments, potentially boosting trade and tourism.

In terms of macroeconomic assumptions, the Bank assesses a number of indicators in projecting the risk parameters. Regarding the macroeconomic indicators used in the ECL measurement of Bulgarian lending portfolios for the year ended 31 December 2023, the arithmetic averages of the scenarios' probability-weighted annual forecasts from 2024 to 2028, are set in the following table:

	Unit	Arithmetic Average (2024 - 2028) Probability weighted annual forecast
Gross Domestic Product	YOY % 2010 prices	3.12%
Domestic Demand	YOY % 2010 prices	2.96%
Number of Employed	YOY %	(0.83%)
Unemployment Rate	%	4.92%
Long term interest rate	%	5.30%
Retail Sales	YOY %	3.39%
Average Monthly Wage	YOY %	3.85%
Total Disposable Income Per Person	YOY %	5.05%
House Price Index	YOY % 2015=100	4.29%
Interest Rate Spread (companies)	%	4.31%
Central Bank Policy Rate	%	3.74%
Imports (goods and services)	YOY %	3.83%

Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL amount.

Development of ECL models, including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterization based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EAD, PDs, LGDs, CCFs, etc. incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

Furthermore, the PDs incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of explanatory variables, such as GDP, unemployment etc. which are used as independent variables for optimum predictive capability.

The models are based on linear and logistic regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment reflected accordingly.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics. Re-segmentation reflects management's perception in respect to the change of credit risk associated with the particular exposures compared to initial recognition.

Modeling and Management overlays / adjustments

A number of sophisticated models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available, which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL.

The past year was marked by ambivalent results in terms of development of the economy. The inflation curve was positively affected by the policy of European Central bank and Bulgarian National Bank, decreasing from 16.9% as of December 2022 to 4.7% as of December 2023. Nevertheless, the rate stands much higher than the average of the EU, which is 2.9% (projected) as of December 2023. The downward trend in the inflation was at the expense of the economic development – the country experienced a slowdown of the economic activity, decrease of the export and the industrial production and geopolitical instability. In the second half of the year, the total business climate indicator marked a significant decrease of the outlook declining by 24% compared to the level in June 2023. The HCOB flash eurozone purchasing managers' index (PMI) fell to 47.0 in December, which suggests that the region's economy is likely to have contracted in Q4 as well. World Bank's latest Global Economic Prospects report describes a conservative outlook for the world economy in 2024 - global growth is projected to edge down from an estimated 2.6 percent in 2023 to 2.4 percent in 2024, marking the third consecutive year of deceleration. This slowdown reflects softening labor markets, reduced savings buffers, waning pent-

up demand for services, elevated real interest rates and fiscal consolidation. In addition, recent attacks on commercial vessels transiting the Red Sea, one of the world's most important maritime channels, have already started to disrupt global supply chains and could have significant spillover effects and heighten geopolitical and economic uncertainty.

Taking all of the above into account, the Bank decided that it should maintain management overlay balances to address potential negative macro environment development in the foreseeable future. The Bank performed a re-estimation of the management overlay need by considering the behavior of the highest risk part of performing lending exposures, existing as of 31 December 2023, i.e. those which have experienced a historical delinquency of more than 15 days-past-due on a borrower level for the past two-year period 31.01.2022 – 31.12.2023. This calculation was applied for all business lines and resulted to a final amount of ECL management buffer of BGN 25,896 thousand as of 31.12.2023."

Sensitivity analysis on lending portfolios

The tables below depict the effect in the Bank's ECL measurement upon potential, reasonably combined changes of forecasts in all macroeconomic indicators used for ECL estimation over the next 5 years (2024-2028), compared to the actual probability weighted macroeconomic scenarios. The values presented below for the weighted scenario are a probability weighted average where the applied probabilities are 30% for the optimistic macro forecast, 40% for the baseline macro forecast and 30% for the adverse macro forecast. The values presented for the optimal, adverse and baseline scenario correspond to the respective macro forecast scenario.

Sensitivity Scenario							
Indicator	Unit	Scenario	2024	2025	2026	2027	2028
Gross Domestic Product	YOY % 2010 prices	Optimal	9.35%	7.32%	6.31%	5.51%	4.90%
		Baseline	2.98%	2.47%	2.54%	2.51%	2.40%
		Weighted	3.46%	3.29%	3.20%	2.95%	2.71%
		Adverse	-2.00%	-0.21%	0.31%	0.24%	0.15%
Domestic Demand	YOY % 2010 prices	Optimal	7.80%	5.31%	4.51%	3.87%	3.67%
		Baseline	3.65%	3.14%	2.83%	2.44%	2.28%
		Weighted	3.60%	3.24%	2.94%	2.54%	2.45%
		Adverse	-0.79%	1.05%	1.28%	1.08%	1.19%
Number of Employees	YOY %	Optimal	0.78%	-0.01%	-0.11%	-0.11%	-0.28%
		Baseline	-0.86%	-0.88%	-0.86%	-0.83%	-0.86%
		Weighted	-0.80%	-0.84%	-0.85%	-0.82%	-0.85%
		Adverse	-2.32%	-1.66%	-1.61%	-1.56%	-1.47%
Unemployment Rate	%	Optimal	3.51%	3.80%	4.02%	4.20%	4.37%
		Baseline	4.79%	4.89%	4.93%	4.96%	4.97%
		Weighted	4.81%	4.93%	4.94%	4.96%	4.96%
		Adverse	6.13%	6.13%	5.88%	5.71%	5.54%
Long term interest rate	%	Optimal	5.50%	5.82%	5.96%	5.93%	5.90%
		Baseline	4.83%	5.19%	5.44%	5.52%	5.53%
		Weighted	4.84%	5.20%	5.43%	5.52%	5.53%
		Adverse	4.19%	4.57%	4.90%	5.09%	5.16%

Indicator	Unit	Scenario	2024	2025	2026	2027	2028
Retail Sales	YOY %	Optimal	7.66%	5.59%	4.96%	4.54%	4.23%
		Baseline	3.86%	3.39%	3.27%	3.03%	2.82%
		Weighted	4.01%	3.48%	3.36%	3.13%	2.96%
		Adverse	0.45%	1.29%	1.66%	1.59%	1.62%
Average Monthly Wage	YOY %	Optimal	7.18%	6.00%	5.49%	5.11%	5.12%
		Baseline	3.67%	3.92%	3.85%	3.65%	3.71%
		Weighted	3.71%	3.98%	3.96%	3.74%	3.87%
		Adverse	0.20%	1.86%	2.35%	2.27%	2.59%
Total Disposable Income Per Person	YOY %	Optimal	12.36%	10.33%	9.87%	9.44%	8.63%
		Baseline	4.48%	4.08%	4.19%	4.20%	4.06%
		Weighted	5.07%	4.92%	5.14%	5.17%	4.94%
		Adverse	-1.72%	-0.33%	0.35%	0.49%	0.55%
House Price Index	YOY % 2015=100	Optimal	11.50%	9.59%	8.97%	8.45%	7.69%
		Baseline	3.59%	3.37%	3.27%	3.18%	3.11%
		Weighted	4.28%	4.36%	4.39%	4.31%	4.10%
		Adverse	-2.32%	-0.44%	0.08%	0.14%	0.13%
Interest Rate Spread (companies)	%	Optimal	2.96%	3.66%	4.15%	4.29%	4.36%
		Baseline	3.49%	4.20%	4.58%	4.63%	4.64%
		Weighted	3.49%	4.19%	4.58%	4.63%	4.64%
		Adverse	4.03%	4.71%	4.99%	4.97%	4.91%
Central Bank Policy Rate	%	Optimal	3.99%	4.02%	3.99%	3.94%	3.94%
		Baseline	3.71%	3.79%	3.79%	3.79%	3.79%
		Weighted	3.68%	3.75%	3.75%	3.77%	3.78%
		Adverse	3.33%	3.42%	3.46%	3.56%	3.60%
Imports (goods and services)	YOY %	Optimal	11.52%	8.01%	7.04%	6.39%	5.94%
		Baseline	3.89%	3.26%	2.66%	2.27%	2.33%
		Weighted	4.77%	4.16%	3.65%	3.31%	3.24%
		Adverse	-1.14%	0.88%	0.80%	0.70%	0.76%

Lending Portfolio	Scenario	Collective ECL change	% of allowance change
Retail	100% Optimistic	(3,852)	-1.54%
	No FLI	0	0.00%
	100% Base	(61)	-0.02%
	100% Adverse	4,125	1.65%
	100% Optimistic	(14,524)	-21.30%
Corporate	No FLI	0	0.00%
	100% Base	408	0.60%
	100% Adverse	14,250	20.90%

It is noted that sensitivity analysis when performed on certain key parameters can provide meaningful information only for portfolios where the risk parameters have a significant impact on the overall credit risk of a lending portfolio, particularly where such sensitivities are also used for internal credit risk management purposes. Otherwise, a sensitivity on certain combinations of some risk parameters may not produce meaningful results as in reality there are interdependencies between the various economic inputs rendering any changes in the parameters correlated changes in other factors.

The Bank updates and reviews the reasonability and performs back-testing of the main assumptions used in its methodology assessment for SICR and ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL. Furthermore, as part of the well-defined governance framework, any revisions to the methodology used are approved by the Bank competent committees and ultimately the Risk Committee (RC).

3.2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.

Valuation models are used mainly to value over-the-counter derivatives and securities measured at fair value.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices.

The main assumptions and estimates, considered by management when applying a valuation model include:

- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates to reflect uncertainties

in fair values resulting from the lack of market data inputs. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value measurement and consequently even when unobservable inputs are used, fair values will use some market observable inputs.

Information in respect of the fair valuation of the Bank's financial assets and liabilities is provided in note 5.3.

3.3. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Bank applies judgments in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. The Bank's business models are determined at a key management personnel level for loan portfolio and centrally by the Group for debt securities. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank's business objectives. In general the assessment is performed at the business unit level both for loans and debt securities.

In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a "hold to collect" business model depending on their objective and the acceptable level and frequency.

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Divisions when considering whether certain contractual features significantly affect future cash flows. Accordingly, for non-recourse loans, the Bank assesses jointly criteria such as the adequacy of equity, LTV (Loan-to-Value) and DSCR (Debt-Service-Coverage-Ratio) ratios as well as the existence of corporate and personal guarantees. For the securitized notes issued by special purpose vehicles and held by the Bank, the cash flow characteristics of the notes and the underlying pool of financial assets as well as the credit risk inherent in each securitization's tranche compared to the credit risk of all of the underlying pool of financial assets, are assessed by the Group. Furthermore, in order to assess whether any variability in the cash flows is introduced by the modified time value of money element, the Bank performs a quantitative assessment (as described in note 2.2.10). Moreover, the Bank evaluates certain cases on whether the existence of performance-related terms exposes the Bank to asset risk rather to the borrower's credit risk.

3.4. RETIREMENT BENEFIT OBLIGATIONS

The Bank has established a robust framework to perform the necessary assessments in accordance with Bank's policies in order to ensure appropriate classification of financial instruments, including reviews by experienced staff for both lending exposures and debt securities.

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate used to calculate the present value of the estimated retirement obligations, at the end of each year. In determining the appropriate discount rate, interest rates of Bulgarian government bonds at the end of the reporting period are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term to maturity of the retirement benefit obligations. The salary rate increase assumption is based on future inflation estimates reflecting also the Bank's reward structure and expected market conditions. The assumed rate of salary increase is determined by reviewing the Bank's salary increases each year. Other assumptions for pension obligations, such as the inflation rate, are based in part on current market conditions.

For information in respect of the sensitivity analysis of the Bank's retirement benefit obligations to reasonably possible, at the time of preparation of these financial statements, changes in the above mentioned key actuarial assumptions, refer to note 30.

3.5. PROVISIONS AND CONTINGENT LIABILITIES

The Bank recognizes provisions when it has a present legal or constructive obligation, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of its amount.

A provision is not recognized and a contingent liability is disclosed when it is not probable that an outflow of resources will be required to settle the obligation, when the amount of the obligation cannot be measured reliably or in case that the obligation is considered possible and is subject to the occurrence or non -occurrence of one or more uncertain future events. Considering the subjectivity and uncertainty inherent in the determination of the probability and amount of the abovementioned outflows, the Bank takes into account a number of factors such as legal advice, the stage of the matter and historical evidence from similar cases. Further information in relation to the Bank's provisions and contingent liabilities is provided in note 35.

3.6. FAIR VALUE OF LAND AND BUILDINGS, REPOSSESSED COLLATERAL AND INVESTMENT PROPERTIES

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuers.

The main valuation methods used to determine the fair value were:

- market prices analogues (where assets are compared to those similar of nature offered on the market);
- present value of future income for rent generating assets (DCF);
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Fair value of repossessed collaterals

Repossessed collaterals are stated at the lower cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. The fair value is determined annually by external appraiser companies.

The fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. In the absence of such information, the fair value estimation

of the external appraiser companies is based on the cost of the asset with adjustments to reflect any changes in economic conditions and the management's best estimate regarding the future trend of properties market.

Fair value of investment properties

Investment property is carried at fair value, as determined by external, independent, certified valuers on an annual basis.

The main factors underlying the determination of fair value are related with rental income from current leases and assumptions about rental income from future leases in the light of current market conditions, future vacancy rates and periods, discount rates or rates of return, the terminal values as well as the level of future maintenance and other operating costs.

Additionally, where the fair value is determined based on market prices of comparable transactions those prices are subject to appropriate adjustments, in order to reflect current economic conditions and management's best estimate regarding the future trend of properties market based on advice received from its independent external valuers. Further information in respect of the fair valuation of the Bank's investment properties is included in note 20.

3.7. FAIR VALUE OF LOANS AND ADVANCES OF CUSTOMERS ACQUIRED

Following IFRS 3 Business Combination requirement, loans and advances to customers acquired are measured at fair value as of acquisition date and subsequently measured at amortized cost.

Loans and advances to customers acquired were fair valued using an Income Approach valuation model. The Income Approach indicates the value of an asset based on its cash generation potential, where the maximum amount that a potential investor would be willing to pay for the asset would not exceed the net present value of the future benefits generated by the asset. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted discount rates. Loans are grouped according to their EBA statuses and IFRS 9 Stages at acquisition into homogenous assets with similar characteristics, such as currency, product, borrower type, etc., in order to improve the accuracy of the estimated valuation outputs. Assumptions for expected prepayments and timing of collateral realization were incorporated in estimating future cash flows, while the discount rates incorporate observable inputs such as BNB statistics for interest rates on new loans and unobservable inputs for relevant risk premiums to reflect liquidity, maturity, customer type, the required rate of return of average market investor in non-performing exposures, etc.

3.8. LEASES

The Bank, as a lessee, determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain or not to exercise an option to renew or terminate the lease, by considering all relevant factors and economic aspects that create an economic incentive. The Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate, such as significant leasehold improvements or significant customization of the leased asset.

In measuring lease liabilities, the Bank uses a discount rate equal to the Bank's deposits cost of funds for the respective currency. It is revised on a regular bases and the revised discount rate is used for the new contracts.

4. CAPITAL MANAGEMENT

The Bank prepares quarterly statutory reports and monthly reports for internal purposes, in accordance with the requirements of Regulation (EU) 575/2013, Regulation (EU) 876/2019, Regulation (EU) 873/2020 and Ordinance №8 of the Bulgarian National Bank (BNB) on capital buffers of banks. The Bank applies the standardised approach for credit and market risks and the Basic Indicator Approach for operational risk since 1 January 2007.

According to supervisory statements of the Bank for the purposes of the Bulgarian National Bank in accordance with Regulation (EU) 575/2013 of the European Parliament and the Council as of 31 December 2023, the Bank was in compliance with capital adequacy requirements, maintaining CET 1 ratio comfortably above the regulatory required level. As disclosed in the regulatory reports to the Central Bank, the capital adequacy ratio of the Bank is 20.6%, not including the interim profit for the fourth quarter of 2023 ending on 31 December 2023.

The capital adequacy ratio stands at 20.9% including the profit attributable to the shareholders of the Bank for the period ended 31 December 2023 after receiving of the regulatory approvals.

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the Banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

In accordance with Law on Credit Institutions each bank or banking group is required to hold the minimum level of paid-in capital amounting to BGN 10,000 thousand.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and Regulation (EU) 575/2013, Regulation (EU) 876/2019, Regulation (EU) 873/2020, as well as Directive 2013/36 of the European Union and Commission Implementing Regulation (EU) 2021/451. The required information is filed with the Bulgarian National Bank on a quarterly basis.

Regulatory capital consists of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' ordinary equity, „Reserve” fund, retained earnings from previous year, unrealized gains/losses from FVOCI financial instruments and is reduced by intangible assets and deferred tax assets. Tier II capital includes subordinated debt and hybrid instruments.

The own funds requirements under Basel III are the following (as a percentage of risk-weighted assets, RWA):

- CET 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%;
- Total capital ratio of 8%.

Additionally, capital conservation buffer, systemic risk buffer, capital buffer for other systemically important institutions (O-SIIs) and countercyclical capital buffer are introduced. The capital conservation buffer equals 2,5% of RWA; the systemic risk buffer equals 3% of RWA; the O-SIIs buffer equals 0.75% of RWA and the countercyclical capital buffer – 2% of RWA. The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

From 1 January 2020 Eurobank Bulgaria A.D. meets, on an individual basis, a Pillar 2 additional own funds requirement of 1.25%, to be entirely composed of CET 1 capital. Since 1 March 2022, the Pillar 2 additional own funds requirement has to be held in the form of 56.25% of CET1 capital and 75% of Tier 1 capital, as a minimum.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

5.1. USE OF FINANCIAL INSTRUMENTS

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank might also perform trades in financial instruments where it takes positions in traded and over the counter financial instruments, including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates.

5.2. FINANCIAL RISK FACTORS

Due to its activities, the Bank is exposed to a number of several risks, such as credit risk, market risk (including currency, interest rate, spread, equity and volatility risk), liquidity and operational risks. The Bank's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

Risk Management objectives and policies

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank's management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact over the achievement of these objectives.

Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set in a manner that enable the Bank to identify and deal with the risks associated with those changes.

The Bank's structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.

The management of the Bank considers effective risk management a top priority, as well as a major competitive advantage for the organization. In this regard, the Bank has allocated significant resources to improve its policies, methods and infrastructure in order to ensure compliance with the requirements of the European Central Bank (ECB) and of the Single Resolution Board (SRB), the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision, the Bulgarian National Bank and the best international banking practices.

The Bank has established a well-structured loan approval process, independent reviews of loan applications and effective policies for management of the credit, market, liquidity and operational risks. The risk management policies applied by the Bank are reviewed annually.

The Bank's risk management strategy, outlines the Bank's overall direction regarding risk and capital management issues, the risk management mission and objectives, risk definitions, risk management principles, risk governance framework, strategic objectives and key management initiatives for the improvement of the risk management framework in place.

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via a set of quantitative and qualitative statements for specific risk types, including specific tolerance levels as described in the Bank's Risk Appetite Framework. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

The risk appetite that is clearly communicated throughout the Bank, determines risk culture and forms the basis on which risk policies and risk limits are established at Bank and Group level. Within the context of its Risk Appetite Framework, the Bank has further enhanced the risk identification process and the risk materiality assessment methodology.

The identification and the assessment of all risks is the cornerstone for the effective Risk Management. The Bank aiming to ensure a collective view on the risks linked to the execution of its strategy, acknowledges the new developments at an early stage and assesses the potential impact. In this context, the Bank has recognized climate change risk as a material risk and based on its supervisory guidelines, is in the process of continuing adapting its policies and methodologies for identifying and monitoring the relevant risks.

Risk Committee

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented by the Risk function.

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions (e.g. local risk appetite, capital allocation, balance-sheet profile and risk management structure). The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks.

The Risk Committee is empowered to:

- Ensure that the Bank has a well-defined risk strategy and risk appetite for all relevant risks (i.e. credit, market, liquidity, operational, reputational etc.);
- Ensure that the Bank has developed an appropriate risk management framework which is embedded in the decision making throughout the organization and its subsidiaries;
- Assess compliance with the approved risk appetite and risk tolerance levels, the appropriateness of risk limits, the adequacy of provisions and, in general, the capital adequacy in relation to the risks undertaken by the Bank;
- Review and analyse the Bank's risk profile, identify and assess significant risks;
- Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- Inform the Supervisory Board about significant problems or developments that could have an impact on the Bank's risk profile;

- Monitor the implementation of policies related to the management of significant risks;
- Approve adequate methodologies and models for risk assessment and exposure limitation.

The Risk Committee updates the Supervisory Board on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the Supervisory Board of Eurobank Bulgaria AD or to the Eurobank SA's Group Risk Committee.

Non-Performing Exposures (NPEs) management

The Bank has established an organizational and hierarchical model in order to empower the management of troubled assets and to be adequate to the macro environment, adopting the regulatory requirements.

Proactive measures have been taken in this regard, as the Bank has transformed its troubled assets operating model by establishing a dedicated Troubled Assets Group Division (TAG) and respective troubled assets governance bodies, namely the Troubled Assets Committee (TAC) and the Special Handling Monitoring Committee (SHMC).

Troubled Assets Committee (TAC)

The Troubled Assets Committee (TAC) is established as a committee of Troubled Assets Group Division under the Bank's Management Board. The TAC oversees and monitors the Bank's troubled assets' management. In particular, the main competencies that have been delegated to TAC relate to the monitoring of loans in arrears and the management of non-performing loans, the determination and implementation of the troubled assets' management strategy, to approve and assess the sustainability of the forbearance and closure procedure measures and modification programs.

Special Handling Monitoring Committee (SHMC)

The Special Handling Monitoring Committee (SHMC) is established as a dedicated committee that monitors Corporate watch-listed, problematic and non-performing relationships. The main competences of the SHMC are related to monitoring of customers activities and financial performance as well as to decide on the strategy for handling of problematic Corporate relationships.

Troubled Assets Group Division (TAG)

The TAG has been established as an independent body, reporting directly to the Chief Executive Officer of the Bank. TAG Division is the overall responsible body for the management of the Bank's troubled assets portfolio, for the whole process, from the pre-delinquency status in case of high risk exposures up to legal workout. It ensures close monitoring, tight control and course adjustment taking into account the continuous developments in the macro environment, the regulatory and legal requirements, the international best practices and new or evolved internal requirements.

TAG comprises the Retail TAG Department, the Wholesale TAG Department, Risk and policy Department and TAG Retail Underwriting Department. TAG structure is completely segregated from the Bank's business units both in terms of account management, as well as credit approval process, which ensures transparency, flexibility, better prioritization and management accountability and shifts the management from bad debt minimization to bad debt value management, in line with the Bank's risk appetite.

The TAG cooperates with the Bank's Risk Division, being responsible for the overall risk management framework and the development and validation of credit assessment methodologies and tools (i.e. models and scorecards). Interaction with the Risk Division is in place with regard to the elaboration, validation

and updating of the TAG Credit Policy, evaluation and opinion on TAG business proposals, approval of forbearance measures and modification programs (risk representatives participate in the approval process).

The overall results of the management of troubled assets are presented to the regular Risk Committees.

The key governing principles of the TAG are to:

- Ensure direct top management involvement in troubled assets management and close monitoring of the respective portfolio;
- Deploy a sound credit workout strategy through innovative propositions that will lead to viable short and long-term solutions, ensuring a consistent approach for managing troubled assets across portfolios;
- Ensure a consistent approach for managing troubled assets and special products.;
- Prevent non-performing exposures formation through early intervention and clear definition of primary financial objectives of troubled assets;
- Monitor the loan delinquency statistics, as well as define targeted risk mitigating actions to ensure portfolio risk reduction;
- Target maximization of borrowers who return to performing status through modifications or collections;
- Define criteria to assess the sustainability of proposed forbearance.

Operational targets for Non-performing exposures (NPEs)

In line with the requirements of the supervisory arm of the European Central Bank (ECB) and the Group guidance, the Bank has designed an operational targets framework for NPEs management, supported by several key performance indicators. Pursuant to the said framework, the Bank developed a set of NPEs operational targets together with a detailed NPEs management strategy with a 3-year time horizon, which is henceforth revised annually in order to align with changes in the operating environment and the Bank's strategic priorities.

The Management of the Bank approved a NPEs management strategy for the years 2024-2026, which envisages projected NPEs stock to reach BGN 389 million by the end of 2024, and BGN 344 million (NPE ratio close to 2.0%) by the end of 2026.

NPE loans IFRS 9 ECL captures the expected loss related to the forward looking accelerated non-performing exposures management strategy. IFRS 9 does not limit the cash flows that the Bank can expect to receive only to contractual cash flows that are collected from the borrowers. Further it states that credit risk management activities that are aimed at minimizing potential credit losses, such as sales, are integral to a hold-to-collect business model. Accordingly, cash flows that are expected to be recovered from sale of defaulted assets should be included in the measurement of ECL.

The recoverability of disposable non-performing exposures has been quantified by taking into account Bank's past practice and future expectations and relevant market information related to bad debt loans sale prices and similar transactions.

5.2.1. CREDIT RISK

Credit risk is the risk that a counterparty will be unable to fulfill its payment obligations in full when due.

Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives and currency transactions. The risk arises when the Bank remits payments before it can ascertain that the counterparties' payments have been received.

Credit risk arises principally from the corporate and retail lending activities of the Bank, including from credit enhancement provided, such as financial guarantees and letters of credit. The Bank is also exposed to credit risk arising from other activities such as investments in debt securities, trading activities, capital markets and settlement activities. Taking into account that credit risk is the principal risk the Bank is exposed to, it is rigorously managed and is monitored by centralized dedicated risk units, reporting to the Bank Chief Risk Officer and to the Group Chief Risk Officer.

(A) CREDIT APPROVAL PROCESS

There are currently two distinct Groups of Credit Committees - Performing Clients Committees and Special Handling Committees.

The performing clients committees are responsible for implementing the functions of credit evaluation, approval and periodic review of performing clients. The mandate is to concurrently meet the objectives of having a robust loans portfolio together with maintaining profits for the Bank and sustainable growth.

The scope of the Special Handling Committees includes the handling of borrowers with Risk Classification Medium and High. Their primary emphasis is placed on accurately evaluating their financial viability in order to define the account strategy.

The segregation of duties ensures independence among executives responsible for the customer relationship, the approval process and the loan disbursement, as well as monitoring of the loan during its lifecycle.

Credit Committees

The credit approval process in Corporate Banking is centralized through establishment of Credit Committees with escalating Credit Approval Levels, in order to manage the corporate credit risk. Main Committees of the Bank are considered to be the following:

- Credit Committees (Central and Local) authorized to approve new financing, renewals or amendments in the existing credit limits, in accordance with their approval authority level, depending on total limit amount and customer risk category (i.e. high, medium or low), as well as the tenor and the value and type of security;
- Special Handling Credit Committees authorized to approve credit requests and take actions for distressed clients;
- International Credit Committee (Regional) established for credit underwriting to wholesale borrowers and the subsidiaries within the Group, authorized to approve new limits, renewals or amendments to existing limits, in accordance with the approval authority level, depending on total customer exposure and customer risk category (i.e. high, medium or low), as well as the tenor and the value and type of security; and

- International Special Handling Committees established for handling distressed wholesale borrowers of the subsidiaries within the Group.

The Credit Committees meet on a weekly basis or more frequently, if needed.

Credit Risk Department

The main responsibilities of Credit Risk Department are:

- Review and evaluation of credit requests of:
 - Domestic large and medium scale corporate entities of medium and low risk category;
 - Specialized units, such as Project Finance, Factoring;
 - Cross-border customers; and
 - Retail sector's customers (small business and individual banking) above a predetermined threshold and for predetermined types of exceptions.
- Issuance of an independent risk opinion for each credit request, which includes:
 - Assessment of the customer credit profile based on the qualitative and quantitative risk factors identified (market, operations, structural and financial);
 - A focused sector analysis; and
 - Recommendations to structure a bankable, well-secured and well-controlled transaction.
- Review and confirmation of the ratings of each separate borrower, to reflect the risks acknowledged;
- Participation in all credit committees (for both performing and Remedial TAG customers), as per the credit approval procedures and having voting rights for the local ones;
- Active participation in all external/regulatory audits of the Bank;
- Preparation of specialized reports to International Credit Sector (ICS) on a regular basis, with regards to expired credit reviews, leveraged transactions, as well as various statistics on the existing and newly approved financings at a request;
- Safeguarding compliance of the Lending Units with the approved Bank's policies; and
- Provision of specialized knowledge, expertise and support to other divisions of the Bank, in relation to operational and credit procedures, security policies, new lending products and restructuring schemes.

Retail Banking approval process

The approval process for loans to small businesses (turnover up to BGN 4 million) is centralized following specific guidelines for eligible collaterals as well as the 'four-eyes' principle. The assessment is based on an analysis of the borrower's financial position and statistical scorecards. Two sub-segments are distinguished in SBB regarding credit approvals: a) Clients with turnover up to BGN 2 million and b) Clients with turnover within the range BGN 2 – 4 million. Different credit criteria and exception matrices apply for each sub-segment.

The credit approval process for Individual Banking (consumer and mortgage loans) is also centralized. It is based on specialized credit scoring models and credit criteria taking into account the payment behavior, personal wealth and financial position of the borrowers, including the existence of real estate property, the type and quality of securities and other factors. The ongoing monitoring of the portfolio quality and of any other deviations that may arise, leads to an immediate adjustment of the credit policy and procedures, when deemed necessary.

(B) CREDIT RISK MONITORING

Credit Control Department

The Bank's Credit Control Department monitors and assesses the quality of all of the Bank's loan portfolios and operates independently from the business units of the Bank. The department reports directly to the CRO.

Specifically, the main responsibilities of the Credit Control Department are to:

- Continually monitor and assess the quality of Group's loan portfolio via field, desktop and thematic reviews in order to timely identify emerging risks, vulnerabilities, compliance to set credit policies and consistency in underwriting;
- Monitor progress on review findings remediation activities on a regular basis and escalate non-compliance issues;
- Prepare regular reports and analyses on the Bank's Retail and Corporate loan portfolio, which are presented to the local management of the Bank, as well as to Credit Control in Eurobank SA;
- Develop overarching risk related policies, internal circulars and guides related to credit underwriting issues;
- Coordinate Credit Policy Manuals formulation and regular review;
- Participate in the actualization of the credit ratings of the corporate borrowers;
- Control, analysis and assessment of the quality of Retail and Corporate loan portfolio and the stemming credit risk in Retail and Corporate banking;
- Create and maintain Preventive, Monitoring and Controlling System referring to Retail and Corporate Portfolios;
- Evaluate applications from Business Units, regarding new products, as well as approval of credit policies and procedures and amendments to them, including subsequent follow-up of their correct application;

- Oversee the appropriateness of the individual and collective assessment as per the provisions of IFRS9 and the correctness of staging allocation;
- Review the effectiveness of various forbearance measures and the accomplishment of NPE's reduction plan (budget) and propose required actions;
- Participate in preparation of key supervisory disclosures, monitor the relevant regulatory requirements in order to keep the Management abreast, collaborate with other involved areas in order to implement required amendments;
- Oversee the monthly process of calculating provisions, coordinate all involved stakeholders, initiate and lead remediation actions in case of time overruns;
- Performs Quality Control on valuations (through Random sample valuations);
- Participate through the Head of Credit Control Department in Troubled Assets Committee.

Credit Risk Methodology and Capital Adequacy Control Department

The Credit Risk Methodology and Capital Adequacy Control (CRM-CAC) Department reports to the Bank's CRO.

Specifically, the main responsibilities of the CRM-CAC Department are to:

- manage the models development, implementation, maintenance and validation of the IRB models of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for evaluating credit risk;
- manage the models development, implementation, maintenance and validation of the risk related scoring models;
- manage the models development, implementation, maintenance and validation of the IFRS9 models of 12m ECL and lifetime ECL calculation;
- implementation, monitoring and maintenance of IFRS9 impairment calculation engine;
- implementation, monitoring and maintenance of credit rating systems;
- perform stress tests, both internal and external (EBA/Bulgarian National Bank (BNB)), and maintain the credit risk stress testing infrastructure;
- prepare the credit risk analyses for Internal Capital Adequacy Assessment (ICAAP)/ Pillar 2 purposes;
- prepare the Basel Pillar 3 disclosures for credit risk;
- participate in the preparation of the business plan, the NPE targets plan and the recovery plan of the Bank in relation to asset quality and capital requirements for the loan book (projected impairments and RWAs), as well as participate in the relevant committees;
- support the business units in the use of credit risk models in business decisions, for funding purposes, in the capital impact assessment of strategic initiatives and the development and usage of risk related metrics such as risk adjusted pricing, Risk Adjusted Return on Capital (RAROC) etc.;

- monitor the regulatory framework in relation to the above, to perform impact assessment, to initiate and manage relevant projects;
- regularly report to the CRO and Group Chief Risk Officer, to the Management Risk Committee and to the Board Risk Committee on: risk models performance, risk parameters (PD, LGD, EAD), updates on regulatory changes and impact assessment and asset quality reviews.

Market Risk Department

Market Risk Department is responsible for the measurement, monitoring and reporting of the Bank's exposure to counterparty risk, which is the risk of loss due to the customer's failure to meet its contractual obligations in the context of treasury activities, such as securities, derivatives, repos, reverse repos, interbank placings, etc. The Bank sets limits on the level of counterparty risk (see also below 5.2.1 (f) credit risk mitigation) that may be undertaken based mainly on the counterparty's credit rating, as provided by international rating agencies, the product type and the maturity of the transaction (e.g. control limits on net open derivative positions by both amount and term, bonds exposure, interbank transactions and operating account balances). The utilization of the abovementioned limits, any excess of them, as well as the aggregate exposure per counterparty and product type are monitored by the department on a daily basis. Risk mitigation contracts are taken into account for the calculation of the final exposure. In case of uncollateralized derivative transactions, the Bank measures the current exposure along with the potential future exposure (PFE) using financial models. The combined exposure is used for the monitoring of limit utilization.

(C) CREDIT RELATED COMMITMENTS

The primary purpose of credit related commitments is to ensure that funds are available to a customer as agreed. Financial guarantee contracts carry the same credit risk as loans since they represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipment of goods to which they relate and therefore carry less risk than a loan. Commitments to extend credit represent contractual commitments to provide credit under pre-specified terms and conditions (note 35) in the form of loans, guarantees or letters of credit for which the Bank usually receives a commitment fee. Such commitments are irrevocable over the life of the facility or revocable only in response to a material adverse effect.

(D) CONCENTRATION RISK

The Bank structures the levels of credit risk it undertakes by placing exposure limits by borrower, or groups of borrowers, and by industry segments.

Concentration risk is monitored regularly and reported to the Risk Committee.

(E) RATING SYSTEMS

Rating of wholesale lending exposure

The Bank employs a number of rating models and tools in order to reflect appropriately the risk arising from wholesale lending customers with different characteristics. Accordingly, the Bank employs the following rating models for the wholesale portfolio:

- Moody's Risk Analyst model ("MRA") is used to assess the risk of borrowers for Corporate Lending;

- Slotting models: in view of assessing the risk of specialized exposures, which are part of the Specialized Lending corporate portfolio, slotting rating models are employed;
- Internal Credit Rating model (“ICR”) is used for those customers that cannot be rated by neither MRA nor Slotting methodology.

CreditLens credit rating system operating with the MRA model allows the assessment of the creditworthiness of corporate borrowers through the analysis of (a) quantitative criteria (min two financial years’ statements) which are compared with the financial statements of a peer group (i.e. companies with similar business activity) and (b) qualitative parameters such as company reputation and status, management characteristics and skills etc. CreditLens takes into account the entity’s balance sheets, income statement accounts and cash flow statements to calculate key ratios. Its ratio analysis includes assessments of each ratio’s trend across multiple periods, both in terms of the slope and volatility of the trend. It also compares the value of the ratio for the most recent period with the quartile values for a comparable peer group. Moreover, CreditLens is supplied with a commonly used set of qualitative factors relating to the quality of the company’s management, the standing of the company within its industry and the perceived riskiness of the industry. CreditLens uses financial data for companies operating on the Bulgarian market.

With reference to Specialized Lending portfolio (for which the Bank is using Slotting rating models) and in line with European Banking Authority (EBA) definitions, it comprises types of exposures towards entities specifically created to finance or operate physical assets, where the primary source of income and repayment of the obligation lies directly with the assets being financed. The rating system New Credit Rating (NCR) is applied to real estate projects, i.e. financing real estate projects (for example, office buildings that can be rented out, commercial areas, residential building, industrial or warehouse areas) where the expected cash flows for the repayment of the loan will be generated by the asset under consideration (leasing payments, rent payments or sale of the asset). The rating system for real estate projects is used for investment real estate (Investors) and real estate in process of development (Developers). According to the slotting methodology, four keys aspects of the project are evaluated: financial stability, characteristics of the asset, stability of the investor/developer, collaterals.

The MRA rating is not employed for certain types of entities that use special characteristics of different accounting methods to prepare their financial statements, such as Insurance companies and brokerage firms. Moreover, entities such as start-ups that have not produced financial information for at least two annual accounting periods are not rated with MRA.

In case a client is not eligible neither for MRA, nor rating based on Slotting methodology, the Internal Credit Rating (“ICR”) is used. The ICR is based on a thorough analysis of a set of qualitative factors (company management, industry, operating conditions, market sector, collateral servicing the loan, etc.) and quantitative factors (financial indicators such as profitability, leverage, liquidity, etc., derived from the financial statements of the client). Each client must be individually rated, but customers who belong to a group of companies should be considered together. In the event that the related company provides corporate guarantee, then the company, which is the borrower must obtain a credit rating of the company providing the guarantee.

In the context of IFRS9 implementation, the Bank has further enhanced its corporate credit risk assessment models linking risk parameters estimation with macro-economic factors allowing the forecasting of rating transitions under different macroeconomic scenarios (base, adverse and optimistic).

The rating systems described above are an integral part of the wholesale banking decision-making and risk management processes:

- the credit approval or rejection, both at the origination and review process;
- the allocation of competence levels for credit approval;
- the impairment calculation (staging criteria and subsequent ECL estimation of forecasted risk parameters).

Rating of retail lending exposures

The Bank assigns credit scores to its retail customers using a number of statistically-based models both at the origination and on ongoing basis through behavioral scorecards. These models have been developed to predict, on the basis of available information, the probability of default, the loss given default and the exposure at default. They cover the entire spectrum of retail products (credit cards, consumer lending, mortgages and small business loans).

The Bank's models were developed based on historical data and credit bureau data. The models are applied in the credit approval process, the credit limits management, as well as the collection process for the prioritization of the accounts in terms of handling.

Behavioral scorecards are calculated automatically on a monthly basis, thus ensuring that the credit risk assessment is up to date. In the context of IFRS 9, the Bank has further enhanced its retail credit risk assessment models linking risk parameters estimation with macro-economic factors allowing their forecasting over one year and lifetime horizon under different macroeconomic scenarios (base, adverse and optimistic) and supporting the staging analysis and allocation to risk classes under homogeneous pools.

The Credit Risk Methodology and Capital Adequacy Control Department monitors the capacity of rating models and scoring systems to classify customers according to risk, as well as to predict the probability of default and loss given default and exposure at default on an ongoing basis. The Bank verifies the validity of the rating models and scoring systems on an annual basis and the validation includes both quantitative and qualitative aspects.

(F) CREDIT RISK MITIGATION

A key component of the Bank's business strategy is to reduce risk by utilizing various risk mitigating techniques. The most important risk mitigating means are collateral's pledge, guarantees and master netting agreements.

Types of collateral commonly accepted by the Bank

The Bank has internal policies in place which set out the following types of collateral that are usually accepted in a credit relationship:

- Real estate;
- Pledge on movable property;
- Pledge on commercial enterprises;
- Pledge on receivables;
- Securities;

- Cash;
- Letters of guarantees;
- Personal guarantees /Sureties/;
- Other eligible collaterals.

A specific coverage ratio is pre-requisite, upon the credit relationship's approval and on ongoing basis, for each collateral type, as specified in the Bank's credit policy.

For interbank exposures (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

Valuation principles of collaterals

In defining the minimum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's fair value, i.e. the exit price that would be received to sell the asset in an orderly transaction under current market conditions;
- the fair value reflects market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasizes the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

Guarantees

The guarantees used as credit risk mitigation by the Bank are largely issued by central government, local banks and funds (Bulgarian Development Bank and National Guarantee Fund) and international financial institutions (European Investment Fund (EIF), International Financial Corporation (IFC), etc.).

A key component of the Bank's business strategy is to reduce risk by utilizing various risk mitigating techniques. The most important risk mitigating means are collaterals' pledges, guarantees and master netting arrangements.

Counterparty risk

The Bank mitigates counterparty risk arising from treasury activities by entering into master netting arrangements and similar agreements, as well as collateral agreements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offset of balance sheet assets and liabilities, as the transactions are usually settled on a gross basis.

However, the respective credit risk is reduced through a master netting agreement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

In the case of derivatives, the Bank makes use of International Swaps and Derivatives Association (ISDA) contracts, which limit the exposure via the application of netting, and Credit Support Annex (CSAs), which further reduce the total exposure with the counterparty. Under these agreements, the total exposure with the counterparty is calculated on a daily basis taking into account any netting arrangements and collaterals. The same process is applied in the case of repo transactions where standard Global Master Repurchase Agreements (GMRAs) are used. The exposure (the net difference between repo cash and the market value of the securities) is calculated on a daily basis and collateral is transferred between the counterparties thus minimizing the exposure.

5.2.1.1. MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD

	As at 31 December	
	2023	2022
Loans and advances to banks	783,264	1,444,087
Less: Impairment allowance	(30)	(491)
Loans and advances to customers:		
- Mortgages	3,671,461	3,082,986
- Consumer lending (including credit cards)	3,245,705	1,869,385
- Small Business lending	1,019,686	907,957
- Corporate lending	4,969,665	4,550,292
Less: Impairment allowance	(366,275)	(347,187)
Trading assets - debt securities	35,646	33,604
Derivative financial instruments	18,655	52,615
Debt securities at fair value through other comprehensive income	1,155,858	1,251,510
Debt securities at amortised cost	1,810,028	1,436,645
Less: Impairment allowance	(2,922)	(2,041)
Other financial assets (*)	95,559	56,061
Less: Impairment allowance	(3,770)	(3,829)
Credit risk exposures relating to off-balance sheet items are as follows (Note 35):		
Guarantees and Letters of credit	345,117	225,476
Loan commitments	2,372,705	1,847,543
Less: Impairment allowance	(1,027)	(969)
Total	19,149,325	16,403,644

(*) it refers to financial assets subject to IFRS 9 requirements, which are recognized within other assets.

The above table represents the Bank's maximum credit risk exposure as at 31 December 2023 and 31 December 2022, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on the net carrying amounts as reported in the balance sheet.

5.2.1.2. LOANS AND ADVANCES TO CUSTOMERS

The section below provides an overview of the Bank's exposure to credit risk arising from its customer lending portfolios.

Loans and advances to customers carried at amortised cost are classified depending on how ECL is measured.

Accordingly, loans reported as non-impaired include loans for which a '12-month ECL allowance' is recognized as they exhibit no significant increase in credit risk since initial recognition and loans for which a 'Lifetime ECL allowance' is recognized as they exhibit a significant increase in credit risk since initial recognition but are not considered to be in default.

Credit impaired loans category includes loans that are considered to be in default, for which a loss allowance equal to 'Lifetime ECL' is recognized and loans classified as 'Purchased or originated credit impaired' (POCI) which are always measured on the basis of lifetime ECL.

The Bank's accounting policy regarding impairment of financial assets is set out in Note 2.2.15.

(A) CREDIT QUALITY OF LOANS AND ADVANCES TO CUSTOMERS

Regulatory definitions

'Default exposures', in line with the regulatory definition of default as adopted by the Bank, include material exposures that are past due more than 90 days, exposures that are assessed by Bank as unlikely to pay as well as those that are assessed for impairment individually and carry an individual impairment allowance. As at 31 December 2023, the Bank's default exposures amounted to BGN 324,786 thousand (2022: BGN 391,337 thousand).

The new definition of default (DoD) for regulatory purposes introduced a new set of standards that have a significant impact on governance, data, processes, systems and credit models. The new DoD is applicable since 1 January 2021 and is set in the Article 178 of Regulation (EU) No. 575/2013, the Commission Delegated Regulation (EU) 2018/171 and European Banking Authority (EBA) Guidelines (EBA/GL/2016/07). It aims at the harmonization of the definition of default across institutions and jurisdictions in the European Union. In particular, the new DoD guidelines specify that days past due are counted from the date that both materiality thresholds are breached (an absolute amount of the total exposure and a relative as a percentage of the exposure), include conditions for a return to non-defaulted status (introduction of a probation period) and explicit criteria for classification of restructured loans as defaulted when the diminished financial obligation criterion is satisfied (difference between the net present value of cash flows before and after the restructuring exceeds the threshold of 1%).

The Bank applies the above new provisions of DoD, in order to identify defaulted exposures starting from 1 January 2021, consistently across all its lending portfolios, subject to local regulations and specific credit risk characteristics of each jurisdiction. Accordingly, the definition of default for accounting purposes is aligned with the new DoD, that is also the one used for internal credit risk management purposes.

'Non-performing exposures' as currently monitored and reported by the Bank, in line with the guidelines set by the European Banking Authority (EBA Implementing Technical Standards), include material exposures that are in arrears for more than 90 days, or assessed as unlikely to pay, impaired exposures, exposures categorized as defaulted for regulatory purposes, as well as forborne non performing exposures. The Bank has aligned its accounting definition of default with the EBA definition of default, as described above.

As at 31 December 2023, the Bank's gross amount of non-performing exposures amounted to BGN 324,786 thousand (2022: BGN 391,337 thousand). POCI loans included in non-performing exposures are BGN 29,059 thousand (2022: BGN 54,509 thousand). Correspondingly, 'Performing exposures' include exposures without arrears, those that are less than 90 days past due or are not assessed as unlikely to pay, non-impaired and non-defaulted for regulatory purposes exposures. As at 31 December 2023, the Bank's gross amount of performing exposures amounted to BGN 12,581,731 thousand (2022: BGN 10,019,283 thousand).

'Unlikely to pay' category refers to exposures where a borrower's ability to repay his credit obligations in full without realization of collateral is assessed as unlikely, regardless the existence of any past due amounts or the number of days past due.

Quantitative information

The following tables present the total gross amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances that are classified as non-impaired (Stage 1 and Stage 2) and those classified as impaired (Stage 3 and POCI). They also present the total impairment allowance recognized in respect of all loans and advances and credit related commitments, analyzed into individually or collectively assessed, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk.

For credit risk management purposes, the Public Sector, which includes exposures to the central government, local or regional authorities, state-linked companies and entities controlled and fully or partially owned by the state, is incorporated in wholesale lending.

In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount. The total impairment provision for loans and advances is BGN 366,275 thousand, of which BGN 91,177 thousand represents the individually impaired loans provision and the remaining amount of BGN 275,098 thousand represents the portfolio provision. During 2023, the Bank's total net loans and advances increased by 25%. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

The following table presents information about the credit quality of the gross carrying amount of loans and advances to customers carried at amortised cost, the nominal exposures of credit related commitments and the respective impairment allowance as at 31 December 2023 and 31 December 2022:

As at 31 December 2023

	Non-impaired		Credit-impaired				Total gross carrying amount/ nominal exposure	Non-impaired		Credit-impaired				Carrying amount	Value of collateral		
			Lifetime ECL credit-impaired		POCI					Lifetime ECL credit-impaired						POCI	
	12-month ECL	Lifetime ECL not credit-impaired	Individually assessed	Collectively assessed	Individually assessed	Collectively assessed		12-month ECL	Lifetime ECL not credit-impaired	Individually assessed	Collectively assessed					Individually assessed	Collectively assessed
Retail Lending	7,116,651	597,300	59,352	147,463	2,687	13,399	7,936,852	(62,410)	(72,976)	(49,629)	(104,688)	(1,678)	(7,112)	7,638,359	4,272,421		
- Mortgage	3,488,383	101,412	32,561	41,914	2,668	4,523	3,671,461	(2,367)	(5,491)	(27,777)	(23,949)	(1,659)	(532)	3,609,686			
Value of collateral	3,479,662	96,001	4,369	17,637	954	3,812	-	-	-	-	-	-	-	-	3,602,435		
- Consumer lending	2,758,467	381,493	-	96,938	-	8,807	3,245,705	(47,802)	(57,895)	-	(74,127)	-	(6,549)	3,059,332			
Value of collateral	14,332	1,095	-	38	-	-	-	-	-	-	-	-	-	-	15,465		
- Small business	869,801	114,395	26,791	8,611	19	69	1,019,686	(12,241)	(9,590)	(21,852)	(6,612)	(19)	(31)	969,341			
Value of collateral	596,448	52,325	4,280	1,430	-	38	-	-	-	-	-	-	-	-	654,521		
Corporate lending	4,318,475	546,673	83,054	5,858	15,405	200	4,969,665	(16,645)	(8,389)	(34,738)	(2,827)	(5,132)	(51)	4,901,883			
Value of collateral	2,468,949	447,134	41,985	1,105	10,272	148	-	-	-	-	-	-	-	-	2,969,593		
Total	11,435,126	1,143,973	142,406	153,321	18,092	13,599	12,906,517	(79,055)	(81,365)	(84,367)	(107,515)	(6,810)	(7,163)	12,540,242			
Total Value of collateral	6,559,391	596,555	50,634	20,210	11,226	3,998	-	-	-	-	-	-	-	-	7,242,014		
Credit related commitments	2,603,446	111,129	172	1,400	-	1,675	2,717,822	(989)	(37)	-	(1)	-	-	2,716,795			
Loan commitments	2,276,496	92,964	172	1,398	-	1,675	2,372,705	(656)	-	-	-	-	-	2,372,049	-		
Financial guarantee contracts and other commitments	326,950	18,165	-	2	-	-	345,117	(333)	(37)	-	(1)	-	-	344,746	-		
Value of collateral	517,405	-	-	-	-	-	-	-	-	-	-	-	-	-	517,405		

As at 31 December 2022															
	Non-impaired		Credit-impaired					Non-impaired		Credit-impaired					
			Lifetime ECL credit-impaired		POCI		Total gross carrying amount/nominal exposure			Lifetime ECL credit-impaired		POCI		Carrying amount	Value of collateral
	12-month ECL	Lifetime ECL not credit-impaired	Individually assessed	Collectively assessed	Individually assessed	Collectively assessed		12-month ECL	Lifetime ECL not credit-impaired	Individually assessed	Collectively assessed	Individually assessed	Collectively assessed		
Retail Lending	5,114,579	514,952	76,284	144,333	4,034	6,146	5,860,328	(36,393)	(44,637)	(66,747)	(100,760)	(2,891)	(1,851)	5,607,049	3,958,682
- Mortgage	2,775,972	201,170	39,047	57,283	3,639	5,875	3,082,986	(2,765)	(9,511)	(35,402)	(40,679)	(2,495)	(1,635)	2,990,499	
Value of collateral	2,772,034	207,246	50,396	83,701	6,095	7,312	-	-	-	-	-	-	-	-	3,126,784
- Consumer lending	1,582,062	212,401	-	74,901	-	21	1,869,385	(23,289)	(26,692)	-	(50,598)	-	(8)	1,768,798	
Value of collateral	32,816	3,632	-	2,532	-	-	-	-	-	-	-	-	-	-	38,980
- Small business	756,545	101,381	37,237	12,149	395	250	907,957	(10,339)	(8,434)	(31,345)	(9,483)	(396)	(208)	847,752	
Value of collateral	627,016	90,592	58,956	15,116	791	447	-	-	-	-	-	-	-	-	792,918
Corporate lending	3,843,474	543,147	105,099	11,112	46,892	568	4,550,292	(17,427)	(9,577)	(52,697)	(6,257)	(7,634)	(316)	4,456,384	
Value of collateral	2,408,890	493,454	129,218	15,975	54,263	864	-	-	-	-	-	-	-	-	3,102,664
Total	8,958,053	1,058,099	181,383	155,445	50,926	6,714	10,410,620	(53,820)	(54,214)	(119,444)	(107,017)	(10,525)	(2,167)	10,063,433	
Total Value of collateral	5,840,756	794,924	238,570	117,324	61,149	8,623	-	-	-	-	-	-	-	-	7,061,346
Credit related commitments	1,991,408	79,404	1,483	699	-	25	2,073,019	(416)	(458)	(94)	(1)	-	-	-	-
Loan commitments	1,794,197	52,432	192	697	-	25	1,847,543	-	-	-	-	-	-	-	-
Financial guarantee contracts and other commitments	197,211	26,972	1,291	2	-	-	225,476	(416)	(458)	(94)	(1)	-	-	-	-
Value of collateral	683,629	31,320	76	116	-	1	-	-	-	-	-	-	-	-	715,142

The Bank assesses the credit quality of its loans and advances to customers and credit related commitments that are subject to ECL. The Bank's internal credit rating systems in the wholesale portfolio are based on a variety of quantitative and qualitative factors, while the credit quality in the retail portfolio is based on their probability of default (PD's).

The following tables present the distribution of the gross carrying amount of loans and advances and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocation.

31 December 2023						
	Internal credit rating	Non-impaired		Credit-impaired	POCI	Total gross carrying amount
		12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired		
Retail Lending						
-Mortgage	PD<2.5%	3,474,694	121	-	-	3,474,815
	2.5%<=PD<4%	-	416	-	-	416
	4%<=PD<10%	12,244	1,605	-	-	13,849
	10%<=PD<16%	-	2,293	-	-	2,293
	16%<=PD<99.99%	1,445	96,977	-	-	98,422
	100%	-	-	74,475	7,191	81,666
- Consumer	PD<2.5%	1,016,888	1,664	-	-	1,018,552
	2.5%<=PD<4%	713,638	4,373	-	-	718,011
	4%<=PD<10%	1,027,652	4,328	-	-	1,031,980
	10%<=PD<16%	-	9,133	-	-	9,133
	16%<=PD<99.99%	289	361,995	-	-	362,284
	100%	-	-	96,938	8,807	105,745
- Small business	PD<2.5%	21,051	211	-	-	21,262
	2.5%<=PD<4%	17,657	132	-	-	17,789
	4%<=PD<10%	830,808	2,531	-	-	833,339
	10%<=PD<16%	-	4,134	-	-	4,134
	16%<=PD<99.99%	285	107,387	-	-	107,672
	100%	-	-	35,402	88	35,490
Wholesale lending						
- Large Corporate	PD<2.5%	2,210,251	37,771	-	-	2,248,022
	2.5%<=PD<4%	592,377	147,011	-	-	739,388
	4%<=PD<10%	228,634	1,477	-	-	230,111
	10%<=PD<16%	-	57,398	-	-	57,398
	16%<=PD<99.99%	-	80,682	-	-	80,682
	100%	-	-	34,197	14,907	49,104
- SME's	PD<2.5%	1,046,564	6,017	-	-	1,052,581
	2.5%<=PD<4%	-	3,669	-	-	3,669
	4%<=PD<10%	229,405	86,107	-	-	315,512
	10%<=PD<16%	-	63,016	-	-	63,016
	16%<=PD<99.99%	11,244	63,525	-	-	74,769
	100%	-	-	54,715	698	55,413
Total		11,435,126	1,143,973	295,727	31,691	12,906,517
Corporate Lending						
	Strong	1,581,955	20,013	-	-	1,601,968
	Satisfactory	2,391,621	426,506	-	-	2,818,127
	Watch list	344,899	100,154	-	-	445,053
	Impaired	-	-	88,912	15,605	104,517
Total		4,318,475	546,673	88,912	15,605	4,969,665

31 December 2022						
	Internal credit rating	Non-impaired		Credit-impaired	POCI	Total gross carrying amount
		12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired		
Retail Lending						
-Mortgage	PD<2.5%	2,752,144	484	-	-	2,752,628
	2.5%<=PD<4%	-	1,850	-	-	1,850
	4%<=PD<10%	16,508	15,338	-	-	31,846
	10%<=PD<16%	-	66,361	-	-	66,361
	16%<=PD<99.99%	7,320	117,137	-	-	124,457
	100%	-	-	96,330	9,514	105,844
- Consumer	PD<2.5%	140,813	3,691	-	-	144,504
	2.5%<=PD<4%	585,578	704	-	-	586,282
	4%<=PD<10%	855,525	6,354	-	-	861,879
	10%<=PD<16%	-	8,049	-	-	8,049
	16%<=PD<99.99%	146	193,603	-	-	193,749
	100%	-	-	74,901	21	74,922
- Small business	PD<2.5%	13,456	1,415	-	-	14,871
	2.5%<=PD<4%	19,610	742	-	-	20,352
	4%<=PD<10%	722,906	3,138	-	-	726,044
	10%<=PD<16%	-	3,154	-	-	3,154
	16%<=PD<99.99%	573	92,932	-	-	93,505
	100%	-	-	49,386	645	50,031
Wholesale lending						
- Large Corporate	PD<2.5%	1,627,219	510	-	-	1,627,729
	2.5%<=PD<4%	289,425	-	-	-	289,425
	4%<=PD<10%	752,546	142,259	-	-	894,805
	10%<=PD<16%	-	38,103	-	-	38,103
	16%<=PD<99.99%	-	133,835	-	-	133,835
	100%	-	-	44,056	45,888	89,944
- SME's	PD<2.5%	385,892	10,996	-	-	396,888
	2.5%<=PD<4%	176,453	-	-	-	176,453
	4%<=PD<10%	606,892	3,135	-	-	610,027
	10%<=PD<16%	-	53,490	-	-	53,490
	16%<=PD<99.99%	5,047	160,819	-	-	165,866
	100%	-	-	72,155	1,572	73,727
Total		8,958,053	1,058,099	336,828	57,640	10,410,620
Corporate Lending						
	Strong	2,052,188	-	-	-	2,052,188
	Satisfactory	1,791,286	-	-	-	1,791,286
	Watch list	-	543,147	-	-	543,147
	Impaired	-	-	116,211	47,460	163,671
Total		3,843,474	543,147	116,211	47,460	4,550,292

31 December 2023					
	Internal credit rating	Non impaired		Credit-impaired	Total nominal amount
		12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Credit Related Commitments					
Retail Lending					
Loan Commitments	PD<2.5%	881,358	6,301	-	887,659
	2.5%<=PD<4%	11,190	13,102	-	24,292
	4%<=PD<10%	187,935	1,795	-	189,730
	10%<=PD<16%	-	3,651	-	3,651
	16%<=PD<99.99%	1	41,747	-	41,748
	100%	-	-	2,882	2,882
Financial Guarantee contracts and Other Commitments	PD<2.5%	16,370	-	-	16,370
	2.5%<=PD<4%	-	-	-	-
	4%<=PD<10%	111	-	-	111
	10%<=PD<16%	-	-	-	-
	16%<=PD<99.99%	-	-	-	-
	100%	-	-	2	2
Wholesale Lending					
Loan Commitments	Strong	611,303	-	-	611,303
	Satisfactory	544,521	21,083	-	565,604
	Watch list	40,188	5,285	-	45,473
	Impaired	-	-	363	363
Financial Guarantee contracts and Other Commitments	Strong	104,128	455	-	104,583
	Satisfactory	118,134	17,097	-	135,231
	Watch list	88,207	613	-	88,820
	Impaired	-	-	-	-
Total		2,603,446	111,129	3,247	2,717,822

31 December 2022					
	Internal credit rating	Non impaired		Credit-impaired	Total nominal amount
		12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Credit Related Commitments					
Retail Lending					
Loan Commitments	PD<2.5%	488,485	4,732	-	493,217
	2.5%<=PD<4%	10,563	687	-	11,250
	4%<=PD<10%	169,640	10,409	-	180,049
	10%<=PD<16%	-	2,171	-	2,171
	16%<=PD<99.99%	-	8,363	-	8,363
	100%	-	-	709	709
Financial Guarantee contracts and Other Commitments	PD<2.5%	16,222	-	-	16,222
	2.5%<=PD<4%	-	-	-	-
	4%<=PD<10%	-	-	-	-
	10%<=PD<16%	-	-	-	-
	16%<=PD<99.99%	-	-	-	-
	100%	-	-	2	2
Wholesale Lending					
Loan Commitments	Strong	822,876	-	-	822,876
	Satisfactory	302,633	-	-	302,633
	Watch list	-	26,070	-	26,070
	Impaired	-	-	205	205
Financial Guarantee contracts and Other Commitments	Strong	108,328	-	-	108,328
	Satisfactory	72,661	-	-	72,661
	Watch list	-	26,972	-	26,972
	Impaired	-	-	1,291	1,291
Total		1,991,408	79,404	2,207	2,073,019

The table below depicts the internal credit rating bands (MRA/ NCR/ ICR rating scale) for the wholesale portfolio that correspond to the credit quality classification categories presented in the above tables, 1st and only criteria for category assignment being the borrower's stage.

Quality classification	Stage	Rating (MRA/ ICR/ NCR)
Strong	Stage 1	1-4
Satisfactory	Stage 1	4,1-8,6
Watchlist	Stage 2	1,2-9,7
Impaired	Stage 3	3,2-11

The following tables present the movement of the gross carrying amounts for loans and advances to customers by product line by reference to opening and closing balances for the reporting period from 01.01.2023 to 31.12.2023 and from 01.01.2022 to 31.12.2022:

31 December 2023																	
	Wholesale				Mortgage				Consumer				Small Business				Total
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Total
Gross carrying amount at 1 January	3,843,474	543,147	116,211	47,460	2,775,972	201,170	96,330	9,514	1,582,062	212,401	74,901	21	756,545	101,381	49,386	645	10,410,620
New loans and advances originated or purchased	831,318				919,099				1,002,548				285,512				3,038,477
Arrising from acquisition Transfer between stages:									866,882			12,581					879,463
-to 12-month ECL	147,015	(141,682)	(5,333)		121,995	(119,898)	(2,097)		61,712	(60,985)	(727)		23,818	(23,469)	(349)		-
-to lifetime ECL	(194,379)	194,529	(150)		(38,446)	43,723	(5,277)		(282,268)	285,469	(3,201)		(65,143)	66,588	(1,445)		-
-to lifetime ECL credit-impaired loans	(30,962)	(1,438)	32,400		(3,202)	(5,793)	8,995		(38,497)	(25,477)	63,974		(2,986)	(6,298)	9,284		-
Loans and advances derecognised	-	-	(865)	-	-	-	(629)	-	-	-	(6,634)	-	-	-	(67)	-	(8,195)
Amounts written-off	-	-	(30,614)	-	-	-	(12,895)	-	-	-	(38,031)	-	-	-	(11,762)	-	(93,302)
Repayments	(270,655)	(62,598)	(17,584)	-	(280,492)	(26,147)	(12,495)	-	(399,475)	(20,746)	(4,713)	-	(123,587)	(24,459)	(9,905)	-	(1,252,856)
Foreign exchange differences and other movements	(7,336)	14,715	(5,153)	(31,855)	(6,543)	8,357	2,543	(2,323)	(34,497)	(9,169)	11,369	(3,795)	(4,358)	652	260	(557)	(67,690)
Gross carrying amount at 31 December	4,318,475	546,673	88,912	15,605	3,488,383	101,412	74,475	7,191	2,758,467	381,493	96,938	8,807	869,801	114,395	35,402	88	12,906,517

Impairment allowance	(16,645)	(8,389)	(37,565)	(5,183)	(2,367)	(5,491)	(51,726)	(2,191)	(47,802)	(57,895)	(74,127)	(6,549)	(12,241)	(9,590)	(28,464)	(50)	(366,275)
Carrying amount at 31 December	4,301,830	538,284	51,347	10,422	3,486,016	95,921	22,749	5,000	2,710,665	323,598	22,811	2,258	857,560	104,805	6,938	38	12,540,242

31 December 2022

	Wholesale				Mortgage				Consumer				Small Business				Total
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Total
Gross carrying amount at 1 January	3,546,133	532,800	127,726	55,633	2,284,363	155,042	120,636	11,177	1,258,751	176,632	63,171	165	563,130	129,345	66,604	1,381	9,092,689
New loans and advances originated or purchased	720,291				863,409				576,266				299,288				2,459,254
Arrising from acquisition Transfer between stages:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-to 12-month ECL	334,898	(334,661)	(237)		55,937	(52,413)	(3,524)		55,571	(54,744)	(827)		59,726	(58,496)	(1230)		-
-to lifetime ECL	(401,926)	401,926	-		(106,247)	116,547	(10,300)		(91,525)	94,879	(3,354)		(40,504)	43,445	(2,941)		-
-to lifetime ECL credit-impaired loans	(15,354)	(16,355)	31,709		(1,940)	(7,773)	9,713		(11,583)	(20,611)	32,194		(3,315)	(6,520)	9,835		-
Loans and advances derecognised	-	-	-	-	-	-	(250)	-	-	-	-	-	-	-	-	-	(250)
Amounts written-off	-	-	(3,482)	-	-	-	(3,965)	-	-	-	(16,183)	-	-	-	(12,682)	-	(36,312)
Repayments	(316,590)	(73,863)	(38,654)	-	(303,064)	(22,359)	(21,767)	-	(164,888)	(20,041)	(5,099)	-	(93,936)	(30,965)	(10,476)	-	(1,101,702)
Foreign exchange differences and other movements	(23,978)	33,300	(851)	(8,173)	(16,486)	12,126	5,787	(1,663)	(40,530)	36,286	4,999	(144)	(27,844)	24,572	276	(736)	(3,059)
Gross carrying amount at 31 December	3,843,474	543,147	116,211	47,460	2,775,972	201,170	96,330	9,514	1,582,062	212,401	74,901	21	756,545	101,381	49,386	645	10,410,620
Impairment allowance	(17,427)	(9,577)	(58,954)	(7,950)	(2,765)	(9,511)	(76,081)	(4,130)	(23,289)	(26,692)	(50,598)	(8)	(10,339)	(8,434)	(40,828)	(604)	(347,187)
Carrying amount at 31 December	3,826,047	533,570	57,257	39,510	2,773,207	191,659	20,249	5,384	1,558,773	185,709	24,303	13	746,206	92,947	8,558	41	10,063,433

Loans and advances derecognized during the year present loans sold and those that are modified (where the modification resulted in de-recognition) during the period.

Credit impaired loans and advances to customers

The following table presents the ageing analysis of credit impaired (Stage 3) loans and advances by product line at their gross carrying amounts, as well as the respective cumulative loss allowance:

31 December 2023									
	Retail lending								
	Mortgage	POCI	Consumer	POCI	Small business	POCI	Corporate lending	POCI	(Lifetime ECL credit-impaired)
up to 90 days	33,878	4,903	29,689	3,529	14,482	54	50,924	13,993	151,452
90 to 179 days	3,458	282	20,886	333	3,006	-	6,624	-	34,589
180 to 360 days	1,099	-	22,810	1,379	3,661	-	6,088	-	35,037
more than 360 days	36,040	2,006	23,553	3,566	14,253	34	25,276	1,612	106,340
Gross carrying amount	74,475	7,191	96,938	8,807	35,402	88	88,912	15,605	327,418
Impairment Allowance	(51,726)	(2,191)	(74,127)	(6,549)	(28,464)	(50)	(37,565)	(5,183)	(205,855)
Carrying amount	22,749	5,000	22,811	2,258	6,938	38	51,347	10,422	121,563
Value of collateral	22,006	4,766	38	-	5,710	38	43,090	10,420	86,068

31 December 2022									
	Retail lending								
	Mortgage	POCI	Consumer	POCI	Small business	POCI	Corporate lending	POCI	(Lifetime ECL credit-impaired)
up to 90 days	37,354	5,457	20,984	16	19,927	228	45,226	16,628	145,820
90 to 179 days	5,555	115	8,833	-	3,031	-	20,932	2,729	41,195
180 to 360 days	3,212	17	13,960	-	3,165	-	6,892	-	27,246
more than 360 days	50,209	3,925	31,124	5	23,263	417	43,161	28,103	180,207
Gross carrying amount	96,330	9,514	74,901	21	49,386	645	116,211	47,460	394,468
Impairment Allowance	(76,081)	(4,130)	(50,598)	(8)	(40,828)	(604)	(58,954)	(7,950)	(239,153)
Carrying amount	20,249	5,384	24,303	13	8,558	41	57,257	39,510	155,315
Value of collateral	134,098	10,433	2,532	-	74,072	1,238	145,193	55,061	422,626

(B) COLLATERALS AND REPOSSESSED COLLATERALS

Collaterals

The Loan-to-Value (LTV) ratio of the mortgage lending reflects the gross loan exposure at the balance sheet date over the market value of the property held as collateral.

The LTV ratio of the mortgage portfolio is presented below:

	As at 31 December	
	2023	2022
Mortgages		
Less than 50%	1,190,573	898,880
50%-70%	1,216,935	1,035,542
71%-80%	599,453	510,905
81%-90%	510,277	474,839
91%-100%	19,547	25,142
101%-120%	98,017	84,392
121%-150%	18,000	22,184
Greater than 150%	18,659	31,102
Total exposure	3,671,461	3,082,986
Average LTV	49.08%	50.06%

Collaterals type held as security and other credit enhancements are presented in the table below:

Type of exposure	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	31.12.2023	31.12.2022	
Trading derivative assets	100	100	Cash
Derivative financial instruments	100	100	Cash
Loans and advances to retail customers			
Small Banking Business - Secured loans	100	100	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipment
Small Banking Business - Unsecured loans	below 100, not fixed % of coverage	below 100, not fixed % of coverage	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipment
Small Banking Business - Factoring	100	100	Factoring invoices
Mortgage lending	100	100	Residential property
Consumer lending incl. credit cards	-	-	None
Loans and advances to wholesale customers			
Wholesale - Factoring	100	100	Factoring invoices
Wholesale lending	not fixed obligatory % of coverage	not fixed obligatory % of coverage	Properties (residential, commercial, administrative), cash collaterals, equipment

The breakdown of collateral and guarantees is presented below :

As at 31 December 2023					
	Value of collateral received				
	Real Estate	Financial	Other Collateral	Total	Guarantee received
Retail Lending	3,942,412	22,036	307,973	4,272,421	184,921
Wholesale Lending	1,374,730	27,945	1,566,918	2,969,593	332,484
Total	5,317,142	49,981	1,874,891	7,242,014	517,405

As at 31 December 2022					
	Value of collateral received				
	Real Estate	Financial	Other Collateral	Total	Guarantee received
Retail Lending	3,465,330	182,432	310,920	3,958,682	12,032
Wholesale Lending	1,292,055	358,862	1,451,747	3,102,664	119,702
Total	4,757,385	541,294	1,762,667	7,061,346	131,734

The fair value of the presented collaterals in the tables above is capped at the amount of the loan outstanding balance.

Reposessed collaterals

The Bank recognizes collateral assets on the balance sheet by taking possession usually through legal processes or by calling upon other credit enhancements. The main type of collateral that the Bank repossests against repayment or reduction of the outstanding loan is real estate, which is recognized within reposessed assets. They are included in Other assets (Note 23). Assets acquired are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. In cases where the Bank makes use of reposessed collaterals as part of its operations, they are classified as own-used or investment properties, as appropriate.

The following tables present a summary of collaterals that the Bank took possession, and were recognized as reposessed assets, as well as the movement during 2023 and 2022:

Nature of assets	2023	2022
Commercial property and other moveable assets	10,100	9,476
Residential property	2,216	2,750
Land	2,007	685
Total	14,323	12,911

Reconciliation of Level 3 movement:	2023	2022
Balance at 1 January	12,911	12,118
Additional	6,270	3,109
Sales	(1,387)	(1,046)
Impairment	(3,519)	-
Transfers	48	(1,271)
Balance at 31 December	14,323	12,911

**Quantitative information about fair value measurements
using significant unobservable inputs (Level 3)**

Class property	Fair value 31/12/2023 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2023	Range (BGN) (weighted average) 2022	Connection between the unobservable input and FV
Land	2,007	Market comparison approach	price per m ²	0.90 - 1146.66 (24.75)	0.98 - 1466.87 (28.07)	A significant increase in price per m ² would result in a higher fair value
Residential	2,216	Market comparison approach	price per m ²	30.00 - 1920.98 (140.56)	41.62 - 1811.99 (164.22)	A significant increase in price per m ² would result in a higher fair value
Mixed	10,100	Market comparison approach	price per m ²	22.94 - 1409.00 (323.76)	28.81 - 1908.89 (271.66)	A significant increase in price per m ² would result in a higher fair value
		Income approach	price per m ²	1.10 - 10.62 (3.32)	1.53 - 8.45 (3.18)	A significant increase in price per m ² would result in a higher fair value
		Cost approach	price per m ²	5.49 - 437.50 (156.14)	6.34 - 456.25 (156.30)	A significant increase in price per m ² would result in a higher fair value

(C) GEOGRAPHICAL AND INDUSTRY CONCENTRATIONS OF LOANS AND ADVANCES TO CUSTOMERS

The Bank holds diversified portfolios across markets and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

The following table breaks down the Bank's exposure into loans and advances to customers and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line, industry and geographical region as well as the impairment allowance.

31 December 2023																				
	Bulgaria					Greece					Rest of Europe					Other countries				
	Gross carrying/nominal amount																			
	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance
Retail Lending	7,064,522	595,123	204,480	15,898	(295,957)	6,892	186	276	-	(289)	36,660	1,669	1,445	-	(1,430)	8,577	322	614	188	(817)
Mortgage	3,452,051	100,962	73,308	7,003	(60,628)	4,657	67	-	-	(6)	25,260	383	702	-	(484)	6,415	-	465	188	(657)
Consumer	2,742,670	379,774	95,770	8,807	(184,984)	2,235	119	276	-	(283)	11,400	1,278	743	-	(946)	2,162	322	149	-	(160)
-Small business	869,801	114,387	35,402	88	(50,345)	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-
Wholesale Lending	4,092,998	546,673	88,912	15,605	(66,563)	14,362	-	-	-	(8)	202,048	-	-	-	(1,163)	9,067	-	-	-	(48)
Commerce and services	95,913	8,417	14,198	29	(3,191)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	1,415,916	53,604	36,640	166	(20,385)	-	-	-	-	-	13,162	-	-	-	(50)	9,067	-	-	-	(48)
Construction	98,154	850	-	-	(500)	-	-	-	-	-	128,090	-	-	-	(343)	-	-	-	-	-
Tourism	39,076	867	-	-	(41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	344,584	40,711	3,890	1,025	(5,435)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	2,099,355	442,224	34,184	14,385	(37,011)	14,362	-	-	-	(8)	60,796	-	-	-	(770)	-	-	-	-	-
Total	11,157,520	1,141,796	293,392	31,503	(362,520)	21,254	186	276	-	(297)	238,708	1,669	1,445	-	(2,593)	17,644	322	614	188	(865)
Credit related commitments	2,537,297	110,912	1,572	1,671	(1,027)	4,010	86	-	4	-	61,334	124	-	-	-	805	7	-	-	-
Loan commitments	2,210,347	92,747	1,570	1,671	(656)	4,010	86	-	4	-	61,334	124	-	-	-	805	7	-	-	-
Financial guarantee contracts and other commitments	326,950	18,165	2	-	(371)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

31 December 2022

	Bulgaria					Greece					Rest of Europe					Other countries				
	Gross carrying/nominal amount																			
	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance	12-month ECL- Stage 1	Lifetime ECL- Stage 2	Lifetime ECL credit- impaired- Stage 3	POCI	Impair- ment allowance
Retail Lending	5,073,976	511,414	217,037	9,991	(249,711)	5,690	610	437	3	(353)	26,532	2,748	1,465	-	(1,470)	8,380	180	1,678	187	(1,745)
Mortgage	2,749,197	199,266	94,388	9,324	(90,445)	3,391	411	-	3	(10)	17,249	1,464	473	-	(491)	6,136	29	1,468	187	(1,541)
Consumer	1,568,237	210,767	73,278	21	(99,077)	2,299	199	437	-	(343)	9,283	1,284	977	-	(963)	2,242	151	210	-	(204)
-Small business	756,542	101,381	49,371	646	(60,189)	-	-	-	-	-	-	-	15	-	(16)	2	-	-	-	-
Wholesale Lending	3,670,467	543,147	116,211	47,459	(92,920)	14,809	-	-	-	(13)	148,571	-	-	-	(909)	9,628	-	-	-	(66)
Commerce and services	96,610	17,096	14,935	44	(3,964)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	1,236,013	49,087	40,187	1,698	(24,458)	-	-	-	-	-	14,455	-	-	-	(71)	9,628	-	-	-	(66)
Construction	60,502	4,816	-	-	(401)	-	-	-	-	-	69,036	-	-	-	(329)	-	-	-	-	-
Tourism	33,226	-	-	-	(25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	284,571	56,315	9,338	25,445	(12,013)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	1,959,545	415,833	51,751	20,272	(52,059)	14,809	-	-	-	(13)	65,080	-	-	-	(509)	-	-	-	-	-
Total	8,744,443	1,054,561	333,248	57,450	(342,631)	20,499	610	437	3	(366)	175,103	2,748	1,465	-	(2,379)	18,008	180	1,678	187	(1,811)
Credit related commitments	1,925,431	79,275	2,182	21	(969)	3,888	47	-	4	-	61,221	73	-	-	-	867	10	-	-	-
Loan commitments	1,728,221	52,302	889	21	-	3,888	47	-	4	-	61,221	73	-	-	-	867	10	-	-	-
Financial guarantee contracts and other commitments	197,210	26,973	1,293	-	(969)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(D) FORBEARANCE PRACTICES ON LENDING ACTIVITIES

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition. The Bank has employed a range of forbearance options in order to enhance the management of customer relationships and the effectiveness of collection efforts, as well as to improve the recoverability of cash flows and minimize credit losses for both retail and wholesale portfolios.

Forbearance practices' classification

Forbearance practices as monitored and reported by the Bank based on the European Banking Authority Implementing Technical Standards (EBA ITS) guidelines occur only in the cases where the contractual payment terms of a loan have been modified, as the borrower is considered unable to comply with the existing loan's terms due to apparent financial difficulties, and the Bank grants a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties.

All other types of modifications granted by the Bank, where there is no apparent financial difficulty of the borrower and may be driven by factors of a business nature are not classified as forbearance measures.

Forbearance solutions

Forbearance solutions granted following an assessment of the borrower's ability and willingness to repay and can be of a short or longer term nature. The objective is to assist financially stressed borrowers by rearranging their repayment cash outflows into a sustainable modification, and at the same time, protect the Bank from suffering credit losses. The Bank deploys targeted segmentation strategies with the objective to tailor different short or long term and sustainable management solutions to selected groups of borrowers for addressing their specific financial needs.

The nature and type of forbearance options may include but is not necessarily limited to, one or more of the following:

- debt consolidations, whereby existing loan balances of the borrower are combined in a single loan;
- interest-only payments;
- grace period;
- reduced payment plans;
- arrears repayment plan;
- loan term extensions/ partial debt forgiveness/ write down;
- interest rate reduction;
- split balance (combination of forbearance options that mainly includes capitalization of arrears, loan term extensions and interest rate reduction);
- operational restructuring.

Specifically for unsecured consumer loans (including credit cards), forbearance programs (e.g. term extensions), are applied in combination with debt consolidation whereby all existing consumer balances are pooled together. Forbearance solutions are applied in order to ensure a sufficient decrease on installment and a viable solution for the borrower. In selected cases, the debt consolidations may be combined with mortgage establishment to convert unsecured lending exposures to secured ones.

In the case of mortgage loans, a decrease of installment may be achieved through forbearance measures such as extended payment periods, capitalization of arrears, split balance and reduced payment plans.

Wholesale exposures are subject to forbearance when there are indications of financial difficulties of the borrower, evidenced by a combination of factors including the deterioration of financials, credit rating downgrade, payment delays and other.

Retail business units are responsible for all first modifications of loans delinquent from 1 to 89 dpd.

The Troubled Assets Division (TAG) is the independent body, which has the overall responsibility for the management of the Bank's troubled assets portfolio, including forborne loans, in alignment with the acting regulations. TAG ensures tight control and close monitoring of the effectiveness of the forbearance schemes and the performance of the portfolios under management. TAG also warrants the continuous improvement and adjustment of policies and procedures, by performing quality assurance reviews and by assessing and taking into account the macroeconomic developments, the regulatory and legal requirements and changes, international best practices, and any existing or new internal requirements.

TAG cooperates with Risk Management to reach a mutual understanding and develop an appropriate methodology for the evaluation of the risks inherent in every type of modification and delinquency bucket, per portfolio.

I) Classification of Forborne loans

Forborne loans are classified either as non-impaired (Stage 2), or impaired (Stage 3) by assessing their delinquency and credit quality status.

Credit impaired forborne loans enter initially a probation period of one year where the borrowers' payment performance is closely monitored. If at the end of the abovementioned period, the borrowers have complied with the terms of the program and there are no past due amounts and concerns regarding the loans' full repayment, the loans are then reported as non-impaired forborne loans (Stage 2). In addition, non-impaired forborne loans, including those that were previously classified as credit impaired and complied with the terms of the program, are monitored over a period of two years. If, at the end of that period, the borrowers have made payments more than an insignificant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit impaired nor any other SICR criteria are met they exit forborne status and are classified as Stage 1.

Particularly, the category of credit impaired forborne loans includes those that (a) at the date when forbearance measures were granted, were more than 90 days past due or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non - impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non- impaired and during the two years monitoring period met the criteria for entering the credit impaired status.

Furthermore, forborne loans that fail to perform under the new modified terms and are subsequently denounced cease to be monitored as part of the Bank's forbearance activities and are reported as denounced credit impaired loans (Stage 3) consistently with the Bank's management and monitoring of all denounced loans.

II) Loan restructuring

In cases where the contractual cash flows of a forbore loan have been substantially modified, the original forbore loan is de-recognized and a new loan is recognized. The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.

In some circumstances there may be evidence that the new loan is credit-impaired at initial recognition, and thus, it is recognized as an originated credit-impaired (POCI) loan.

In cases where the modification, as a result of forbearance measures, is not considered substantial, the Bank recalculates the gross carrying amount of the loan and recognizes the difference as a modification gain or loss in the income statement. The Bank continues to monitor the modified forbore loan in order to determine if the financial asset exhibits significant increase in credit risk since initial recognition during the forbearance period.

The following tables present an analysis of Bank's forbore activities for loans measured at amortised cost. The relevant tables below are presented on a gross carrying amount basis, while cumulative impairment allowance is presented separately, in line with the Bank's internal credit risk monitoring process under IFRS 9 principles.

The following table presents a summary of the types of the Bank's forbore activities:

Forbearance measures:	2023	2022
Loan term extension	252,302	156,942
Reduced payment below interest owed	16,443	11,044
Interest rate reduction	18,127	22,236
Reduced payment above interest owed	36,202	30,323
Arrears repayment plan	5	8
Interest only	80,400	50,091
Grace period	-	8,113
Total gross carrying amount	403,479	278,757
Less: cumulative impairment allowance	(62,281)	(57,931)
Total carrying amount	341,198	220,826

The following tables present a summary of the credit quality of forborne loans and advances to customers:

As at 31 December 2023			
	Total loans and advances	Forborne loans and advances	% of Forborne loans and advances
Gross carrying amounts:			
12-month ECL	11,435,126	-	-
Lifetime ECL non credit-impaired	1,143,973	285,778	25%
Lifetime ECL credit-impaired	327,418	117,701	36%
Total Gross Amount	12,906,517	403,479	3%
Cumulative ECL Loss allowance :			
12-month ECL allowance	(79,055)	-	
Lifetime ECL (not credit-impaired) allowance	(81,365)	(8,934)	
Lifetime ECL (credit-impaired) allowance of which:	(205,855)	(53,347)	
- Individually assessed	(91,177)	(26,825)	
- Collectively assessed	(114,678)	(26,522)	
Total carrying amount	12,540,242	341,198	3%
Collateral received	7,242,012	247,374	
As at 31 December 2022			
	Total loans and advances	Forborne loans and advances	% of Forborne loans and advances
Gross carrying amounts:			
12-month ECL	8,958,373	-	-
Lifetime ECL non credit-impaired	1,060,910	175,217	17%
Lifetime ECL credit-impaired	391,337	103,540	26%
Total Gross Amount	10,410,620	278,757	3%
Cumulative ECL Loss allowance :			
12-month ECL allowance	(53,820)	-	
Lifetime ECL (not credit-impaired) allowance	(54,214)	(7,828)	
Lifetime ECL (credit-impaired) allowance of which:	(239,153)	(50,103)	
- Individually assessed	(129,969)	(26,249)	
- Collectively assessed	(109,184)	(23,854)	
Total carrying amount	10,063,433	220,826	2%
Collateral received	7,061,346	242,405	

The following table presents the movement of forborne loans and advances:

Gross carrying amount at 1 January 2022	244,869
Forbearance measures in the year	116,136
Repayment of loans	(24,287)
Write-offs of forborne loans	(230)
Loans and advances that exited forbearance status	(76,194)
Other	18,463
Less cumulative impairment allowance	(57,931)
Carrying amount at 31 December 2022	220,826
Gross carrying amount at 1 January 2023	278,757
Forbearance measures in the year	207,349
Repayment of loans	(55,880)
Write-offs of forborne loans	(270)
Loans and advances that exited forbearance status	(22,863)
Other	(3,614)
Less cumulative impairment allowance	(62,281)
Carrying amount at 31 December 2023	341,198

The following table presents the Bank's exposure to forborne loans and advances by product line:

	As at 31 December	
	2023	2022
Retail Lending	131,003	151,144
- Mortgage	28,612	53,108
- Consumer	73,804	58,418
- Small business	28,587	39,618
Wholesale Lending	272,476	127,613
Total gross carrying amount	403,479	278,757
Less cumulative impairment allowance	(62,281)	(57,931)
Total carrying amount	341,198	220,826

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	As at 31 December	
	2023	2022
Bulgaria	402,836	278,084
Rest of Europe	408	530
Other countries	186	-
Greece	49	143
Total gross carrying amount	403,479	278,757
Less cumulative impairment allowance	(62,281)	(57,931)
Total carrying amount	341,198	220,826

The following table provides information on modifications due to forbearance measures on lending exposures which have not resulted in derecognition. Such financial assets were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

	As at 31 December	
	2023	2022
Modified loans during the year		
Gross carrying amount at 31 December	304,110	130,540
Modification (loss)	(2,100)	(733)
Modified loans since initial recognition		
Gross carrying amount at 31 December for which loss allowance has changed to 12-month ECL measurement	34,245	98,571

5.2.1.3. DEBT SECURITIES, LOANS AND ADVANCES TO BANKS AND DERIVATIVES

The table below presents an analysis of debt securities, derivatives and banks placements net of ECL allowance by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions. Debt securities, banks placements and financial assets are classified in Stage 1 as per the IFRS 9 requirements.

31 December 2023 Non-impaired						
Rating	Trading securities	Debt securities at FVOCI	Debt securities at AC	Loans and advances to banks	Derivatives	Total
AA- to AA+	-	175,246	629,805	197,016	-	1,002,067
A- to A+	-	347,303	18,319	260,039	-	625,661
BBB- to BBB+	35,646	633,309	721,108	195,642	-	1,585,705
BB- to BB+	-	-	78,259	126,509	-	204,768
Lower than BB-	-	-	-	-	5,537	5,537
Unrated	-	-	359,615	4,028	13,118	376,761
Total	35,646	1,155,858	1,807,106	783,234	18,655	3,800,499

31 December 2022 Non-impaired						
Rating	Trading securities	Debt securities at FVOCI	Debt securities at AC	Loans and advances to banks	Derivatives	Total
AA- to AA+	-	179,842	619,924	22,389	-	822,155
A- to A+	-	341,302	-	140,932	-	482,234
BBB- to BBB+	33,604	730,366	235,155	-	-	999,125
BB- to BB+	-	-	-	-	-	-
Lower than BB-	-	-	38,567	1,280,014	29,949	1,348,530
Unrated	-	-	540,958	261	22,666	563,885
Total	33,604	1,251,510	1,434,604	1,443,596	52,615	4,215,929

Concentration of risks of financial assets with credit risk

The following table breaks down the Bank's financial instruments (excluding Loans and advances to customers) at their carrying amounts, as categorized by geographical region as of 31 December. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

(a) Geographical sectors

	Bulgaria	Greece	Rest of Europe*	Other countries	Total
Loans and advances to banks	-	126,509	607,305	49,420	783,234
Trading assets – debt securities	35,646	-	-	-	35,646
Debt securities at fair value through other comprehensive income	218,226	-	774,736	162,896	1,155,858
Derivative financial instruments	13,118	5,537	-	-	18,655
Debt securities at amortised cost	507,698	437,875	861,533	-	1,807,106
31 December 2023	774,688	569,921	2,243,574	212,316	3,800,499

*The five largest exposures of debt securities have issuers from the following countries: Ireland, Italy, Poland, Romania and France.

	Bulgaria	Greece	Rest of Europe*	Other countries	Total
Loans and advances to banks	-	1,280,014	104,870	58,712	1,443,596
Trading assets – debt securities	33,604	-	-	-	33,604
Debt securities at fair value through other comprehensive income	314,771	-	768,649	168,090	1,251,510
Derivative financial instruments	22,666	29,949	-	-	52,615
Debt securities at amortised cost	195,079	279,474	960,051	-	1,434,604
31 December 2022	566,120	1,589,437	1,833,570	226,802	4,215,929

*The five largest exposures of debt securities have issuers from the following countries: Ireland, Italy, Poland, France, Romania.

5.2.1.4. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank does not have offsetting assets/liabilities that fall under the scope of IAS 32, i.e. are offset in the statement of financial position when an entity has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows the Bank to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as if they were set off in the statement of financial position. The Bank also made margin deposits as collateral for its outstanding derivative positions. The counterparty may set off the Bank's liabilities with the margin deposit in case of default.

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2023					
Derivative assets	5,537	-	5,537	(5,537)	-
Liabilities as of 31 December 2023					
Derivative liabilities	(15,345)	-	(15,345)	38,395	23,050

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2022					
Derivative assets	29,949	-	29,949	(29,949)	-
Liabilities as of 31 December 2022					
Derivative liabilities	(36,066)	-	(36,066)	45,713	9,647

5.2.2 MARKET RISK

The Bank takes on exposure to market risk, which is the risk of potential financial loss due to an adverse change in market variables.

Changes in interest rates, foreign exchange rates, credit spreads, equity prices and other relevant factors, such as the implied volatilities, can affect the Bank's income or the fair value of its financial instruments. The market risks, the Bank is exposed to, are monitored, controlled and estimated by its Market Risk Department (MRD). This is performed in close cooperation with the Group Market and Counterparty Risk Unit (GMCR).

MRD is responsible for the measurement, monitoring, control and reporting of all market risks, including the interest rate risk in the Banking Book (IRRBB) of the Bank. The department reports to the CRO and its main responsibilities include:

- Monitoring of all key market & IRRBB risk indicators (exposure, sensitivities, etc.);
- Implementation of Stress Testing methodologies for market risk and IRRBB (historical and hypothetical);
- Monitoring and reporting of market and IRRBB risk limits utilization;
- Development, maintenance and expansion of risk management infrastructure.

The market risks the Bank is exposed to, are the following:

(a) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its cash flows and the fair value of its financial positions. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is further split into 'General' and 'Specific'. The former refers to changes in the fair valuation of positions due to the movements of benchmark interest rates, while the latter refers to changes in the fair valuation of positions due to the movements of specific issuer yields and credit spreads.

(b) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate overnight open positions and these limits are monitored on a daily basis.

(c) Equity risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. The equity risk that the Bank undertakes is negligible and arises mainly from the investment portfolio as well as small participations in financial infrastructure companies. Daily VaR is calculated only for the listed equities portfolio.

(d) Implied volatilities

The Bank closes its outright options back-to-back, thus it carries none or negligible implied volatility (vega) risk on the options it holds or has written, as no option positions are left open.

The Bank's Risk Committee sets limits on the level of exposure to market risks, which are monitored on a regular basis. Sensitivity and stress test analysis is additionally performed.

(I) Market risk measurement techniques

The Bank ensures that all positions that are exposed to market risks (FX, IR, equity prices) are included within the market risk measurement system.

Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing.

(II) Interest rate gap and sensitivity

The following table provides the interest rate repricing gap of the Bank, which analyses the structure of interest rate mismatches within the balance sheet. The Bank's financial assets/liabilities are included at their notional/outstanding amounts and categorized based on either (i) the next contractual repricing date if floating rate or (ii) the maturity/call date (whichever is first) if fixed rate. The below analysis provides an approximation of the interest rate risk exposure since transactions with different duration are aggregated together per time bucket.

31.12.2023	Less than 1 month	1 - 3 months	3 – 12 months	3-12 months	1 – 5 years	More than 5 years
Balances with central banks	2,365,538	2,365,571	-	-	-	-
Loans and advances to banks	783,234	783,049	-	-	-	-
Debt securities	3,028,859	529,812	279,579	280,646	1,301,949	721,902
Loans and advances to customers	12,540,242	4,443,903	6,987,533	675,066	518,684	43,998
Total interest bearing assets	18,717,873	8,122,335	7,267,112	955,712	1,820,633	765,900
Due to credit institutions	140,905	(140,755)	(8,481)	(215,141)	(801,890)	-
Due to customers	15,653,641	(11,668,016)	(1,040,981)	(2,099,036)	(807,234)	-
Total interest bearing liabilities	15,794,546	(11,808,771)	(1,049,462)	(2,314,177)	(1,609,124)	-
Derivative financial instruments	(4,032)	(154,591)	(129,085)	(59,848)	342,859	-
Interest rate gap		(3,841,027)	6,088,565	(1,418,313)	554,368	765,900

31.12.2022	Less than 1 month	1 - 3 months	3 – 12 months	3-12 months	1 – 5 years	More than 5 years
Balances with central banks	1,571,141	1,571,177	-	-	-	-
Loans and advances to banks	1,443,596	1,443,967	-	-	-	-
Debt securities	2,747,713	339,101	289,176	298,580	1,404,902	535,920
Loans and advances to customers	10,063,433	3,903,092	5,948,122	164,742	37,809	1,023
Total interest bearing assets	15,825,883	7,257,337	6,237,299	463,322	1,442,711	536,943
Due to credit institutions	23,904	(23,892)	(160,822)	(215,141)	(97,792)	-
Due to customers	13,682,032	(10,782,390)	(872,427)	(1,767,041)	(254,479)	-
Total interest bearing liabilities	13,705,936	(10,806,281)	(1,033,249)	(1,982,182)	(352,271)	-
Derivative financial instruments		16,513	(3,373)	121,681	82,584	(229,619)
Interest rate gap		(3,532,431)	5,200,677	(1,397,179)	1,173,024	307,324

The Bank performs a sensitivity analysis to assess the impact on net interest income (NII) and on other comprehensive income (OCI), to a hypothetical change in the market interest rates.

The impact on NII is calculated under the scenario of an instantaneous parallel shift of all interest rates by +/- 100 bps, for a 1-year period, assuming a static balance sheet approach. As at 31 December 2023 the impact on NII, under the scenario of a parallel shift in the yield curves, stands at BGN 9,954 thousand (+100 bps) and BGN (2,850) thousand (-100 bps).

The impact on OCI is calculated as the fair value movement of all financial assets measured at FVOCI, net of hedging. As at 31 December 2023 the impact on OCI, under the scenario of a parallel shift in the yield curves, stands at BGN (28,563) thousand (+100bps) and BGN 28,563 thousand (-100bps).

Sensitivity of assets and liabilities

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

Market risk measure As at 31 December 2023			
	Carrying amount	Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
Cash and balances with Central Bank	2,365,538	-	2,365,538
Trading assets	37,272	37,272	-
Derivative financial instruments	18,655	18,655	-
Loans and advances to banks	783,234	-	783,234
Loans and advances to customers	12,540,242	-	12,540,242
Investment securities	3,028,859	-	3,028,859
Other financial assets	91,789	-	91,789
Total assets subject to Market risk	18,865,589	55,927	18,809,662
Liabilities subject to Market risk			
Derivative financial instruments	22,687	22,687	-
Deposits from banks	140,905	-	140,905
Due to customers	15,653,641	-	15,653,641
Other borrowed funds	1,036,249	-	1,036,249
Other financial liabilities	196,526	-	196,526
Total liabilities subject to Market risk	17,050,008	22,687	17,027,321

Market risk measure As at 31 December 2022

	Carrying amount	Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
Cash and balances with Central Bank	1,571,141	-	1,571,141
Trading assets	35,228	35,228	-
Derivative financial instruments	52,615	23,548	29,067
Loans and advances to banks	1,443,596	-	1,443,596
Loans and advances to customers	10,063,433	-	10,063,433
Investment securities	2,747,713	-	2,747,713
Other financial assets	52,232	-	52,232
Total assets subject to Market risk	15,965,958	58,776	15,907,182
Liabilities subject to Market risk			
Derivative financial instruments	36,873	36,873	-
Deposits from banks	23,904	-	23,904
Due to customers	13,682,032	-	13,682,032
Other borrowed funds	475,598	-	475,598
Other financial liabilities	181,136	-	181,136
Total liabilities subject to Market risk	14,399,543	36,873	14,362,670

Foreign exchange risk

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2023 and 2022:

As at 31 December 2023						
Assets	BGN	EUR	USD	CHF	OTHER	Total
Cash and balances with the Central Bank	1,695,175	659,903	6,310	1,526	2,624	2,365,538
Loans and advances to banks	3,655	657,545	57,201	28,187	36,646	783,234
Trading assets	37,272	-	-	-	-	37,272
Derivative financial instruments	285	18,163	207	-	-	18,655
Loans and advances to customers	10,031,279	2,361,491	141,980	4,897	595	12,540,242
Investment securities	146,556	2,555,126	327,177	-	-	3,028,859
Other financial assets	50,782	31,539	9,464	-	4	91,789
Total financial assets	11,965,004	6,283,767	542,339	34,610	39,869	18,865,589
Liabilities	BGN	EUR	USD	CHF	OTHER	Total
Deposits from banks	3,129	136,518	708	266	284	140,905
Derivative financial instruments	347	22,235	105	-	-	22,687
Due to customers	9,848,709	4,876,788	809,666	32,834	85,644	15,653,641
Other borrowed funds	8,526	1,027,723	-	-	-	1,036,249
Other financial liabilities	95,749	98,544	1,738	219	276	196,526
Total financial liabilities	9,956,460	6,161,808	812,217	33,319	86,204	17,050,008
Off balance sheet Credit related commitments	2,237,491	448,181	32,150	-	-	2,717,822

As at 31 December 2022						
Assets	BGN	EUR	USD	CHF	OTHER	Total
Cash and balances with the Central Bank	923,881	637,239	6,236	1,450	2,335	1,571,141
Loans and advances to banks	-	1,280,171	60,213	22,675	80,537	1,443,596
Trading assets	35,228	-	-	-	-	35,228
Derivative financial instruments	992	38,753	12,870	-	-	52,615
Loans and advances to customers	7,774,512	2,154,652	127,291	6,969	9	10,063,433
Investment securities	157,962	2,238,156	351,595	-	-	2,747,713
Other financial assets	25,973	22,670	3,585	-	4	52,232
Total financial assets	8,918,548	6,371,641	561,790	31,094	82,885	15,965,958
Liabilities	BGN	EUR	USD	CHF	OTHER	Total
Deposits from banks	2,599	804	20,094	194	213	23,904
Derivative financial instruments	911	35,765	197	-	-	36,873
Due to customers	8,439,740	4,326,256	779,497	29,538	107,001	13,682,032
Other borrowed funds	14,184	461,414	-	-	-	475,598
Other financial liabilities	73,791	101,908	4,803	471	163	181,136
Total financial liabilities	8,531,225	4,926,147	804,591	30,203	107,377	14,399,543
Off balance sheet Credit related commitments	1,703,645	307,403	61,971	-	-	2,073,019

5.2.3. LIQUIDITY RISK

Basel Committee defines liquidity as “the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses”.

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank is exposed to daily calls on its available cash resources due maintains adequate liquidity buffers to ensure regular and timely meeting of all current and future obligations related to deposits withdrawals, maturity of medium or long term notes, maturity of secured or unsecured funding (interbank repos and money market takings), loan drawdowns.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank. The ability of the Bank to mobilize its liquid and illiquid assets to raise funding are also of great importance in the overall liquidity management assessment.

Liquidity risk management Framework

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place.

Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios and key risk indicators, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank produces and monitors internally defined liquidity ratios and reports. In accordance with the requirements of Regulation (EU) No 575/2013, Regulation (EU) No 2015/61 and Regulation No 2016/313, the Bank also prepares the reports under the Liquidity Coverage Ratio (LCR), Additional Liquidity Monitoring Metrics (ALMM) on a monthly basis and the Net Stable Funding Ratio (NSFR) on a quarterly basis. In 2018, the Liquidity Report under BNB Ordinance 11 was replaced by a new Maturity Ladder Report for monitoring of the maturity structure of inflows and outflows. The Maturity Ladder report is prepared under the EBA methodology as per Annex 23 of Commission Implementing Regulation (EU) 2017/2114.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

The Bank's Liquidity Risk policies defines the following supervisory and control structure:

- Risk Committee's role is to approve all strategic liquidity risk management decisions and to monitor the quantitative and qualitative aspects of liquidity risk;

- Assets and Liabilities Committee has the mandate to form and implement the liquidity policies and guidelines in conformity with Bank's risk appetite, and to review at least monthly the overall liquidity position of the Bank;
- Treasury is responsible for the implementation of the Bank's liquidity strategy, taking into account the latest funding plan and for the daily management of the Bank's liquidity;
- Market Risk Department is responsible for measuring, controlling monitoring and reporting the liquidity risk of the Bank;
- Regulatory Reporting and Methodology Department is responsible for producing the regulatory liquidity reports.

ALCO is composed of the senior management of the Bank, meets at least once a month and duly reports any significant issues to the MB of the Bank.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy;
- Liquidity Ratios and liquidity buffers as defined by BNB, ECB and the EU regulations;
- Internal Liquidity ratios;
- Liquidity buffers;
- Sources and uses of liquidity and liquidity Projections;
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios and the respective impact on liquidity buffers.

On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

Maturity analysis of assets and assets held for managing liquidity risk.

Cash flows

The tables below presents the cash flows receivables and payable by the Bank under financial assets/liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2023 and 2022.

As at 31 December 2023							
	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Financial Assets							
Non-derivative assets	18,846,934	21,627,645	6,194,186	517,948	1,916,098	6,986,557	6,012,856
Cash and balances with Central Bank	2,365,538	2,365,538	2,365,538	-	-	-	-
Loans and advances to banks	783,234	783,334	783,334	-	-	-	-
Loans and advances to customers	12,540,242	14,812,188	2,869,672	407,514	1,626,007	5,076,624	4,832,371
Financial assets held for trading	37,272	38,608	1,641	18	110	36,839	-
Investment securities	3,028,859	3,536,188	82,212	110,416	289,981	1,873,094	1,180,485
Other financial assets	91,789	91,789	91,789	-	-	-	-
Derivative financial instruments	18,655	660,661	330,958	4,701	17,359	307,643	-
Inflow from net settled	-	91,785	7,145	4,701	17,359	62,580	-
Inflow from gross settled	-	568,876	323,813	-	-	245,063	-
Total assets (contractual maturity)	18,865,589	22,288,306	6,525,144	522,649	1,933,457	7,294,200	6,012,856

As at 31 December 2023 - Off Balance sheet items						
	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Credit commitments	(2,372,704)	(728,273)	(258,421)	(891,252)	(486,279)	(8,479)
Guarantees and other commitments	(345,118)	(38,869)	(42,258)	(119,202)	(130,222)	(14,567)
Total amount	(2,717,822)	(767,142)	(300,679)	(1,010,454)	(616,501)	(23,046)

As at 31 December 2022							
	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Financial Assets							
Non-derivative assets	15,913,343	17,769,790	4,975,605	987,209	1,316,362	5,829,176	4,661,438
Cash and balances with Central Bank	1,571,141	1,571,150	1,571,150	-	-	-	-
Loans and advances to banks	1,443,596	1,444,267	857,518	586,749	-	-	-
Loans and advances to customers	10,063,433	11,602,482	2,386,106	275,688	1,107,676	4,044,246	3,788,766
Financial assets held for trading	35,228	37,668	1,640	18	33	35,977	-
Investment securities	2,747,713	3,061,991	106,959	124,754	208,653	1,748,953	872,672
Other financial assets	52,232	52,232	52,232	-	-	-	-
Derivative financial instruments	52,615	1,470,247	1,331,991	3,790	18,978	97,864	17,624
Inflow from net settled	-	138,397	141	3,790	18,978	97,864	17,624
Inflow from gross settled	-	1,331,850	1,331,850	-	-	-	-
Total assets (contractual maturity)	15,965,958	19,240,037	6,307,596	990,999	1,335,235	5,927,170	4,679,037

As at 31 December 2022 - Off Balance sheet items						
	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Credit commitments	(1,847,543)	(320,783)	(210,333)	(862,186)	(442,082)	(12,159)
Guarantees and other commitments	(225,476)	(19,159)	(45,861)	(78,850)	(59,150)	(22,456)
Total amount	(2,073,019)	(339,942)	(256,194)	(941,036)	(501,232)	(34,615)

Off-balance sheet items

(a) Loan commitments

The amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are presented on-demand - to the earliest period in which the Bank can be required to pay.

(b) Financial guarantees and other financial facilities

Financial guarantees are presented on-demand, based on the earliest date on which the guarantee can be called.

Based on the experience of the Bank Cash flows from financial guarantees and loan commitments are presented by maturity.

The Bank's liquidity buffer represents a diversified portfolio of cash and highly liquid assets to support payment obligations and contingent deposit withdrawals in a normal and stressed market environment. The Bank's assets held for managing liquidity comprise:

- (a) Cash and balances with central banks;
- (b) Eligible bonds and other financial assets for collateral purposes; and
- (c) Current accounts with banks and interbank placings maturing within one month.

Based on past experience the Bank contractual maturities are not the expected maturities. Saving and sight deposits are expected to remain stable and no significant fluctuations from the normal course of business are expected.

Maturity analysis of liabilities

The amounts disclosed in the tables below are the contractual undiscounted cash flows for the years 2023 and 2022. Liabilities without contractual maturities (sight and saving deposits) are presented in the 'less than 1 month' time bucket. The Bank has established credit risk mitigation contracts with its interbank counterparties (ISDA/CSA). Due to these contracts the Bank has already posted collateral which covers the valuation of its net liabilities from interbank derivatives.

It should be noted that this table represents the worst case scenario since it is based on the assumption that all liabilities will be paid at maturity and they will not be rolled over (e.g. all term deposits are withdrawn at their contractual maturity). The recent experience shows that even in a period of a systemic financial crisis the likelihood of such an event is remote.

As at 31 December 2023							
	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Financial liabilities							
Non-derivative liabilities	17,119,355	(17,460,627)	(12,094,883)	(1,052,416)	(2,133,098)	(1,856,110)	(324,120)
Due to other banks	140,905	(141,025)	(141,025)	-	-	-	-
Due to customers	15,653,641	(15,689,903)	(11,755,826)	(1,032,938)	(2,065,007)	(836,132)	-
Other borrowed funds	1,036,249	(1,340,567)	-	(16,636)	(55,470)	(966,101)	(302,360)
Lease liabilities	92,034	(92,606)	(1,506)	(2,842)	(12,621)	(53,877)	(21,760)
Other financial liabilities	196,526	(196,526)	(196,526)	-	-	-	-
Derivative financial instruments	22,687	(653,165)	(328,984)	(4,701)	(16,363)	(303,117)	-
(Outflow) from net settled	-	(84,926)	(5,288)	(4,701)	(16,363)	(58,574)	-
(Outflow) from gross settled	-	(568,239)	(323,696)	-	-	(244,543)	-
Total liabilities (contractual maturity)	17,142,042	(18,247,740)	(12,557,815)	(1,057,117)	(2,149,461)	(2,159,227)	(324,120)

As at 31 December 2023 - Off Balance sheet items						
	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Credit commitments	(2,372,704)	(728,273)	(258,421)	(891,252)	(486,279)	(8,479)
Guarantees and other commitments	(345,117)	(38,869)	(42,258)	(119,202)	(130,222)	(14,567)
Total amount	(2,717,822)	(767,142)	(300,679)	(1,010,454)	(616,501)	(23,045)

As at 31 December 2022							
	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Financial liabilities							
Non-derivative liabilities	14,447,610	(14,661,483)	(11,097,707)	(880,273)	(1,703,468)	(648,352)	(331,683)
Due to other banks	23,904	(23,914)	(23,914)	-	-	-	-
Due to customers	13,682,032	(13,685,417)	(10,891,289)	(870,492)	(1,665,620)	(258,016)	-
Other borrowed funds	475,598	(685,689)	-	(7,342)	(27,617)	(345,447)	(305,283)
Lease liabilities	84,940	(85,327)	(1,368)	(2,439)	(10,231)	(44,889)	(26,400)
Other financial liabilities	181,136	(181,136)	(181,136)	-	-	-	-
Derivative financial instruments	36,873	(1,434,046)	(1,319,495)	(2,990)	(15,123)	(83,023)	(13,415)
(Outflow) from net settled	-	(114,822)	(271)	(2,990)	(15,123)	(83,023)	(13,415)
(Outflow) from gross settled	-	(1,319,224)	(1,319,224)	-	-	-	-
Total liabilities (contractual maturity)	14,484,483	(16,095,529)	(12,417,202)	(883,263)	(1,718,591)	(731,375)	(345,098)

As at 31 December 2022 - Off Balance sheet items						
	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Credit commitments	(1,847,543)	(320,783)	(210,333)	(862,186)	(442,082)	(12,159)
Guarantees and other commitments	(225,476)	(19,159)	(45,861)	(78,850)	(59,150)	(22,456)
Total amount	(2,073,019)	(339,942)	(256,194)	(941,036)	(501,232)	(34,615)

5.2.4. INTEREST RATE BENCHMARK REFORM – IBOR REFORM

In 2023, the Bank's IBOR transition program was focused on transitioning away from the 1M/3M/6M/12M USD Libor settings that ceased to be representative benchmarks after 30 June 2023. The Bank has endorsed CME Term SOFR (for the respective tenor) as a replacement rate. As the Bank's exposures referencing USD Libor were very limited in terms of number/size of the underlying transactions, the Bank adopted a strategy to re-negotiate to the alternative benchmark (CME Term SOFR) prior to USD Libor cessation date (30/06/2023). No material financial impact was realized following the implementation of the replacement strategy due to the limited nature of the portfolio based on USD Libor.

As of 31 December 2023, the Bank has no outstanding exposures referencing IBORs subject to termination or loss of representativeness.

5.3. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using valuation techniques that are appropriate in the circumstances, and maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

Fair values of financial assets and liabilities not measured at fair value

The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

At 31 December 2023					
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Financial assets					
Loans and advances to customers					
- Corporate	-	-	4,718,110	4,718,110	4,901,883
- SBB	-	-	936,862	936,862	969,341
- Consumer	-	-	3,132,671	3,132,671	3,059,332
- Mortgage	-	-	3,468,412	3,468,412	3,609,686
Inv. Securities AC	980,456	845,467	-	1,825,923	1,807,106
Total	980,456	845,467	12,256,055	14,081,978	14,347,348
Financial liabilities					
Other borrowed funds	-	1,036,249	-	1,036,249	1,036,249

At 31 December 2022					
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Financial assets					
Loans and advances to customers					
- Corporate	-	-	4,248,674	4,248,674	4,456,384
- SBB	-	-	817,324	817,324	847,752
- Consumer	-	-	1,848,229	1,848,229	1,768,798
- Mortgage	-	-	2,810,150	2,810,150	2,990,499
Inv. Securities AC	619,515	777,178		1,396,693	1,434,604
Total	619,515	777,178	9,724,377	11,121,070	11,498,037
Financial liabilities					
Other borrowed funds		475,598	-	475,598	475,598

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

a) Loans and advances to customers

For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using constructed risk-adjusted rates.

Loans are grouped into homogenous pools of assets based on shared credit risk characteristics, such as product type, borrower type, vintages and credit history. In estimating future cash flows, the Bank takes into account information for the contractual terms, remaining maturity and credit risk parameters of the exposures.

For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers) the carrying amounts represent reasonable approximations of fair values. Investment securities measured at amortized cost: the fair values are determined using prices quoted in an active market when these are available. In other cases, fair values are determined using quoted market prices for securities with similar credit risk, maturity and yield, quoted market prices in non-active markets for identical or similar financial instruments, or by using the discounted cash flows method. In addition, for certain high quality corporate bonds for which quoted prices are not available, fair value is determined using prices that are derived from reliable data management platforms while part of them is verified by market participants (e.g. brokers).

b) Debt issued and other borrowed funds

For borrowed funds, which are either short term or re-priced at frequent intervals, the carrying amounts represent reasonable approximations of fair values.

The fair values of fixed rate borrowed funds are determined by discounting the expected cash flows at a risk-adjusted rate, where the Bank's own credit risk is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Bank or other issuers.

Financial instruments measured at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as FVOCI securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted market prices when available. If quoted prices are not available, the fair values are estimated using appropriate valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2023 based on whether the inputs to the fair values are observable or unobservable, as follows:

Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments that the Bank can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. These include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds and unit-linked products that have regularly and frequently published quotes.

Level 2 – Financial instruments measured using valuation techniques with the following inputs: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) may also include other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments mainly include over-the-counter (OTC) derivatives and less-liquid debt instruments.

Level 3 – Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equity instruments and illiquid debt securities.

The fair value hierarchy categorisation of the Bank's financial assets and liabilities carried at fair value is presented in the following table:

31 December 2023				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Trading assets				
-Debt securities	35,646	-	-	35,646
-Equity securities	1,626	-	-	1,626
Derivative financial instruments	-	18,655	-	18,655
Investment securities				
- Investment securities at FVOCI	783,418	372,440		1,155,858
- Investment securities at FVTPL	-	51,862	14,033	65,895
Total financial assets	820,690	442,957	14,033	1,277,680
Financial liabilities measured at fair value:				
Derivative financial instruments	-	22,687	-	22,687
Total financial liabilities	-	22,687	-	22,687
31 December 2022				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Trading assets				
-Debt securities	33,604	-	-	33,604
-Equity securities	1,624	-	-	1,624
Derivative financial instruments	-	52,615	-	52,615
Investment securities				
- Investment securities at FVOCI	855,989	395,521	-	1,251,510
- Investment securities at FVTPL	179	48,065	13,355	61,599
Total financial assets	891,396	496,201	13,355	1,400,952
Financial liabilities measured at fair value:				
Derivative financial instruments	-	36,873	-	36,873
Total financial liabilities	-	36,873	-	36,873

Reconciliation of Level 3 fair value measurement	2023	2022
Balance at 1 January	13,355	17,573
Total gain/ (loss) for the period included in profit or loss	678	(4,218)
Balance at 31 December	14,033	13,355

The realized gain/ loss for Level 3 instruments is recognized in "Gain less losses from investment securities" line.

Unobservable inputs used in Level 3 fair value measurement

The table below provides details on significant unobservable inputs, where applicable, used in the valuation of Level 3 financial instruments as of 31 December 2023:

Type of financial instruments	Fair value at 31 December 2023	Fair value at 31 December 2022	Valuation technique	Unobservable input
Equities	9,137	9,174	Discounted cash flow	expected growth rate required rate of return
Unobservable input	Range of estimates (weighted average) for unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs	
	2023	2022		
expected growth rate	3.00-3.20% (3.15%)	3.80-4.10% (3.97%)	a significant increase in expected growth rate would result in higher fair value	
required rate of return	11.55-12.05% (11.81%)	13.20-13.70% (13.45%)	a significant increase in required rate of return on equity would result in lower fair value	

Unobservable inputs were used for equities of local financial institutions and are given as follows:

- The expected growth rate is derived from the expected GDP growth rate of the country;
- The required rate of return on equity is derived from the risk-free rate of return adjusted with risk premium.

The effect of unobservable inputs on Level 3 fair value measurement

While the Bank believes that its estimates are appropriate, employing different methodologies or assumptions could result in different fair value measurements. Using reasonably possible alternative assumptions would produce the following impact:

Type of financial instruments		Effect on Fair value	
		Favorable	Unfavorable
Equities	2023:	336	(420)
	2022:	388	(412)

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of equities of financial institutions have been calculated with reference to the upper and lower quartiles of Bank's range of estimates. Key assumptions used in the model at 31 December 2023 included a weighted average expected growth rate of 3.15% (with reasonably possible alternative assumptions of 3% and 3.20%) and required rate of return of 11.81% (with reasonably possible alternative assumptions of 11.55% and 12.05%).

The realized gain/ loss for Level 3 instruments is recognized in "Gain less losses from investment securities" line.

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and currency swaps and forwards, that use only observable market data and require little management estimation and judgment. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

The Bank follows fair valuation processes and procedures, which are established at Group level by Global Group Market and Counterparty Risk Unit. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk

adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

The fair values of unquoted equity instruments are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, (ii) net assets' valuations, adjusted where considered necessary.

6 Net interest income		
	2023	2022
Loans and advances to customers	617,521	390,888
Loans and advances to banks	30,679	20,210
Investment securities	76,852	26,914
Interest income calculated using the effective interest method	725,052	438,012
Derivative instruments	10,972	9,464
Trading securities	635	628
Interest income on lease receivables	2,144	1,221
Other Interest income	13,751	11,313
Total interest income	738,803	449,325

The unwinding of the discount of the ECL allowance (Note 18) amounting to BGN 4,047 thousand (2022: BGN 3,149 thousand) is included in interest income on impaired loans and advances to customers. Interest income includes BGN 13,149 thousand (2022: BGN 10,116 thousand) interest income, recognised on impaired loans to customers, out of which BGN 1,441 thousand (2022: BGN 970 thousand) remain due by the customer as of year-end.

Interest income includes BGN 40,029 thousand (2022: BGN 21,017 thousand) income from insurers related to insurance premiums paid by borrowers as an integral part of loan deal origination.

Interest expense and similar charges	2023	2022
Deposits from customers	39,931	6,157
Hedging instruments	2,666	3,439
Deposits from banks	12,261	3,972
Other borrowed funds	46,444	8,572
Operating lease	120	69
Derivative instruments	624	14
Total interest expense and similar charges	102,046	22,223
Total Net interest income	636,757	427,102

7 Net fee and commission income

Fees and commission income	2023	2022
Money transfers	50,271	44,281
Account maintenance	43,625	40,034
Receipts from sales of services	31,281	35,529
Foreign exchange operations	27,861	26,170
Cash operations	17,680	15,851
Loans' fees and commissions	16,720	13,572
Management, brokerage and securities trading	2,697	2,347
Other fees	1,232	1,080
Total fees and commission income from contracts with customers	191,367	178,864
Financial guarantee contracts and loan commitments	3,430	3,049
Total fees and commission income	194,797	181,913
Fee and commission expense	2023	2022
Loans related fees	9,741	9,121
Transactions processing	31,391	24,799
Cash transactions and correspondent accounts	1,774	1,299
Other fees	2,435	3,951
Management, brokerage and securities trading	855	706
Total fees and commission expense	46,196	39,876
Total Net fees and commission income	148,601	142,037

8 Other operating income, net

	2023	2022
Net gain arising from derecognition of financial assets	4,669	4,082
Net gain from non-current fixed assets	171	391
Rental income	129	118
Other (expenses)/ income (Operating Leases IFRS 16)	6	(21)
Net (loss) from Modification of non-forborne loans	(280)	(351)
Total	4,695	4,219

9 Net trading income		
	2023	2022
Net results from derivative instruments	1,642	(862)
of which:		
(Losses) on derivative fin. Instruments – Hedging (Note 25)	3,182	(2,231)
Gains on derivative fin. instruments - Non-Hedging	(1,540)	1,369
Net trading income	1,642	(862)

10 Other operating expenses		
	2023	2022
Staff costs (Note 11)	173,915	130,946
Depreciation of PPE and ROA (Note 21)	30,163	23,914
Software costs	25,818	14,407
Repairs and maintenance	18,015	17,054
External services	16,257	12,295
Transaction related costs	12,820	-
Advertising and marketing	11,920	8,968
Amortisation of intangible assets (Note 22)	10,511	11,270
Other operating costs	11,382	8,763
Security	9,265	8,069
Travel and accommodation	1,925	1,068
Materials	1,751	1,169
Operating lease rentals	1,343	1,043
Insurance	927	1,068
Communication	838	788
Total	326,850	240,822

The amounts accrued in 2023 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 434 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 84 thousand excluding VAT. In 2023 the Bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 257 thousand excluding VAT and by Baker Tilly Klitou – BGN 23 thousand excluding VAT.

The amounts accrued in 2022 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 370 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 41 thousand excluding VAT. In 2022 the Bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 219 thousand excluding VAT and by Baker Tilly Klitou – BGN 16 thousand excluding VAT.

11 Staff costs		
	2023	2022
Wages and salaries	136,399	108,482
Pension costs – defined contribution plans	14,916	11,875
Social security costs	8,642	6,956
Other	13,156	3,075
Pension costs / (income) – defined benefit plans (Note 30)	802	558
Total staff cost	173,915	130,946

12 Impairment charge for credit losses		
	2023	2022
Remeasurement of loss allowances	(106,968)	(77,654)
New financial assets originated or purchased	(23,509)	(16,296)
Total (Note 18)	(130,477)	(93,950)
Recoveries from write offs	27,600	22,072
Credit commitments release/(charge) of impairment	(59)	(640)
Other release/(impairments)	2,156	(3,467)
Impairment losses recognized in PnL	(100,780)	(75,985)

Other impairment losses include the ECL charge during 2023 and 2022 as per IFRS 9 regarding financial assets other than loans and advances to customers (securities, placements, etc.).

13 Income tax expense		
	2023	2022
Deferred tax (benefit) / expense (Note 28)	2,261	1,088
Current income tax	32,528	22,136
Total	34,789	23,224

Tax is payable at an actual rate of 10% (2022: 10%) on adjusted profits under Corporate Tax Act.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2023		2022	
	Tax rate	Amount	Tax rate	Amount
Profit before income tax		342,869		230,050
Tax calculated at the basic tax rate	10%	34,287	10%	23,005
Tax effect of:				
Non-tax deductible expenses	(0.5%)	(1,838)	(2.4%)	(5,558)
Non-taxable income	1.7%	5,782	(0.5%)	(1,063)
Loss / (gain) recognized in OCI	(1.0%)	(3,442)	3%	6,840
Income tax expense	10.15%	34,789	10.1%	23,224

Pillar Two income taxes

The Pillar Two legislation that introduces a minimum global tax rate at 15% on multinational entities with consolidated revenues over €750 million (top up tax) has been enacted in Bulgaria effective as of 1 January 2024. The current nominal corporate tax rate (CIT) in Bulgaria is 10% and the Pillar Two effective tax rate is 15%.

The Bank, as a subsidiary of a multinational entity with consolidated revenues over €750 million, falls under the scope of Pillar Two top up tax requirement. The Bank applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023 and endorsed by the EU in November 2023.

Since the legislation was not effective at 31.12.2023, the Bank has no related current tax exposure as of reporting date. If the top-up tax had been applied in 2023, then the estimated effective tax rate (ETR) during 2023 would be 10.15 percent and the top up tax rate would have been 4.85 percent.

Furthermore, the proportion of profit before tax and the effective tax rates in financial year beginning 1 January 2024 will depend on factors such as revenues/expenses of the Bank and the provisions of the Bulgarian Corporate Income Tax Code.

Additional information about deferred tax is presented in Note 28.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The management of the Bank is not aware of any circumstances, which can potentially raise material tax obligations.

The last full-scope tax audit of the Bank has been carried out in 2014, covering the periods 2008 – 31.03.2013 with respect to VAT and 2008 – 31.12.2012 with respect to CITA.

14 Income tax effects relating to comprehensive income

	Year ended 31 December 2023			Year ended 31 December 2022		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Investment Securities at FVOCI	34,418	(3,442)	30,976	(68,389)	6,839	(61,550)
Change in FV of property, plant and equipment	(667)	67	(600)	3,593	(359)	3,234
Remeasurements of retirement benefit obligation	1,240	(124)	1,116	558	(56)	502
Total	34,991	(3,499)	31,492	(64,238)	6,424	(57,814)

15 Cash and balances with the Central Bank

	2023	2022
Cash in hand	202,852	183,171
Balances with Central bank	2,162,686	1,387,970
Total	2,365,538	1,571,141
<i>of which:</i> Mandatory reserve with Central Bank in accordance with BNB Regulation 21	1,872,182	1,268,308

Mandatory reserves with Central bank represent the minimum level of deposits which the Bank is required to maintain with BNB. As at the end of December 2023 and 2022 the Bank has fulfilled the requirement for a minimum 100% coverage of mandatory reserves with balances with Central bank on a monthly basis. Balances with Central bank can be freely used daily provided the average monthly minimum deposits are maintained.

16 Loans and advances to banks

	2023	2022
Deposits in other banks	783,264	1,444,087
Less impairment loss allowance	(30)	(491)
Total	783,234	1,443,596

Included in the amount of loans and advances to banks is accrued interest of BGN 214 thousand (2022: BGN 120 thousand). The impairment provisions under IFRS9 as of end of December, 2023 amounted to BGN 30 thousand (2022: BGN 491 thousand).

Approximately 75 % (2022: 100 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

17 Trading assets		
	2023	2022
Bulgarian government bonds	35,646	33,604
of which pledged	5,323	14,537
Shares	1,626	1,624
Total	37,272	35,228
Equity securities:		
- Listed	1,626	1,624
Debt securities:		
- Listed	35,646	33,604
of which pledged	5,323	14,537
Included in the amount of the bonds is accrued interest in the amount of BGN 23 thousand (2022: BGN 23 thousand).		
Gains less (losses) from trading securities	2023	2022
Debt securities	1,095	(2,520)
Equity securities	(226)	430
Total	869	(2,090)

18 Loans and advances to customers		
	2023	2022
- Consumer lending (including credit cards)	3,245,705	1,869,385
- Small Business lending	1,019,686	907,957
- Mortgages	3,671,461	3,082,986
- Corporate lending	4,969,665	4,550,292
Gross loans and advances	12,906,517	10,410,620
Less allowance for impairment losses on loans and advances	(366,275)	(347,187)
Net outstanding balance of loans and advances to customers	12,540,242	10,063,433

Included in the amount of loans and advances to customers is accrued interest of BGN 44,937 thousand (2022: BGN 33,941 thousand).

As at 31 December 2023 loans and advances to customers include the acquired consumer lending loan portfolio of BNP Paribas Personal Finance amounting to BGN 879,467 thousand at the date of the acquisition (In 2022 the Bank acquired no portfolios).

	2023	2022
The ten largest exposures to customers	889,567	893,263
Percentage of gross loans	6.89%	8.58%

The following table presents the impairment allowance movement by product line:

31 December 2023																	
	Wholesale				Mortgage				Consumer				Small business				Total
	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	Total
Impairment allowance as at 1 January	17,427	9,577	58,954	7,950	2,765	9,511	76,081	4,130	23,289	26,692	50,598	8	10,339	8,434	40,828	604	347,187
New loans and advances originated or purchased	1,889	-	-	-	358	-	-	-	19,657	-	-	-	1,605	-	-	-	23,509
Transfers between stages:																	
-to 12-month ECL	4,184	(2,164)	(2,020)	-	5,079	(4,111)	(968)	-	5,054	(4,729)	(325)	-	3,827	(3,245)	(582)	-	-
-to lifetime ECL	(1,238)	1,316	(78)	-	(222)	2,120	(1,898)	-	(1,875)	3,064	(1,189)	-	(1,014)	1,758	(744)	-	-
-to lifetime ECL credit-impaired loans	(95)	(107)	202	-	(38)	(566)	604	-	(232)	(3,702)	3,934	-	(51)	(760)	811	-	-
Impact of ECL net remeasurement	(2,649)	2,491	22,227	-	(921)	1,064	2,222	-	(7,747)	15,288	58,325	-	2,571	5,597	8,500	-	106,968
Loans and advances derecognised/ reclassified as held for sale	-	-	(865)	-	-	-	(629)	-	-	-	(6,634)	-	-	-	(67)	-	(8,195)
Amounts written-off	-	-	(30,614)	-	-	-	(12,895)	-	-	-	(38,031)	-	-	-	(11,762)	-	(93,302)
Unwinding of discount	-	-	(1,815)	-	-	-	(37)	-	-	-	(2,182)	-	-	-	(13)	-	(4,047)
Foreign exchange differences and other movements	(2,873)	(2,724)	(8,426)	(2,767)	(4,654)	(2,527)	(10,754)	(1,939)	9,656	21,282	9,631	6,541	(5,036)	(2,194)	(8,507)	(554)	(5,845)
Impairment allowance as at 31 December	16,645	8,389	37,565	5,183	2,367	5,491	51,726	2,191	47,802	57,895	74,127	6,549	12,241	9,590	28,464	50	366,275

31 December 2022																	
	Wholesale				Mortgage				Consumer				Small business				Total
	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	12-month ECL	Lifetime ECL- Stage 2	Lifetime ECL credit-impaired- Stage 3	POCI	Total
Impairment allowance as at 1 January	5,672	1,857	51,354	8,351	2,379	9,088	72,815	2,953	19,241	17,519	40,981	121	7,833	7,571	49,946	1,057	298,738
New loans and advances originated or purchased	1,226	-	-	-	1,400	-	-	-	12,030	-	-	-	1,640	-	-	-	16,296
Transfers between stages:																	
-to 12-month ECL	1,009	(1,008)	(1)	-	3,380	(2,521)	(859)	-	4,079	(3,729)	(350)	-	3,705	(3,167)	(538)	-	-
-to lifetime ECL	(536)	536	-	-	(137)	2,616	(2,479)	-	(1,438)	2,787	(1,349)	-	(615)	1,783	(1,168)	-	-
-to lifetime ECL credit-impaired loans	(17)	(54)	71	-	(34)	(725)	759	-	(177)	(3,100)	3,277	-	(35)	(811)	846	-	-
Impact of ECL net remeasurement	3,054	6,787	26,342	179	791	(426)	10,368	1,337	(5,631)	3,030	26,491	7	1,348	(743)	5,058	(338)	77,654
Loans and advances derecognised/ reclassified as held for sale	-	-	-	-	-	-	(250)	-	-	-	-	-	-	-	-	-	(250)
Amounts written-off	-	-	(3,482)	-	-	-	(3,965)	-	-	-	(16,184)	-	-	-	(12,681)	-	(36,312)
Unwinding of discount	-	-	(1,538)	-	-	-	(159)	-	-	-	(1,430)	-	-	-	(22)	-	(3,149)
Foreign exchange differences and other movements	7,019	1,459	(13,792)	(580)	(5,014)	1,479	(149)	(160)	(4,815)	10,185	(838)	(120)	(3,537)	3,801	(613)	(115)	(5,790)
Impairment allowance as at 31 December	17,427	9,577	58,954	7,950	2,765	9,511	76,081	4,130	23,289	26,692	50,598	8	10,339	8,434	40,828	604	347,187

**Loan commitments, financial guarantees and other commitments
as of 31 December 2023 and as of 31 December 2022**

	12-month ECL-Stage 1	Lifetime ECL not credit- impaired- Stage 2	Lifetime ECL credit- impaired- Stage 3	Total
Impairment allowance as at 1 January 2023	416	458	95	969
New financial assets originated or purchased	793	-	-	793
Amounts charged during the year	(237)	(17)	(85)	(339)
Foreign exchange and other movements	17	(404)	(9)	(396)
Impairment allowance as at 31 December 2023	989	37	1	1,027
Impairment allowance as at 1 January 2022	203	5	120	328
New financial assets originated or purchased	134	-	-	134
Amounts charged during the year	269	396	(25)	640
Foreign exchange and other movements	(190)	57	-	(133)
Impairment allowance as at 31 December 2022	416	458	95	969

	2023	2022
Impairment allowance as at 1 January	347,187	298,738
Amounts written off	(93,302)	(36,312)
Movement recognized in profit or loss (Note 12)	130,477	93,950
Unwinding of Discount	(4,047)	(3,149)
Loans and advances derecognized during the year	(8,195)	(250)
Other movements (Collection costs, FX, Modification loss)	(5,845)	(5,790)
Impairment allowance as at 31 December	366,275	347,187

19 Investment securities		
a) Investment securities breakdown	2023	2022
Investment securities at FVTPL	26,614	23,935
Investment securities measured at amortised cost	1,810,028	1,436,645
<i>of which pledged</i>	58,661	72,212
ECL on investment securities measured at amortised cost	(2,922)	(2,041)
Investment securities at FVOCI - debt instruments	1,155,858	1,251,510
<i>of which pledged</i>	286,321	521,774
Investment in Mutual funds at FVTPL	39,281	37,664
Total	3,028,859	2,747,713
Equity securities	-	179
- Listed	65,895	61,421
- Unlisted		
Debt securities	2,389,938	1,513,537
- Listed	573,026	1,172,576
- Unlisted		
Total	3,028,859	2,747,713

b) Investment securities at FVOCI

The movement of investment securities at FVOCI is presented in the table below:

Fair value as at 31 December 2023	1,155,858
Additions	123,022
Disposals	(89,251)
Change in accrued interest	68
Amortization of discounts or premium	(28,149)
Net fair value gain	67,110
Foreign Exchange differences from translation into entity currency	(8,074)
Redemption	(160,378)
Fair value as at 31 December 2022	1,251,510
Additions	734,000
Disposals	(364,718)
Change in accrued interest	1,731
Amortisation of discounts and premium	(23,990)
Net fair value loss	(98,087)
Foreign exchange differences from translation into entity currency	24,387
Redemptions	(633,539)
Fair value as at 31 December 2021	1,611,726

Gains less (losses) and impairment of investment securities	2023	2022
Transfer the fair value reserve from equity to income statement	(421)	(220)
(Losses) OCI Bonds (Securities)	30	223
Gain recognized on investment securities	3,399	(1,461)
Gains/ (Losses) on investment in Mutual funds at FVTPL	1,616	(1,461)
Total	4,624	(2,919)
c) Investment securities measured at amortized cost	2023	2022
Bonds issued by banks	792,161	645,892
ECL on Bonds issued by banks	(2,181)	(1,538)
Government bonds	526,710	195,539
ECL	(694)	(460)
Other financial corporations bonds	491,157	595,214
ECL on Other financial corporations bonds	(47)	(43)
Total	1,807,106	1,434,604

The following table presents the movement of loss allowance on Investment Securities:

	Investment securities measured at amortised cost 12-month ECL	Investment securities measured at FVOCI 12-month ECL
Balance at 1 January 2022	1,287	1,464
New financial assets originated or purchased	1,289	717
Changes due to change in ECL risk parameters,incl. FX effect	(504)	2,109
Financial assets disposed during the period	(31)	(449)
Balance at 31 December 2022	2,041	3,841
New financial assets originated or purchased	1,319	337
Changes due to change in ECL risk parameters (other than transfers)	(396)	(2,302)
Financial assets disposed during the period	(43)	(616)
Balance at 31 December 2023	2,921	1,260

20 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank.

Fair value of investment properties

The fair value of the investment property is updated in order to reflect the market conditions at the end of the reporting period by using the valuation reports of licensed appraiser company. The fair value of the investment property is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences.

For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period. It is management's assessment that there is sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

Investment property	2023	2022
Beginning of the year	488	797
Impairment	(75)	(417)
Modification	28	108
Closing balance 31 December	441	488

As at 31 December 2023 the amount of Right of use of Investment Property included in the above table is BGN 0 thousand (2022: BGN 48 thousand).

Quantitative information about fair value measurements using significant unobservable inputs (Level 3).

Class property	Fair value 31/12/2023 (BGN)	Valuation technique	Significant Unobservable Input	Range (weighted average) 2023 (BGN)	Range (weighted average) 2022 (BGN)	Connection between the unobservable input and FV
Land	441	Market comparison approach	price per m ²	13.02	13.01	A significant increase in price per m2 would result in a higher fair value

21 Property, plant and equipment						
	Land and buildings	Leasehold improvements	Plant and equipment	Land and buildings – Right of use assets	Motor Vehicles – Right of use assets	Total property, plant and equipment
<i>At 31 December 2021</i>						
Gross amount	104,222	34,928	88,616	106,941	2,210	336,917
Accumulated depreciation	(760)	(20,955)	(47,913)	(30,594)	(1,440)	(101,662)
Net book amount	103,462	13,973	40,703	76,347	770	235,255
<i>Year ended 31 December 2022</i>						
Opening net book amount	103,462	13,973	40,703	76,347	770	235,255
Additions	7,144	17,479	18,860	8,629	2,474	54,586
Revaluations, impairment and write offs	3,372	(56)	(37)	-	-	3,279
Terminations/Modifications	-	-	-	6,999	(700)	6,299
Movement in accumulated depreciation						
Depreciation charge (Note 10)	(2,515)	(2,253)	(6,370)	(12,078)	(698)	(23,914)
Termination/Modifications	-	-	-	1,999	680	2,679
Closing net book amount	111,463	29,143	53,156	81,896	2,526	278,184
<i>At 31 December 2022</i>						
Gross amount	111,984	51,852	100,739	122,569	3,984	391,128
Accumulated depreciation	(521)	(22,709)	(47,583)	(40,673)	(1,458)	(112,944)
Net book amount	111,463	29,143	53,156	81,896	2,526	278,184
<i>Year ended 31 December 2023</i>						
Opening net book amount	111,463	29,143	53,156	81,896	2,526	278,184
Additions	11,091	11,145	19,151	3,768	1,727	46,882
Arising from acquisition	-	32	1,840	4,566	-	6,438
Revaluation, impairment and write offs	(3,559)	48	(1,292)	-	-	(4,803)
Transfers	(82)	85	(3)	-	-	-
Termination / Modifications	-	-	-	9,208	(711)	8,497
Movement in accumulated depreciation						
Depreciation charge (Note 10)	(2,875)	(2,543)	(8,553)	(15,280)	(912)	(30,163)
Termination / Modifications	-	-	-	4,164	752	4,916
Closing net book amount	116,038	37,910	64,299	88,322	3,382	309,951
<i>At 31 December 2023</i>						
Gross amount	118,577	61,654	117,357	140,113	5,000	442,701
Accumulated depreciation	(2,539)	(23,744)	(53,058)	(51,791)	(1,618)	(132,750)
Net book amount	116,038	37,910	64,299	88,322	3,382	309,951

The table below shows what the value of Land and buildings would be if they were valued at cost less depreciation obtained after adjusting the revalued amount:

	2023	2022
Land and buildings at revalued amount	116,038	111,463
Revaluation reserve, net of tax	(8,770)	(9,371)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	629	630
Deferred tax on revaluation	(974)	(1,041)
Land and buildings at cost less accumulated depreciation	106,923	101,681

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

Class property	Fair value 31/12/2023 in BGN thousands	Valuation technique	Significant unobservable input	Range (BGN) (weighted average) 2023 in BGN	Range (BGN) (weighted average) 2022 in BGN
Land	15,070	Market comparison approach	price per m ²	11.87 - 775.63 (451.92)	11.25 - 778.17 (451.68)
Office	91,681	Income approach	rent per m ²	4.95 - 31.10 (19.61)	5.53 - 32.52 (18.81)
Office	9,051	Market comparison approach	price per m ²	58.53 - 3818.80 (1036.01)	60.59 - 3700.43 (1276.71)
Office	236	cost approach	price per m ²	29.53	34.9
Total	116,038				

Land and buildings in their entirety are classified as Level 3 assets in the fair value hierarchy, thus the Level 3 movement reconciliation for the year can be found in the above tables.

22 Intangible assets					
	Software	Licenses	Internally developed	Goodwill	Total intangible assets
At 31 December 2021					
Gross book amount	97,653	34,923	8,760	-	141,336
Accumulated amortisation	(39,590)	(18,571)	(3,505)	-	(61,666)
Net book amount	58,063	16,352	5,255	-	79,670
Year ended 31 December 2022					
Opening net book amount	58,063	16,352	5,255	-	79,670
Additions	9,167	5,155	1,291	-	15,613
Revaluation and write offs	(18)	(3,422)	(1)	-	(3,441)
Amortisation charge (Note 10)	(8,523)	(2,216)	(531)	-	(11,270)
Closing net book amount	58,689	15,869	6,014	-	80,572
At 31 December 2022					
Gross book amount	98,651	33,361	9,223	-	141,235
Accumulated amortisation	(39,962)	(17,492)	(3,209)	-	(60,663)
Net book amount	58,689	15,869	6,014	-	80,572
Year ended 31 December 2023					
Opening net book amount	58,689	15,869	6,014	-	80,572
Arising from acquisition	1,506	-	-	82,126	83,632
Additions	12,042	2,034	1,256	-	15,332
Revaluation, impairment and write offs	(4,376)	-	(8)	-	(4,384)
Transfers	167	(167)	-	-	-
Amortisation charge (Note 10)	(8,156)	(1,824)	(531)	-	(10,511)
Closing net book amount	59,872	15,912	6,731	82,126	164,641
At 31 December 2023					
Gross book amount	105,906	26,640	9,438	82,126	224,110
Accumulated amortisation	(46,034)	(10,728)	(2,707)	-	(59,469)
Net book amount	59,872	15,912	6,731	82,126	164,641

23 Other assets		
	2023	2022
Amounts in transit	66,614	47,001
Prepaid expenses	28,324	20,057
Other debtors	27,648	7,319
Reposessed collaterals	14,323	12,911
Other assets	1,297	1,741
Materials	815	752
Less: impairment on other financial assets	(3,770)	(3,829)
Total	135,251	85,952

The financial assets contained in the Other assets note amounted to BGN 91,789 thousand (for the year ended 31 December 2022: BGN 52,232 thousand). The impairment on financial assets amounted to BGN 3,770 thousand (for the year ended 31 December 2022: BGN 3,829 thousand). BGN 43,462 thousand (for the year ended 31 December 2022: 33,720 thousand) of the non-financial assets are expected to be realized within 12 months.

Impairment on other financial assets movement	2023	2022
Opening balance at 1st of January	3,829	1,710
Charged to the income statement	379	638
Reversed to the income statement	(1)	(3)
(Used)/ charged during year	(437)	1,484
Closing balance 31 December	3,770	3,829

24 Deposits from banks		
	2023	2022
Current accounts from other banks	6,881	3,996
Deposits from other banks	134,024	19,908
Total	140,905	23,904

25 Derivative financial instruments

The Bank enters into the following derivative contracts for either hedging or non-hedging (business) purposes: currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps, forward rate agreements, currency options and interest rate options.

Currency forward contracts are obligations to trade one currency for another at a specified exchange rate on a specific future delivery date. Being OTC contracts, currency forwards can be designed to exactly fit the clients' requirements as to the principal amount in the trade, its exact delivery date and which currencies are involved.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies and interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk is represented by the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Since currency swaps may call for a final exchange of principal (increased importance of the diffusion effect), the potential credit exposure profile tends to be upward sloping. This risk is monitored on an on-going and forward looking basis with reference to the current fair value, a proportion of the notional amount of the contracts and the potential future exposure. To control the level of credit risk taken, the Bank assesses counterparties using the similar techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

Options are financial instruments that give one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time (also referred to as contingent claims). Options do not generally have periodic payments but are characterized by an up-front payment of the option premium and a final option payoff payment. The amortization effect is limited and is outweighed by the diffusion effect – a longer time period translates into a greater scope for movements in the underlying variable, which can generate a large exposure on the option payoff.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below:

	Fair values		
	Contract / notional amount	Assets	Liabilities
<i>Year ended 31 December 2023</i>			
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
FX forwards	-	-	-
OTC currency swaps	544,038	175	523
Total OTC currency derivatives for trading	544,038	175	523
Interest rate derivatives			
OTC interest rate swaps	707,065	18,163	21,847
OTC IR options bought and sold	46,491	317	317
Total OTC interest rate derivatives for trading	753,556	18,480	22,164
Derivatives designated as fair value hedges			
OTC interest rate swaps	-	-	-
Total OTC interest rate derivatives for hedging	-	-	-
Total recognised derivative assets / liabilities	-	18,655	22,687
<i>Year ended 31 December 2022</i>			
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	3,827	123	117
Total OTC currency derivatives for trading	1,268,380	76	12,654
Interest rate derivatives			
OTC interest rate swaps	1,272,207	199	12,771
OTC IR options bought and sold	523,944	22,543	23,295
Total OTC interest rate derivatives for trading	54,361	807	807
Derivatives designated as fair value hedges			
OTC interest rate swaps	335,969	29,066	-
Total OTC interest rate derivatives for hedging	335,969	29,066	-
Total recognised derivative assets / liabilities		52,615	36,873

The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities held, denominated both in local and in foreign currencies, using interest rate swaps.

For additional details for Fair value hedges refer to Note 2.2.3 Derivative financial instruments.

31 December 2023

Interest rate risk	Nominal amount	Carrying amount		Line item in Statement of Financial position where the hedging instrument is included	Accumulated amount of Fair value hedge adjustment	Change in Fair value	Ineffectiveness recognized in profit and loss
		Assets	Liabilities				
Interest rate swaps - hedge of debt securities	-	-	-	Derivative liability	-	(318)	-
Debt securities hedged	-	-	-	Investment securities at FVOCI - debt instruments	42,826	3,500	3,182

The carrying amount of the instruments presented in the above table as of 31 December is nil as all hedging relationships have been terminated at year end.

31 December 2022

Interest rate risk	Nominal amount	Carrying amount		Line item in Statement of Financial position where the hedging instrument is included	Accumulated amount of Fair value hedge adjustment	Change in Fair value	Ineffectiveness recognized in profit and loss
		Assets	Liabilities				
Interest rate swaps - hedge of debt securities	335,969	29,066	-	Derivative liability	-	51,855	-
Debt securities hedged	335,969	299,424	-	Investment securities at FVOCI - debt instruments	25,232	(54,086)	(2,231)

At 31 December 2023 and 2022, the timing of the nominal amount of the financial instruments designated by the Bank in Fair value hedge relationships is presented in the table below:

Fair Value Hedges						
Year ended 31 December 2023						
Nominal Amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate swaps	-	-	-	-	-	-
Total	-	-	-	-	-	-

Fair Value Hedges						
Year ended 31 December 2022						
Nominal Amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate swaps	-	-	-	106,349	229,620	335,969
Total	-	-	-	106,349	229,620	335,969

26 Due to customers		
	2023	2022
Large corporate customers	3,567,444	3,053,112
Medium corporate customers	880,301	754,426
Total due to corporate customers	4,447,745	3,807,538
Retail customers	11,205,896	9,874,494
Total due to customers	15,653,641	13,682,032

Included within due to customers is related accrued interest payable of BGN 38,378 thousand (2022: BGN 5,696 thousand).

As at 31 December 2023 due to customers include the acquired deposit portfolio of BNP Paribas Personal Finance amounting to BGN 201,015 thousand at the date of the acquisition. The acquired portfolio is presented in Retail customers.

27 Other borrowed funds		
	2023	2022
MREL Debt Eurobank S.A.	810,688	461,414
Subordinated Debt Eurobank S.A.	217,036	-
Long term debt from Bulgarian Development Bank	8,525	14,184
Total	1,036,249	475,598

	2023	2022
Opening balance at 1 January	475,598	166,578
New funding	557,412	312,933
Repayment of long-term debt (principal)	(5,654)	(5,654)
Interest expense	46,445	8,571
Interest paid	(37,552)	(6,830)
Balance at 31 December	1,036,249	475,598

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented in the table below:

a) Loans received from the Bulgarian Development Bank

In July 2015, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank (NAPRED) for on-lending to MSMEs combining funding and risk-sharing. The total size of the facility is BGN 30,000 thousand, disbursable in 3 tranches of BGN 10,000 thousand each in accordance with the contracted disbursement plan. As of 31 December 2023 the total liability amounted to BGN 5,322 thousand (2022: BGN 8,854 thousand).

With the acquisition of Piraeus Bank Bulgaria AD, Eurobank Bulgaria AD has inherited a loan agreement from Bulgarian Development Bank under NAPRED framework. The loan agreement is under similar terms to the one originated by Postbank in 2015—supporting MSMEs and combining funding and risk sharing. As of 31 December 2023, the total liability amounted to BGN 3,203 thousand (2022: BGN 5,330 thousand).

b) Financing under the Guarantee Agreement between Eurobank Bulgaria and International Finance Corporation (IFC), member of the World Bank Group

In February 2012, Eurobank Bulgaria and the International Finance Corporation (IFC), member of the World Bank Group, signed a Trade Finance Agreement for facilitation of trade transactions of local enterprises (short-term funding of pre-export/import transactions, issuance of bank guarantees and letters of credit). The total limit of the line was initially set at USD 20,000 thousand. In December 2013 the Limit was increased up to USD 40,000 thousand. As of 31 December 2023 and 2022 the utilization of that line is BGN 0.

c) Loan from Eurobank S.A. (MREL Debt)

In December 2021, Eurobank Bulgaria AD received an intra-group loan from Eurobank S.A. for the amount of EUR 75,000 thousand (BGN 146,687 thousand). The purpose of the loan is to cover the regulatory requirements for minimum required own funds and eligible liabilities in accordance with Regulation (EU) No 806/2014. In December 2023, the loan was extended and as of 31 December 2023, the outstanding balance of the loan is BGN 146,797 thousand (2022: BGN 146,856 thousand).

In June 2022, Eurobank Bulgaria AD received a new intra-group loan from Eurobank S.A. for the amount of EUR 50,000 thousand (BGN 97,792 thousand). The purpose of the loan is to cover the MREL regulatory requirements in accordance with Regulation (EU) No 806/2014. As of 31 December 2023, the outstanding balance of the loan is BGN 97,869 thousand (2022: BGN 97,869).

In December 2022, Eurobank Bulgaria AD received a new intra-group loan from Eurobank S.A. for the amount of EUR 110,000 thousand (BGN 215,141 thousand). The purpose of the loan is to cover the MREL regulatory requirements in accordance with Regulation (EU) No 806/2014. The Bank has applied for regulatory approval the loan to be included in Tier 2 capital as subordinated loan. As of 31 December 2023, the outstanding balance of the loan is BGN 217,036 thousand (2022: BGN 216,689 thousand).

Under the Directive 2014/59 (Bank Recovery and Resolution Directive or BRRD), as amended by Directive 2019/879 (BRRD II), which was transposed into the Bulgarian legislation pursuant to Recovery and Resolution of Credit Institutions and Investment Firms Act, European banks are required to meet the minimum requirement for own funds and eligible liabilities (MREL). As per the legislation, the MREL target is determined by the relevant resolution authority that banks must comply with from 1 January 2024, where interim binding targets effective as of 1 January 2022.

In March 2023, Eurobank Bulgaria AD received a new intra-group loan from Eurobank S.A. for the amount of EUR 50,000 thousand (BGN 97,792 thousand). The purpose of the loan is to cover the MREL regulatory requirements in accordance with Regulation (EU) No 806/2014. As of 31 December 2023, the outstanding balance of the loan is BGN 97,842 thousand.

In June 2023, Eurobank Bulgaria AD received a new intra-group loan from Eurobank S.A. for the amount of EUR 135,000 thousand (BGN 264,037 thousand). The purpose of the loan is to cover the MREL regulatory requirements in accordance with Regulation (EU) No 806/2014. As of 31 December 2023, the outstanding balance of the loan is BGN 272,218 thousand.

In December 2023, Eurobank Bulgaria AD received a new intra-group loan from Eurobank S.A. for the amount of EUR 100,000 thousand (BGN 195,583 thousand). The purpose of the loan is to cover the MREL regulatory requirements in accordance with Regulation (EU) No 806/2014. As of 31 December 2023, the outstanding balance of the loan is BGN 195,962 thousand.

28 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 10% (2022: 10%). The movement on the deferred tax account is as follows:

	2023	2022
Deferred tax asset at the beginning of year	(7,053)	(8,556)
Deferred tax liability, net, recognized in OCI	58	415
Deferred tax expense/ (benefit) (Note 13)	2,261	1,088
Net deferred tax (asset) / liability at end of year	(4,734)	(7,053)

Deferred tax assets and liabilities are attributable to the following items:

	2023	2022
Deferred tax liabilities		
Accelerated tax depreciation	7,899	6,035
Property revaluation	975	1,041
Gain on share exchange	519	519
Deferred tax liability on bargain gain (FV of loans, shares)	311	311
IFRS 16 contracts	6,010	4,369
Total	15,714	12,275
Deferred tax assets		
Unused holidays	179	122
Provision for legal proceedings	1,399	1,193
Provision for retirement benefit obligations	952	887
Deferred tax assets on actuarial loss	(672)	(548)
Deferred tax assets on provisions for restructuring	2,823	629
Deferred tax assets on bargain gain (FV of loans, shares)	7,274	10,402
Deferred tax asset on investment property IFRS 16	-	521
Other temporary differences	2,950	2,215
IFRS 16 contracts	5,543	3,907
Total	20,448	19,328

The deferred tax charge/ (credit) in the income statement comprises of the following temporary difference:

	2023	2022
Depreciation	1,865	1,170
Unused holidays	(57)	(2)
Provision for legal proceedings and off balances	(206)	(80)
Other temporary differences	(735)	(840)
Provisions for restructuring and other liabilities	(2,195)	(350)
Provision for retirement benefit obligations	(66)	(32)
DTA PBB transaction	3,129	1,122
DTA investment property IFRS 16	521	(45)
DTL IFRS 16 contracts	1,641	1,433
DTA IFRS 16 contracts	(1,636)	(1,288)
Net deferred tax expense/ (benefit) (Note 13)	2,261	1,088

29 Provisions for other liabilities and charges

a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be precisely estimated. Based on management's estimation it is expected that in two years' time the outflow may be realized. Further details are presented in Note 35a.

The table below represents the movement in provisions for legal claims:

Legal provisions	2023	2022
Opening balance at 1st of January	11,933	11,113
Arising from acquisition	107	-
Charged to the income statement	4,250	4,815
Used during year	(1,809)	(1,889)
Reversed during the year	(446)	(2,121)
FX Revaluation	30	15
Closing balance	14,065	11,933

b) Provisions for restructuring

In 2023 the Bank recognized provisions for restructuring in accordance with IAS 37, following the approval of a formal restructuring plan in view of the acquisition of BNP Personal Finance. The plan

envisaged branch locations and staff optimization and is expected to take place in three-year horizon, following the merger.

The table below presents movement in provision for restructuring:

Provisions for restructuring	2023	2022
Opening balance at 1st of January	304	304
Charged to the income statement	20,735	-
Used during year	(2,686)	-
Closing balance	18,353	304

c) Assets pledged

Assets are pledged as collateral for government budget accounts and under long term debt agreement signed with Bulgarian Development Bank and under Securities lending agreement with Deutsche Bank. Mandatory reserves calculated as a percentage of the deposit base are held with the Central Bank in accordance with statutory requirements for securing liquidity:

	Asset		Related liability	
	2023	2022	2023	2022
Cash with Central bank (held as mandatory reserve)	1,872,182	1,268,308	16,593,431	14,188,272
Trading and investment securities (pledged under government accounts)	207,745	219,010	146,696	72,359
Investment securities (pledged under Securities lending agreement)	-	389,512	-	-
Investment securities (pledged under Repo agreement)	142,560	-	134,024	-
Loans pledged under long term debt agreement	6,203	9,098	8,525	14,184
Total	2,228,690	1,885,928	16,882,676	14,274,815

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2023 was BGN 2,228,690 thousand (2022: BGN 1,885,928 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary. The amount of BGN 299 thousand (2022: BGN 299 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 32,856 thousand (2022: BGN 15,764 thousand).

The Bank has determined that it retains substantially all the risks and rewards of the pledged loans and trading and investment securities, therefore the specific assets have not been derecognized. The related liability is recognised in Due to customers (note 26) and Other borrowed funds (note 27), as appropriate.

30 Retirement benefits obligations

IAS 19 establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Defined benefit plans involve incorporating actuarial assumptions into measurement of the obligation and the expenses. Therefore, actuarial gain and losses arise. Obligations are measured on a discounted basis, as they might be settled many years after the employees render the related services.

According to the revised IAS 19, the liability for employee benefits recognized on the balance sheet at the end of the fiscal year is equal to the balance sheet obligation at the beginning of the year after the effect of:

- service cost
- interest cost
- employers' contributions
- paid benefits
- gains or losses from curtailment and settlements
- gains or losses in actuarial liability or in the assets of the plan.

Retirement benefit obligation	2023	2022
Retirement benefit obligation at 01 January	3,389	3,629
Arising from acquisition	1,225	-
Service cost	679	536
Interest cost	123	22
Benefits paid	(150)	(238)
Remeasurement	(1,240)	(560)
Retirement benefit obligation at 31 December	4,026	3,389
Expenses recognised in profit or loss		
Service cost	679	536
Interest cost	123	22
Total (income) / expense included in staff costs (Note 11)	802	558
Total remeasurement recognised in OCI	(1,240)	(560)
Significant actuarial assumptions	2023	2022
Discount rate	3.65%	3.23%
Future salary increase:		
2024:	4.00%	3.00%
2025:	4.00%	3.00%
2026:	3.00%	-

IAS19 requires the use of a discount rate determined by reference to the yield at the measurement date on high quality corporate debt, or Government bonds if there is no deep market in such debt. The discount rate should reflect the rate at which the liabilities could effectively be settled. The discount rate was set by reference to the yield on long-term fixed interest bonds issued by the Bulgarian Government.

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2023 is as follows:

An increase/a decrease of the discount rate assumed by 0.5% would result in a decrease/an increase of the standard legal staff retirement obligations by 3.9% or BGN 157 thousand/by 4.2% or BGN 169 thousand.

An increase/a decrease of the future salary increases assumed, by 0.5%, would result in an increase/a decrease of the standard legal staff retirement obligations by 4.2% or BGN 169 thousand/ by 4.0% or BGN 161 thousand.

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and assumptions used in preparing the above sensitivity analysis were consistent with those used to estimate the retirement benefit obligation and did not change compared to the previous period.

31 Other liabilities		
	2023	2022
Lease liabilities	92,034	84,940
Other creditors	68,165	66,022
Accrued expenses	46,817	33,115
Withholding tax obligations	7,312	8,439
Unused paid leave accrual	1,786	1,215
Other	1,227	1,351
Deferred income	334	334
Total	217,675	195,416

As at 31 December 2023 the financial liabilities contained in the Other liabilities note amounted to BGN 196,526 thousand (2022: BGN 181,136 thousand).

32 Capital and reserves

a) Share capital

As at 31 December 2023 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share (31 December 2022: 560,323,302 shares with a nominal value of BGN 1 per share). Eurobank S.A. owns directly 99.99% and 0.01% is owned by minority shareholders (31 December 2022: 56.14% owned directly by Eurobank S.A., 43.85% owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders).

b) Nature and purpose of reserves

I) Statutory reserve

According to Article 246 of the Bulgarian Commerce Act, the Bank shall set aside at least one tenth of its profit in a Statutory reserve fund, until it reaches one tenth of the Bank's equity. Disbursement from the reserve fund may be made only to cover losses from the current or previous years. As per Banking legislation, funds accumulated in the Statutory Reserve account cannot be distributed as dividends without the consent of the Local Bank Regulator.

II) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. The amount is increased by the amount of loss allowance (see note 2.2.10).

III) Property revaluation reserve

The Property revaluation reserve comprises the fair value change of land and building as far as the Bank applies the IAS 16 revaluation model, which presumes that the asset is carried at its revalued amount, being its fair value at the date of revaluation, subsequent depreciation and impairment, provided that fair value can be determined reliably (see Note 2.2.7).

c) Dividends

In 2023 and 2022 the Bank did not pay dividend on ordinary shares.

33 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of origination:

	2023	2022
Cash in hand (Note 15)	202,852	183,171
Balances with Central bank excluding the minimum level of mandatory reserves	1,226,628	753,852
Loans and advances to banks	750,405	1,444,087
Total amount of cash and cash equivalents	2,179,885	2,381,110
Less impairment allowance	(62)	(528)
Net amount of cash and cash equivalents	2,179,823	2,380,582

50% of the minimum level of mandatory reserves held in BNB are considered cash equivalent, as the Bank is allowed to use them at any time and free of interest.

34 Related party transactions

Eurobank Ergasias Services and Holdings S.A. (Eurobank Holdings) is the parent company of Eurobank S.A.

The Board of Directors (BoD) of Eurobank Holdings is the same as the BoD of Eurobank S.A. and part of the Key Management personnel (KMP) of Eurobank S.A. provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities.

Fairfax Group, which holds 32.93% of Eurobank Holdings' share capital as of 31 December 2023 (31 December 2022: 32.99%), is considered to have significant influence over the Company.

The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

	31 December 2023			31 December 2022		
	Parent company	Other Group companies*	Key management personnel	Parent company	Other Group companies*	Key management personnel
Loans and advances to banks (weighted interest rate 2023: 3.91%, 2022: 1.87%)	126,514	-	-	1,280,498	-	-
Loans and advances to customers (weighted interest rate 2023: 0.97%, 2022: 0.45%)	-	-	905	-	-	985
Debt securities lending	361,212	-	-	201,889	-	-
Derivative financial instruments assets	5,537	-	-	29,949	-	-
Other assets	-	-	-	-	74	2
Shares in subsidiaries	-	1,000	-	-	-	-
Due to other banks	1,163,652	408	-	462,020	336	-
Due to customers (weighted interest rate 2023: 0.68%, 2022: 0.002%)	-	1,000	2,081	-	4,370	2,181
Derivatives Liabilities	15,283	-	-	36,066	-	-
Other liabilities	-	-	-	-	59	-
Interest income	30,907	-	9	29,435	940	-
Interest expense	(49,065)	-	(14)	(11,696)	-	-
Fee and commission income	3,450	717	-	2,522	810	-
Fee and commission expense	(142)	(7)	-	(131)	(4)	-
Net trading (expense)/ income	14,204	-	-	36,110	-	-
Salaries and other short-term benefits	-	-	3,513	-	-	3,238
Rental income	-	-	-	-	5	-
Other expenses	(59)	(890)	-	-	(565)	-

*represent other entities under common control

All loans lent to related parties as at 31 December 2023 and as at 31 December 2022 are categorized as non impaired (Stage 1) according to the Bank's provision policy.

The ultimate controlling party of the Bank is Eurobank S.A.

Key management personnel include the members of the Management and Supervisory Boards.

A list of the related parties of the Bank during 2023 is presented in the table below:

Related party (company name)	Country	Related company category
Eurobank S.A.	Greece	Parent company
Be-Business Exchanges S.A.	Greece	Other company within the Group
Eurobank Direktna A.D.(former Eurobank A.D. Beograd)	Serbia	The entity was sold to third party on 02/11/2023
Eurobank Fund Management Company (Luxembourg) S.A.	Luxembourg	Other company within the Group
Eurobank Holdings S.A.	Greece	Other company within the Group
Eurobank Factors Single Member S.A.	Greece	Other company within the Group
IMO Property Investments Sofia E.A.D.	Bulgaria	The entity was sold to third party on 31/05/2023
IMO 03 E.A.D.	Bulgaria	The entity was sold to third party in 02/2022
Eurobank Private Bank Luxembourg S.A.	Luxembourg	Other company within the Group
IMO Property Investments Bucuresti S.A.	Romania	Other company within the Group
PB Personal Finance E.A.D.	Bulgaria	New subsidiary company, established on 30/05/2023

35 Contingent liabilities and other commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. Besides the provision made (Note 29) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that the possibility of any significant loss is remote.

(b) Loan commitments, guarantee and letters of credit

As at 31 December 2023 and 31 December 2022, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2023	2022
Guarantees	215,160	182,742
Letters of credit	129,957	42,734
Loan commitments and other credit related liabilities	2,372,705	1,847,543
Total	2,717,822	2,073,019

(c) Capital Expenditures

As at 31 December 2023, the Bank had the following capital expenditure commitments:

	2023	2022
Capital Expenditures	26,681	23,398

36 Leases

The Bank as a lessee

The Bank leases office and branch premises and motor vehicles.

The majority of the Bank's property leases are under long term agreements (for a term of 12 months or more in the case of leased real estate assets), with options to extend or terminate the lease according to the terms of each contract and the usual terms and conditions of commercial leases applicable in each jurisdiction, while motor vehicles generally have lease terms of up to 4 years. Extension options held by the Bank are included in the lease term when it is reasonably certain that they will be exercised based on its assessment.

Information about the leases for which the Bank as a lessee is presented below:

Right-of-Use Assets

As at 31 December 2023, the right-of-use assets included in property plant and equipment amounted to BGN 91,704 thousand (31 December 2022: BGN 84,422 thousand) (Note 21), while those that meet the definition of investment property amounted to BGN 0 thousand (31 December 2022: BGN 48 thousand) (Note 20).

Lease Liabilities

As at 31 December 2023 the lease liability included under other liabilities amounted to BGN 92,034 thousand (31 December 2022: BGN 84,940 thousand) (Note 31). The maturity analysis of lease liabilities based on the contractual undiscounted cash flows, is presented in note 5.2.3 – Liquidity Risk.

Amounts recognised in profit or loss

Interest on lease liabilities is presented in Note 6 and the lease expense relating to short term leases is presented in Note 10.

The Bank had total cash outflows for leases of BGN 17,842 thousand in December 2023 (BGN 15,518 thousand in 2022).

Reconciliation of movements of liabilities to cash flows arising from lease financing activities is presented in the table below:

	2023	2022
Opening balance at 1 January	(84,940)	(79,114)
Arising from acquisition	(4,567)	-
New Leases	(5,494)	(11,072)
Repayment of principal part of lease liability	16,379	14,406
Interest expense	(120)	(69)
Interest paid	120	69
Expense for leases of low-value assets	(1,343)	(1,043)
Payments for leases of low-value assets	1,343	1,043
FX Revaluation	22	(47)
Modifications and terminations	(13,434)	(9,113)
Balance at 31 December	(92,034)	(84,940)

The Bank as a lessor

Operating Leases

The Bank leases out its investment property under the usual terms and conditions of commercial leases applicable in each jurisdiction. When such leases do not transfer substantially all of the risks and rewards incidental to the ownership of the leased assets, the Bank classifies these lease as operating leases.

The maturity analysis of operating lease receivables, based on the undiscounted lease payments to be received after the reporting date, is provided below:

	2023	2022
Not later than one year	142	81
One to two years	105	39
Two to three years	-	33
Total	247	153

Finance Lease

The following table presents the balances of the finance leases for the Bank as lessor for the period ended 31 December 2023 and 31 December 2022:

	2023	2022
Not later than one year	15,934	14,448
One to two years	12,418	11,590
Two to three years	8,621	8,257
Three to four years	6,185	4,575
Four to five years	2,994	2,495
More than five years	143	289
Gross investment in finance leases	46,295	41,654
Less: unearned finance income	(6,047)	(5,325)
Net investment in finance leases	40,248	36,329
Less: impairment allowance	(711)	(756)
Total	39,537	35,573

37 Shares in subsidiary undertakings

In May 2023 PB Personal Finance EAD was set up with a share capital of 1,000 shares with a nominal value of BGN 1,000 per share or a total share capital of BGN 1 million. Eurobank Bulgaria AD owns directly 100 % of the share capital of the newly established company.

The Company is registered and will operate in Bulgaria and have been established to provide pension assurance brokerage services.

38 Acquisition of BNP Paribas Personal Finance S.A.Bulgaria Branch by Eurobank Bulgaria AD

Acquisition of BNP Paribas Personal Finance by Eurobank Bulgaria

On 5 December 2022 Postbank signed a put option letter in favor of BNP Paribas Personal Finance SA for the acquisition of its business in Bulgaria (the "Business"). After the successful completion of the Consultation Process, Postbank and BNP Paribas Personal Finance SA signed a business transfer agreement on 20 January 2023. On 31 May 2023, following the receipt of the approvals by all competent regulatory authorities, the transaction was completed and the ongoing concern of BNP Paribas Personal Finance S.A. became part of Eurobank Bulgaria effectively as of 1 June 2023.

The acquisition was accounted for as a business combination using the purchase method of accounting. In accordance with the terms of the Agreement, the funding arrangements of the Business were excluded from the liabilities assumed by the Bank.

The carrying amounts and the provisional fair values of the identifiable assets and liabilities of the Business at the date of the acquisition and the resulting goodwill are presented in the tables below:

	Carrying amount	FV adjustment	Fair Value
Cash and balances with the Central Bank	5,031	-	5,031
Loans and advances to customers	901,162	(21,695)	879,467
Other assets*	19,504	(2,136)	17,368
Total assets	925,697	(23,831)	901,866
Due to customers	201,015	-	201,015
Other liabilities	17,178	(380)	16,798
Total liabilities	218,193	(380)	217,813
Total net assets	707,504	(23,451)	684,053

* Other assets include property, plant and equipment, intangible assets and other assets.

At the date of acquisition the fair value of the acquired loans is BGN 879,467 thousand. The Gross Contractual amount of the acquired loans is BGN 978,113 thousand and their accumulated impairment BGN 76,951 thousand.

Loans and advances to customers acquired were fair valued by an external valuator utilizing an Income Approach valuation model. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted discount rates. The carrying amounts of cash equivalents and loans and advances to banks, as well as due to customers equal their fair value due to their liquidity, market level pricing and short term nature.

The carrying amounts of tangible and intangible assets were assessed to be representative for their fair value using the depreciated replacement cost.

The RoU assets and liabilities were reassessed in accordance with Bank's accounting policy and remaining maturity of the contracts.

Carrying amounts of other assets were assessed for impairment. The impaired carrying amount is assumed to equal fair value.

For the other liabilities provision levels were reviewed, carrying amounts were equal to their fair value.

Goodwill arising from the acquisition was recognized as follows:

Total consideration paid	(766,179)
Fair value of the identifiable net assets	684,053
Goodwill	(82,126)

The amount of the acquisition-related costs recognized as an expense as at 31 December 2023 is BGN 690 thousand related to external legal and due diligence costs. These costs have been included in Other operating expenses as 'External services' (Note 10).

Details on payments related to acquisition of subsidiary, net of cash acquired can be found below:

Cash consideration paid	(766,179)
Less: Balances acquired	
Cash and cash equivalents	5,031
Net outflow from cash – investing activities	(761,148)

The results of the Business were incorporated in Bank's financial statements prospectively as of 1 June 2023. If the acquisition had occurred on 1 January 2023, the Business would have contributed net profit of BGN 23 million to the Bank for the period from 1 January 2023 up to 31 May 2023.

39 Disclosure under art. 70, para. 6 of the Law on Credit institutions

The data provided is as of 31 December 2023:

Name Bulgaria:	Activity description	Seat	Turnover amount	Number of employees	Profit before tax	Tax charged	Return on assets	State subsidies received*
Eurobank Bulgaria AD	Credit institution	Bulgaria, Sofia	797,188	4,213	342,869	(34,789)	1.74%	188

* In 2023 and 2022 the Bank has benefited from the preferences under the Government Program for compensation of non-household electricity customers, and accounted this benefit as a government grant under IAS 20.

The Bank considers that the grant is intended to compensate for its operating costs and therefore, the benefit is allocated under Repairs and maintenance expense.

The data provided is as of 31 December 2022:

Name Bulgaria:	Activity description	Seat	Turnover amount	Number of employees	Profit before tax	Tax charged	Return on assets	State subsidies received*
Eurobank Bulgaria AD	Credit institution	Bulgaria, Sofia	632,218	3,333	230,050	(23,224)	1.36%	2,854

40 Events after the balance sheet date

There are no significant subsequent events with effect on the financial statements as of 31 December 2023.

