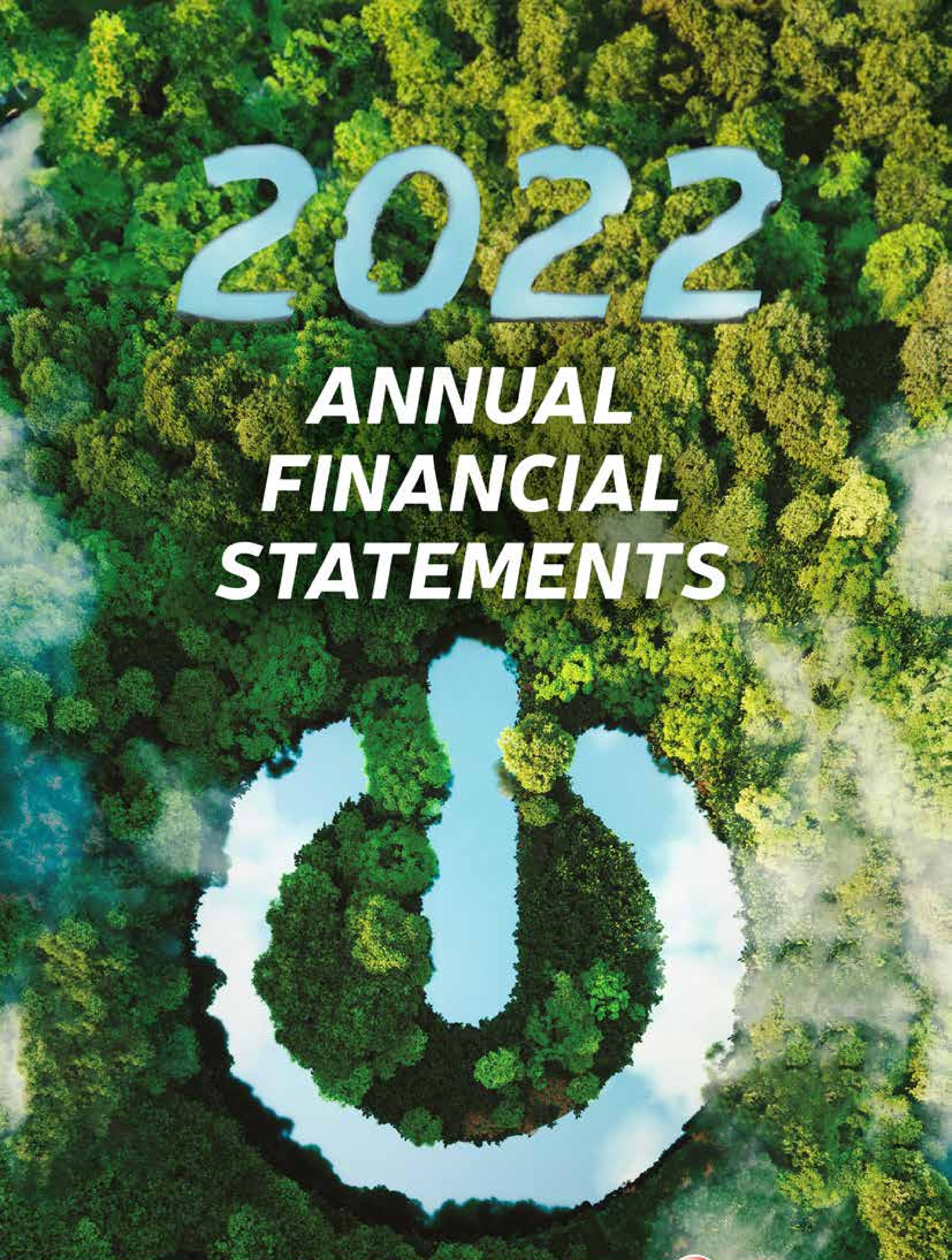

2022 ANNUAL FINANCIAL STATEMENTS

EUROBANK BULGARIA AD

Postbank

CONTENTS

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Independent Auditors' Report

To the shareholders of Eurobank Bulgaria AD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Eurobank Bulgaria AD (the Bank) as set out on pages 55 to 177, which comprise the statement of financial position as at 31 December 2022 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its 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 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 matter:

Impairment of loans and advances to customers

As at 31 December 2022, the financial statements include:

- Gross loans and advances to customers of BGN 10,410,620 thousand (31 December 2021: BGN 9,092,689 thousand) and ECL allowance of BGN 347,187 thousand (31 December 2021 ECL allowance: BGN 298,738 thousand), as presented in note 18 to the financial statements.
- Impairment charge for credit losses recognized in the income statement of BGN 71,878 thousand (2021: BGN 83,375 thousand), as presented in note 12 to the financial statements.

Also refer to the following notes to the 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
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. As described in note 3.1 to the 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. 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, among other things, the probability of borrower's default ("PD"), the assessment of the amount	Our audit procedures, performed, where applicable, with the assistance of our financial risk management, valuation and IT audit specialists, included among others: • 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; • Testing the design, implementation and operating effectiveness of selected key

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 geopolitical volatility following the outbreak of the Russo-Ukrainian war, the adverse macroeconomic effects of the increase in energy and other commodity prices, resulting inflationary pressures and disruptions in the global supply chains, as well as of the rise in interest rates, 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 financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.	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, forborne 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 2022; 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 means of corroborating inquiries of the Management Board and 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 2022 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

	appraisals, whose relevance and reliability we independently assessed; For loan exposures in totality: • Examining whether the Bank's ECL-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

Information Other than the Financial Statements and Auditors' Report Thereon

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 annual activity report, the corporate governance statement and the non-financial statement, 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 annual activity report for the financial year for which the financial statements have been prepared is consistent with those financial statements.
- The 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 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 statement referring to the financial year for which the 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 Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 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 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 OOD were appointed as a statutory auditors of the financial statements of the Bank for the year ended 31 December 2022 by the general meeting of shareholders held on 25 July 2022 for a period of one year. The engagement was accepted by a Joint Audit Engagement Letter dated 1 November 2022.
- The audit of the financial statements of the Bank for the year ended 31 December 2022 represents fifth total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and fifth total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners OOD.
- 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.
- For the period to which our statutory joint audit refers, KPMG Audit OOD has provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's annual activity report or financial statements:
- Audit of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the year ended 31 December 2022 in accordance with the accounting instructions of Eurobank SA Group to the components subject to consolidation;
- Review of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the period ended 30 June 2022 in accordance with the accounting instructions of Eurobank SA Group to the components subject to consolidation;
- Review of the interim condensed financial statements of Eurobank Bulgaria AD, prepared in accordance with IAS 34 *Interim Financial Reporting* as at 30 June 2022;
- Review of the interim condensed financial statements of Eurobank Bulgaria AD, prepared in accordance with IAS 34 *Interim Financial Reporting* as at 30 September 2022;
- Agreed-upon procedures in relation to the Bank's internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2021.
- Agreed-upon procedures on the Bank's 2022 ex-ante contributions to the Single Resolution Fund in accordance with the requirements of Council Implementing Regulation (EU) 2015/81 and Decision SRB/ES/20121/57.
- For the period to which our statutory joint audit refers, Baker Tilly Klitou and Partners EOOD has provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's the annual activity report or financial statements:
- Review of the interim condensed financial statements of Eurobank Bulgaria AD, prepared in accordance with IAS 34 *Interim Financial Reporting* as at 30 September 2022;
- Agreed-upon procedures in relation to the Bank's internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2021.

Sofia, 30 March 2023

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

IVAN ANDONOV ANDONOV Digitally signed by IVAN ANDONOV ANDONOV Date: 2023.03.30 20:19:46 +03'00'

Ivan Andonov
Authorised representative

SEVDALINA NIKOLAEVA DIMOVA Digitally signed by SEVDALINA NIKOLAEVA DIMOVA Date: 2023.03.30 19:32:45 +03'00'

Sevdalina Dimova
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard Sofia
1404, Bulgaria

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

Galina Dimitrova Lokmadjieva-Nedkova Digitally signed by Galina Dimitrova Lokmadjieva-Nedkova Date: 2023.03.30 21:38:37 +03'00'

Galina Lokmadjieva
Authorised representative and
Registered auditor, responsible for the audit
5 Stara Planina Str., 5th floor
Sofia 1000, Bulgaria

ANNUAL ACTIVITY REPORT

The management presents the annual Activity report as of 31 December 2022

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 an any stock exchange) established in accordance with Bulgarian regulations. The Bank is a licenced 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 European Central Bank (ECB) as part of the close cooperation process between the ECB and the BNB.

BUSINESS OVERVIEW

Macroeconomic Environment

The world economy went through another turbulent year. While on the path of recovery from the pandemic, it faced new challenges such as the conflict in Ukraine, the rising global inflation and the resurgence of COVID-19 in China. The Russian invasion in Ukraine in the beginning of the year caused a spike in the prices of oil, natural gas and other commodities of which Russia is a big exporter. This was aggravated by the decision of the European Union to wean itself off Russian gas and the search for alternative suppliers. Food prices were under pressure as grain export from Ukraine came almost to a halt.

In addition to the above, inflationary pressures were fueled by strong demand as consumers rushed to spend more with the easing of the supply chains, including on tourism after the reopening of the borders. The tight labor market and the “anti-inflationary” fiscal support in many countries were other factors for the higher inflation.

The decision of China to remove almost all COVID restrictions was surprising, but optimism quickly waned as the number of infections surged to record levels. Towards the end of the year the economic situation was looking better. Europe managed to fill in its gas storages, while the mild weather reduced the demand for gas. Crude oil and gas prices fell, in some cases even below the pre-invasion levels. Inflation in most countries has peaked as the monetary policy measures began to have the desired effect. Nevertheless, some worrying factors remain such as the deceleration of the trade growth and the fact that in some countries higher consumer spending is against savings. Global GDP growth is projected to decelerate from an estimated 3% in 2022 to 1.7% in 2023, before rebounding back to 2.7% in 2024.

The main downside risks are stubbornly high inflation, further escalation of the conflict in Ukraine, slowdown of China’s recovery and a new debt crisis. The latter is especially concerning, because many countries have increased their debt levels during the pandemic and got used to an environment of low interest rates and ample liquidity on the international debt markets. However, as the monetary policy shifts, the countries are faced with significantly higher debt servicing levels, while some might not even be able to get access to funding and will need to take tough decisions. Prolonged inflation is a tangible risk as high core inflation in many countries suggests that the prices will remain elevated for some time.

EU is heading towards stagnation. In the first half of 2022 the economies enjoyed a robust growth fueled by a post-COVID spending spree. However, as inflation was reaching record highs and started to impact the consumers" budgets, the confidence fell and the economies started sliding into recession. Most Member States are expected to experience a short recession in the winter before starting to grow again.

In the EU and the Eurozone as a whole the GDP is expected to grow by 3.5%, but by just 0.8% in 2023, (Eurozone: 0.9%), improving to 1.6% in 2024 (Eurozone: 1.5%).

Realizing that the inflation is not a temporary phenomenon, central banks across the world began a rapid tightening of the monetary policy in a synchronous and persistent way. The Federal Reserve raised its policy rate from 0-0.25% in the beginning of the year to 4.25-4.5% by its end with hikes likely to continue in 2023. Rates are at its highest level in the last 15 years and are likely to have a profound effect on economy growth. ECB decided to act later compared to the other major central bank, started in July and by the end of the year it has raised the rate on the deposit facility cumulatively by 2.5% to 2%. Quantitative tightening, however, is yet to come. At the last meeting of the year, ECB announced that the Asset purchase programme (APP) portfolio will decline at a rate of €15 billion per month from March 2023 onwards. The Pandemic emergency purchase programme (PEPP) portfolio will continue to reinvests the principal payments until at least the end of 2024.

Bulgaria's economic growth is also in a decelerating mode. In the fourth quarter of the year, GDP growth was 2.1%, down from 3.1%, 4.5% and 5.1% in the previous three. Consumption was still the main driver rising by 5.2% YoY. The contribution of the external sector turned negative with export rising by 8.3% YoY, while the growth of the import was 10.5% YoY. The lack of large government infrastructure spending and the insecure political and economic environment caused a decline in the gross fixed capital formation by 4.3% on an annual basis. The gross capital formation was positive though (2.7% YoY), due to the changes in the inventories. For the full year the nominal GDP was just north of 165 billion leva, while the real growth was 3,4%. The household consumption enjoyed a boost in the beginning of the year, but the exceptionally high inflation began to take its toll in the second half. The household financial situation has worsened notably and this is reflected in the consumer confidence surveys and in their desire to spend.

Bulgaria's foreign trade is booming, boosted by the higher prices of the energy resources and the inflation. In nominal terms the exports rose by the impressive 40.2% YoY to 87.5 billion leva, while the value of the imports jumped by 44.1% to 108 billion leva for the first 11 months of the year. Exports to EU countries and to third countries was rising almost in parallel – by 39% and 35.5% respectively. However, the import from third countries was rising much faster than from Bulgaria's EU partners – by 59% and 29.5% respectively. The main reason for this are the higher prices of energy resources which make a significant share of Bulgaria's import and accounted for over a third of the increase of both imports and exports in nominal terms. The higher prices of commodities (mainly metals and ores) and food and its derivatives account for most of the rest. The biggest trading partner of the country is Germany with a share of more than 12% of the foreign trade, followed by Romania and Turkey with 8.4% and 7.3% respectively.

In 2022 the foreign direct investments enjoyed a boom and jumped by the impressive 86% YoY to €2.2bn (2.7% of GDP) – one of the highest levels in history in nominal terms. There was a notable shift in the type of investments in the last year. The flow of equity investments and debt instruments was positive (€460m and €470m respectively), while a year ago there was an outflow in both types (€50m and €590m). The reinvested profit was 30% lower than in 2021 (€1.3bn vs. €1.85bn), however, it would have been higher if not for the significant dividends paid by some companies throughout the year. The biggest net inflow of investments came from Switzerland (€483m), Cyprus (€384m) and Austria (€380m). The biggest outflows were to Netherlands (€178m) and UK (€111m).

Inflation reached its highest level in the past 25 years. Measured through the consumer price index it reached 16.9%. In the first half of the year the main inflationary force was the price of natural gas which more than doubled compared with 2021. The Consumer price index (CPI) reached its peak in September at a level of 18.7%, while in the last quarter of the year it started to decline in line with the lower prices of natural gas. However, as the year progressed inflationary pressures were building in a broad range of categories with the food prices taking the lead and rising by 26.1% YoY at the end of December. Hospitality sector and recreational activities were another source of inflation as consumers picked up their spending after all COVID restrictions were lifted. The increase of the pensions and the wages additionally fuels the inflation which is expected to remain elevated in the medium term.

The unemployment rate declined in 2022 to 3.9%, according to the data by the NSI. The number of unemployed was 125 thousand – a decrease of close to 20 thousand people over the last year. The employment ratio in the age group 15-64 years reached a new year-end record of 71.5%. The workforce shrank by about 40 thousand people in the last year and will continue to decrease with a similar pace over the next years which will help keep the unemployment low, but will exercise an ever growing strain on the social security system.

The number of long-term unemployed (unemployed for more than 2 years) remained almost unchanged at about 42 thousand people, while the ones with basic or no education decreased by 5 thousand. The Northwestern region has the highest unemployment rate (6.3%), followed by the Northeastern (5.4%). The lowest unemployment rate is recorded in the South Central region (around Plovdiv) – 2.7%, while the Southwestern region (which includes Sofia) is a close second with 3.1%.

Tight labor market and the inflation have increased the pressure on the employers to raise the salaries with a pace close to the inflation rate. YoY the increase is 16.2% (inflation was 16.9%) to 1,947 leva at the end of December. In almost all sectors the increase is double digit, while in three it even exceeds 20% YoY – Real Estate, Energy generation and Finance. ITC continues to be the best paying sector with an average salary of 4,669 leva (15.6% YoY), well ahead of the second (Energy generation) where the average salary is 3,265 leva (21.2% YoY).

The public sector is paying an average salary of 2,127 leva (13.7% YoY). Although the salaries in the private sector rose faster – by 17.1% YoY to 1,887 leva, the gap with the public sector remains significant.

The absence of stable government and parliamentary majority throughout the year meant that the government was careful to preserve the financial stability of the country and avoid making large spending on investments. The aim to keep the budget deficit below the Maastricht criteria and thus keep the door open for Bulgaria to enter the Eurozone in the beginning of 2024 also played a significant role in this decision. On a cash basis the budget finished on a deficit of 0.9% of GDP (1.35 billion leva), however, it received a boost in the form of an advance payment from the Recovery and Resilience Facility of 2.7 billion leva. On an accrual basis, the deficit was 2.8%, just below the threshold as per the Maastricht criteria.

Budget revenues were 64.8 billion leva, 12.4 billion more than in 2021. However, some 3.2 billion of them came from the excess profits of the energy companies and another 2.7 billion leva from the Recovery and Resilience Facility. The tax revenues were 46.8 billion leva which is 14% higher than in 2021, but still some 700 million leva below the budgeted revenues. The expenditures rose by 18% YoY

(9.8 billion leva) to 64.4 billion leva, however, this number includes 3.2 billion leva one off expenses for energy subsidies. The capital expenditures rose by close to 50% to 5.59 billon leva, but are still around 70% of the budgeted figure. The interest expenditures were 651 million leva or just 4% higher than in 2021, but they are bound to increase in the next years thus restricting other spending. The revenues of the social security funds (mainly pensions and health insurance) were 13.9 billion leva, while the expenditures were 24.4 billion leva - more than 10 billion leva above the revenues – a number which is bound to increase in the next year due to the double digit increase of pensions expected from 1 July 2023.

The state debt rose by 4.6 billion leva in 2022 to 37.1 billion leva (22.9% of GDP). Because of the large nominal increase of the GDP this level is below 2021's (23.4%). In late 2022 Bulgaria returned to the international debt markets issuing 2.25 billion euro in 7 and 12 year maturities with a weighted average yield of 4.5%. In addition, the Government issued slightly more than 2.6 billion leva-denominated securities with an average yield of 2.02%, but also with much shorter maturity – half was in 3.5 year securities.

In 2023 the rating agency FITCH did three 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 two reviews also confirming the rating at BBB, but with stable outlook. The third big rating agency, Moody's did not make any updates within the year and kept the rating at Baa1.

Banking system

The results of the banking system beat all previous records. Assets, loans and deposits were growing at an accelerating rate, while growth of income was outpacing handily the expenses. With the quality of the portfolios improving, the provisions were kept at a constant level. The net profit of the banks exceeded the 2 billion mark for the first time and reached an all-time high of 2.08 billion leva, close to 50% higher than in 2021. The return on equity improved considerably – from 8.9% in 2021 to 12.3% a year later, whereas return on assets was 1.4% (2021: 1.1%).

Lending had an explosive growth in 2022. Total loans increased by a record 10.2 billion leva (13.5% YoY) to 86.1 billion leva. In nominal terms, the delta is not only 50% higher than in 2021, but almost three times the one in 2020. Both the retail and the wholesale segments enjoyed a boom – loans to companies increased by 5.7 billion leva (12.3% YoY) to 52.1 billion leva, while loans to households rose by 4.5 billion leva (15.2% YoY) to 33.9 billion leva. In contrast to the previous year, more than half of the new loans to companies were in the form of overdrafts, while the long-term loans (over 5 years maturity) dropped by half. This trend reflects both the need of the companies for additional financing because of the inflation as well as their reluctance to invest in long-term projects in the current economic and political environment.

Both retail segments showed record increases – mortgage loans jumped by 2.6 billion leva (16.1% YoY) to 18.4 billion leva, while consumer loans rose by 1.8 billion leva (12.8%) to 16.1 billion leva. A closer look at the data shows that the best quarter of the year was Q3, while there is a decelerating trend in Q4 as households are preparing themselves for a period of subdued economic activity.

The turning of the interest cycle began to be reflected in the prices of the new loans. From the low point of 2.3% in May, the average rates of the new loans to companies started climbing and reached 3.12% by the end of the year – a level not seen since 2019. Rates on mortgage loans also crept upwards from 2.5% in mid-2022 to 2.6%, while in the consumer lending segment the shift is more noticeable with the rates finishing at 9.65% at the end of the year – a full 1.1 percentage point higher than a year ago.

The increase of deposits was more than impressive – 16.8 billion leva in 2022 (15.4% YoY), almost double the 2021 growth rate and reached 126.2 billion leva. Deposits from financial and nonfinancial companies rose by 10.7 billion leva (close to 26% YoY) to 51.9 billion leva which is more than three times the nominal increase in 2021 and suggests that some companies are faring very well despite the high inflation and the worsening economic prospects. Household deposits also grew by a record amount – 6.2 billion leva (9.1% YoY) to 74.3 billion leva. The gross loans to deposits ratio declined by a single percentage point to 68%, keeping the liquidity buffers of the banks at a solid level. Negative interest rates were quickly abolished in the second half of the year and the banks began to search actively for additional liquidity, anticipating a drop in new deposits in the next year. Interest rates on new deposits went from negative or zero in the beginning of 2022 to around 1% p.a. at its end. This is barely visible in the average rate on the existing stock (a couple of basis points change), but signals that the banks should be prepared to pay more for liquidity in the coming years.

Interest income of the banks rose by the hefty 20% (590 million leva) to 3.63 billion leva. Half of the net increase came from the lending portfolio which is attributed to the higher volumes rather than higher interest rate which are yet to make their mark. However, as rates on the interbank market have gone up in line with the main policy rates, the banks' income from placements went from close to nil in 2021 to just short of 200 million leva in 2022, contributing for 30% of the nominal increase of the interest income. Interest expenses have risen by 120 million leva (42% YoY) to 405 million leva but 95% of this is from derivatives held for trading rather than more expensive funding. Total income was up by 824 million leva (18.5%). Fee and commission income increased by 190 million leva (15.2% YoY) to 1.43 billion leva, while dividend income more than doubled to 362 million leva.

Banks managed to keep the expenses largely under control. Total costs rose by 156 million leva (6.9% YoY) to 2.43 billion leva. However the wage inflation is weighting much more - staff expenses rose by 12.5% YoY (122 million leva) to 1.1 billion leva. The rate of increase is higher than the rise of the average salary in the financial sector suggesting that the banks have to pay more to attract experienced personnel.

The improving quality of the portfolio kept the impairment charges on loans and securities largely flat in 2022. The banks set aside 586 million leva in 2022 which translates to a cost of risk ratio of around 0.72% (2021: 0.82%). The nonperforming exposures ratio reached a new low of 5.17% (2021: 6.55%). The volume of the nonperforming loans dropped by 10% (522 million leva) to just below 4.5 billion leva. Loans overdue more than 180 days fell to 2.23 billion leva, just over half of all nonperforming exposures. The coverage ratio kept rising and stands at close to 78% of nonperforming exposures, some 5 pp higher than in December 2021.

The fast lending growth and the renewed dividend payments by some of the largest Bulgarian banks have eroded the capital adequacy. Total CAD ratio stood at the still solid 20.9% as of December 2022, however, this is more than 1.7 percentage points lower than as of December 2021. The CET 1 ratio was 20% as of the same date.

Major Changes in The Regulatory Environment

On 25 July 2022 EU adopted Commission Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of "do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

On 28 July 2022 BNB adopted Ordinance No. 43 on the Terms and Procedure for Determining and Paying a Maximum Daily Amount upon Suspension of Obligations in Respect of Eligible Deposits. The Ordinance was adopted on the basis of Art. 52a, para. 4 and Art. 101, para. 7 of the Law on Recovery and Restructuring of Credit Institutions and Investment Firms and introduces detailed rules on the determination and payment of the maximum daily amount that depositors - individuals and legal entities are entitled to receive in the event that the performance/fulfilment of a credit institution's obligations on eligible deposits is suspended for the purposes of restructuring.

On 29 September 2022 the BNB Governing Council adopted a decision to increase the countercyclical capital buffer rate applicable to credit risk exposures in Bulgaria to 2.0% in effect from 1 October 2023. BNB stated that as the standardized measure for the deviation of the credit-to-GDP ratio from its long-term trend does not adequately reflect the intensity of cyclical risks, assessments with regard to the countercyclical buffer rate take into account additional indicators which are focused on developments in the credit market, indebtedness, real estate market as well as the general economic outlook. Soaring energy prices, potential supply-chain disruptions, indirect effects of economic activity slowdown in main trading partners and weakening economic sentiments may impair debt servicing capacity of borrowers. The ongoing global process of rapid rise in interest rates also entails higher debt service payments by borrowers.

On 21 November 2022, Commission implemented Regulation (EU) 2022/1994 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/451 as regards own funds, asset encumbrances, liquidity and the provision of information for the purposes of determining global systemically important institutions, with effect from 11 July 2023.

On 30 November 2022 Regulation (EU) 2022/2453 was implemented amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards disclosure of environmental, social and governance risks. This Regulation is binding in its entirety and directly applicable in all Member States.

On 16 December 2022 Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability. The CSRD introduces more detailed reporting requirements on companies' impact on the environment, human rights and social standards, based on common criteria in line with EU's climate goals.

From 31 December the EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU enters into force for the data to be collected in 2023 for the 2022 financial year. The guidelines are to ensure the continuous benchmarking of remuneration trends and practices under Directive 2013/36/EU based on data for each year and in parallel with the new remuneration benchmarking exercise for investment firms under Directive (EU) 2019/2034.

Eurobank Bulgaria performance and key indicators

The year 2022 was one of the best years in the history of Eurobank Bulgaria. The bank recorded a healthy increase of its loans and deposits, a solid improvement in its income and profitability and stable capital adequacy, risk and liquidity ratios. The profit after tax jumped by more than a fifth to 206.8 million leva, very close to the record pre-pandemic one of 210.5 million leva, when one-off factors were in play. The return on equity improved considerably – by 1.3 percentage points to 11.2%, while the return on assets was just below 1.4%.

Gross loans increased by 14.5% YoY (1.32 billion leva) to 10.41 billion leva, rising slightly faster than the market which translated into a market share gain of 11 bps to 12.1%. Eurobank Bulgaria is able to achieve better yield on its portfolio than its peers as it is focusing on profitability and long-term relationship with its clients rather than chasing market share gain at all costs. Thus, the corporate portfolio rose by just 6.8% (288 million leva) to 4.55 billion leva, while consumer loans increased by almost a quarter (371 million leva) to 1.87 billion leva. The primary focus, however, was on the secured lending. Rising incomes and real estate prices meant that the demand for mortgage loans remained on the high side leading to increase of more than 511 million leva (close to 20% YoY) to 3.08 billion leva. The SBB segment is also on an upward trajectory with loans rising by 147 million (19.4%) to 908 million leva.

The positive trend in gross loans volumes was supported by the participation of the Bank in various programs of EIF, Bulgarian Development Bank and Fund Manager of Financial Instruments for support of small and medium sized businesses, as well as in the Guarantee agreements under the Pan-European Guarantee Fund in response to Covid-19 with EIF.

Total deposits rose by 1.37 billion leva (11.1% YoY) to 13.7 billion leva. Retail deposits rose by 914 million leva (10.2% on an annual basis) to 9.87 billion leva. Corporate customers added another 454 million to their accounts (13.5% YoY increase) to a total of 3.81 billion leva. The rate of increase was lower than the market average, but Eurobank Bulgaria chose to utilize some of its liquidity buffers, instead of offering higher interest rates on corporate deposits, thus protected its profitability. Net loans to deposits ratio climbed by about 3 bps to 74%, some 9 percentage points above the market average. Other borrowed funds rose by 309 million leva throughout the year coming from a €50m new medium term loan and a second €110m loan for which Eurobank Bulgaria applied to the regulators to be included as a Tier II capital. Both loans are from Eurobank S.A.

Total operating income rose by 14% YoY (69 million leva) to 564.2 million leva. The majority of the additional income (60 million leva) came from the higher net interest income which rose by 16%, compared with the previous year. The expanding lending portfolio is the biggest contributor for the better results with the repricing of the portfolio having lower weight. In the same time, the net fee and commission income rose 15% YoY (18 million leva) to 142 million leva. Several factors contributed for the better fees and commission income – higher spending through cards, foreign exchange operations and bigger volume of money transfers.

Costs were under increasing pressure in the high inflation environment. Other operating expenses increased by 14.6% (30.2 million leva) to 237 million leva, where half of the increase was spent on staff which is broadly in line with the average of the market. The costs of installing and maintaining new IT systems and the overall inflationary pressure accounted for a big part of the rest. Cost-to-income ratio remained flat at 42% which is a remarkable achievement in the current inflationary environment.

Provisions for impairment in 2022 were lower than in the previous year – 76.0 compared to 84.3 million leva reflecting lending portfolio quality imrovement. Cost of risk decreased by about 20 bps to 0.8%, in line with the average for the system. The nonperforming exposure ratio fell below 4% to 3.8%, a solid 1.1 percentage point improvement compared with year-end 2021. In nominal terms the decrease is around 50 million leva of which half is due to written off loans. The coverage ratio improved substantially for the year – by 21 percentage points to 89%.

In 2022 Eurobank Bulgaria was able to cover its expanding risk-weighted assets through internal capital generation. Interim profits were included in the capital base of the Bank throughout the year to sustain the expansion of the lending portfolio and to keep the capital adequacy at solid levels. In June 2022 €50m were taken from Eurobank S.A. in order to comply with the interim MREL target. The total capital adequacy ratio, and the CET1 ratio, at the end of the year stood at 20.2%, not including the interim profit for the fourth quarter of 2022 ending on 31 December 2022. In preparation for the upcoming acquisition in 2023, Eurobank Bulgaria took a €110m loan facility from its mother bank and applied to be included in the Tier II capital at the end of 2022. The Bank received on 06 March 2023 approval for classification of the subordinated debt of EUR 110m as Tier II capital instrument.

Events after the balance sheet date

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. After the successful completion of the Consultation Process, Postbank and BNP Paribas Personal Finance SA signed a business transfer agreement on 20 January 2023. The parties are in a process of satisfying two Condition Precedents – obtaining the Competition Clearance(s) from the Commission of Protection of Competition and BNB Approval.The branch is one of the leaders in the consumer finance market in the country and this acquisition presents a huge opportunity for the Bank to enter into a new fast-developing and high margin segment. In the last more than 15 years, BNP Paribas Personal Finance has built a recognizable franchise on which the Bank wants to build upon and enhance. The acquisition will not only enable Eurobank Bulgaria to increase its market share and target the second place in the segment, but also offers opportunities for cross selling and new ways to service customers.

There are no other than stated above significant post balance sheet events with effect on the financial statements as of 31 December 2022.

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, 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 trendsetter 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.

2022 has been another special year for Postbank, filled with numerous successes 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. Postbank celebrated 30-years of successful presence on the Bulgarian banking market with a special event at Sofia Grand Millennium hotel in October 2022 under the motto "Together, We Shape the Future". The event was honoured by the presence of the President of the Republic of Bulgaria, Mr. Rumen Radev, and the Greek Ambassador, H. E. Mr. Dimitrios Chronopoulos, who delivered their greetings. Ms. Petya Dimitrova, Chief Executive Officer and Chairperson of the Management Board of Postbank, welcomed in her speech the Chief Executive Officer of Eurobank, Mr. Fokion Karavias, who also delivered a speech, as well as Mr. Stavros Ioannou, Deputy CEO of Eurobank.

In December, Postbank announced the acquisition of the Bulgarian branch of BNP Paribas Personal Finance in accordance with a signed agreement between the two companies. With the finalization of the deal, expected to take place in the first half of 2023, Postbank will add a new client base to its portfolio and new opportunities for cross-selling and launching innovative digital solutions targeting clients of both financial institutions. This is yet another step towards expanding the Bank's market share, with Postbank becoming the only financial institution in this country to have completed three mergers over an extremely short period of time in such a challenging environment. The acquisition of BNP Paribas Personal Finance – Bulgaria Branch is also a milestone event for the of Eurobank Group's strategy for expanding its international operation through investments in significant regional markets and businesses, coming shortly after the Group announced expanding its share in Hellenic Bank, one of the biggest retail banks in Cyprus.

In July, Postbank also became the big winner of the 30th anniversary edition of the Bank of the Year Awards organized by the Bank of the Year Association. This is the defining event through which the business community and society at large show their appreciation for the performance of the Bulgarian banking system as a significant part of the national economy. The financial institution was honored for its outstanding performance, high business results and efficiency over the past year, and was awarded the prize for the most dynamically developing bank in Bulgaria. The Grand Prix, "Bank of the Year 2021", was handed to Ms. Petya Dimitrova, CEO and Chairperson of the Management Board of Postbank, by the President of Bulgaria Mr. Rumen Radev.

A little later in the year, Ms. Dimitrova also received the special distinction Banker of the Year award for the high organic growth achieved by the financial institution in 2022, the award was presented by Ms. Iliyana Yotova, Vice President of the Republic of Bulgaria. These awards, organized for the 29th consecutive year by The Banker Weekly, are traditionally conferred in recognition of managers of financial institutions that have shown the most impressive accomplishments in the current year.

The Bulgarian Credit Rating Agency (BCRA) reconfirmed Postbank's BBB long-term credit rating with a stable outlook in June 2022.

October 2022 marked the start of an ambitious partnership between Postbank and INSEAD, one of the world's leading business schools . The agreement signed between the two institutions will enable employees of the Bank to join the educational programs of the institute and will help them expand their career opportunities by gaining additional knowledge in a variety of areas, such as "Digital transformation", "Innovations" "Strategy", "Leadership", etc. The financial institution has yet again provided an opportunity for its employees to join a prestigious educational project completely free of charge, giving them a competitive advantage. The curricula of the prestigious business school INSEAD are a source of exceptional educational experience. The institute operates from key locations on three continents and each year, over 11,000 leaders participate in its master classes. The school brings together people, cultures and ideas with the ambitious goal of developing responsible leaders, able to transform the business and society.

Earlier in the year, Postbank won two gold distinctions from the Annual Employer Branding Awards 2022, organized for the fifth time in the country by b2b Media. The Bank was awarded first place in the "Excellence in Teamwork' category, introduced for the first time to recognize innovative solutions in building a successful and motivated team. The gold distinction in the "Employer Branding Idea" category was also given to Postbank for its strategic approach in engaging employees, as part of the strenghtening of the employer branding. During the leading awards for best employer, Career Show Awards 2022, Postbank won the gold award in the "Innovations in Personnel Selection" category and a bronze in the "Employer Branding Strategy" category.

Moreover, Postbank launched its own innovative career portal, designed to present the strengths and advantages of the company as a Top Employer in Bulgaria, the various training and professional development opportunities for its employees, while also providing easy access to vacancies and career development proposals at https://careers.postbank.bg/. The Bank is also among the most sought-after employers at various career fairs and prestigious forums in the country.

At the World Finance Banking Awards in 2022 Postbank won, the Grand Prix for Best Retail Bank in Bulgaria for the fifth consequtive year. These prestigious awards are organized by the reputable publication World Finance, which follows and analyses the global financial industry, business and economy. Postbank's sustainable corporate policy, its rich portfolio of value-adding products and services, and its wide branch network, in combination with its position as a leader in the sector with regard to its approach to innovations, are among the advantages that rank this financial institution among the best globally. A key aspect of the strong leadership and success of retail banking, which Postbank has actively demonstrated over the years, is the high confidence and trust of our clients.

2022 was a consequitve year in a row during which Postbank was named the best custodian bank in Bulgaria. This recognition comes from the prestigious global magazine for capital markets, asset management and investments Global Custodian (www.globalcustodian.com). The publication compiles, on an annual basis, a ranking of the banks offering custodial services, which is based on a survey conducted among their clients.

In June, the institution received a gold award in the "Leader in Digital Transformation" category of the annual "Company of the Year" awards organized by The Bulgaria Business Review magazine group. This award came in acknowledgment of the successful implementation of digital solutions for the Bank's clients and its innovative product ONE wallet by Postbank, a last generation mobile wallet.

The distinction was followed shortly thereafter by the three gold awards received by Postbank at the eighth edition of the b2b Media Awards contest 2022. In the "Green Initiative" category, the financial institution was awarded for its "Green Classroom" project that has meanwhile grown into a successful and sustainable green initiative implemented in partnership with Mastercard Bulgaria and the Vitosha Nature Park Directorate. The second gold award for the Bank was in the "Innovative Social Media Campaign category, or its digital platform "A Universe of Opportunities", a venue for presenting projects with social orientation and sustainability in the fields of education, green projects and digital innovations. The program, which was created to mark the 30th anniversary of Postbank, has sparked a broad public interest in 2022, when it had its second edition. Postbank won its third gold award from the contest in the "Campaign with a Cause' category for its campaign "The Power is in Our Hands", jointly implemented with Visa Bulgaria, in support of Bulgaria's medical workers in their efforts to fight the COVID-19 epidemic.

For its mobile application Digital Office, Postbank won the silver prize in the "New Service" category for the campaign "How we Introduced Digital Office at Postbank and Stayed Together", presented at the seventh edition of the BAAwards 2022 contest, organized by the Bulgarian Advertisers Association. Postbank's social responsibility campaign "The Power is in Our Hands", implemented in support of

Bulgaria's medical workers" efforts to fight the COVID-19 epidemic, was rewarded with a bronze award by the panel of judges in the "Corporate Social Responsibility" category of the same contest.

In May 2022, Postbank was awarded three prizes by the PR Prix 2022 contest for best achievements in the public relations area. The company also received the EFFIE award in the prestigious marketing efficiency contest EFFIE Bulgaria 2022. The "Every Dream is Worth It" advertising campaign for consumer loans and mortgages with overdraft won the bronze award in the most contested category, "Services", and confirmed once again Postbank's leading position in the financial sector.

Mastercard UNIVERSE, the metal credit card issued by Postbank, won a prestigious recognition at the Elan Awards 2021 contest sponsored by the International Card Manufacturers Association (ICMA). The prize for Postbank's card is in the "Environmentally Friendly Cards" category and comes as an acknowledgment of the innovations in the design, security and technical excellence that went into creating this next-generation special payment instrument.

Postbank was awarded the Innovative Management prize at the 12th edition of the Business Lady 2022 annual awards of the Business Lady club and magazine. The mission of that publication is to give a platform for publicity and visibility to successful business practices and highlight the professional accomplishments of women business leaders in the country.

The institution was rewarded for its steady and consistent support for the shaping up of future leaders in Bulgaria and the region. The recognition came from the American University in Bulgaria and was delivered at an official ceremony marking the 30th anniversary of the founding of that institution of higher education.

A little earlier, the company received the prestigious distinction "Business Honoris Causa" at the annual awards of The 24 Hours Daily, in recognition for its innovative solutions and sustainable contribution of the financial institution in support of the Bulgarian education.

Postbank won the "Green Planet" award , part of the Golden Heart annual awards for charity and corporate social responsibility of Business Lady magazine and club and Bulgaria Business Review magazine. This distinction comes as yet another recognition of the financial institution for its sustainable green policy and constant efforts for cultivating a green consciousness, with the emphasis being on the multi-layered "Green Classroom" project implemented by the bank in partnership with Mastercard.

The greenest companies operating in Bulgaria were awarded at the 12th unique annual ranking of b2b Media. Postbank won the gold distinction in the "Green Educational Initiative" category for its project

"Green Classroom". Another gold distinction was conferred by the panel of judges upon Postbank in the "Green Idea" category. This award came in recognition of the series of green projects that the bank has been implementing for several years , seeking to promote a responsible attitude towards the natural resources by motivating as many people as possible to leave their green footprint.

For pursuing its policy in the area of corporate social responsibility Postbank was awarded the prize in the "Business with a Cause" category. The cause "Future for the Children" has been part of the financial institution's social programs of this financial institution for over 12 years now.

In the course of 2022, employees of the bank took part in various business forums and conferences, among which the international forum The World Ahead 2022 organized by The Economist in Sofia; the conference "Financial Forum Innovations 2022" organized by the Bank of the Year Association; the Sofia Economic Forum 2022; the forum Inflation: Crisis and Opportunities; the financial conference on "Bulgaria in the Eurozone: Advantages and Opportunities" organized by Dir.bg, the Confederation of Employers and Industrialists in Bulgaria (CEIBG) and the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA); the annual conference Fintech Summit organized by The Capital Weekly and F27; the forum "Accelerate Green", dedicated to the policies and practices of promoting green investments in the business sector; the specialized annual financial conference "The Sound of Money" organized by the profit.bg financial portal; the conference on "Digitization and Cybersecurity" organized by The Banker Weekly; Residential forum 2022; the prestigious forum "Banking Today"; the FinX Conference 2022 at which leading professionals in the banking sector, entrepreneurs and financial analysts shared their experience and forecasts for the development of markets; the prestigious forum "EXPO MoitePari 2022"; " #NEXT DIFI 2022", the leading financial forum on digital finance, fintech and banking innovations; the Finance Academy educational program, and others.

Postbank has successfully integrated the ESG criteria in its portfolio. The successful integration of the ESG strategy in the financial sector was the topic for a panel discussion within the 13th annual Credit Risk conference organized by ICAP Bulgaria.

For the financial institution, environmental, social and governance factors are among the foremost values, alongside the understanding that our duty to nature is a key element of our care for the wellbeing of all stakeholders and society at large.

Postbank has continued to offer diverse solutions and support for its clients, with difficulties in servicing their loans as a result of the challenges brought about by the COVID-19 pandemic of 2020. This financial institution has once again supported the liquidity needs and projects of micro-, small and medium-sized enterprises within the framework of the Recovery program. The bank developed and launched this program in 2021, in response to the challenges posed by the COVID-19 pandemic, its aim being to facilitate access for businesses to loans necessary for them to recover and resume their operation. In 2022, on account of the great interest shown by enterprises and the quick approval and disbursal of resources, while also taking into account the continuing need to improve access to funding for the Bulgarian business sector, the Fund of Funds allocated BGN 96.2 million in additional resources for ensuring liquidity and providing the funds necessary for new investments, transformation and growth. The funds were provided by OP "Competitiveness, Entrepreneurship & Innovation" via REACT-EU.

Environmental protection and the fight against climate change are of fundamental importance for the corporate values of Postbank. As a responsible financial institution, a leader in innovation and a trendsetter in the development of the banking sector in the country, the Bank recognizes the significance of the environmental and climate aspects of its operation in the process of making its key management decisions. Among the recent large-scale projects that Postbank has undertaken in that respect is the process of renewing the corporate car fleet; in that, the company has invested in acquiring more than 50 hybrid electric vehicles (HEVs) to serve its business objectives. These vehicles combine the battery power with the output of an internal combustion engine and are a substantial investment contributing to a greener environment by generating less harmful emissions in the environment. For its proactive ESG policy, the bank received recognition in the report "The Future is Green and Inclusive", by the networks of the UN Global Compact in Eastern Europe.

IIn 2022, Postbank marked the 7th anniversary of the opening of its first specialized Home Financing Centres; The financial institution has successfully developed and deployed a network of 31 specialized Home Financing Centres in some of the major cities of Bulgaria: Sofia, Plovdiv, Varna, Burgas, Pleven, Veliko Tarnovo, Ruse, Blagoevgrad, and Stara Zagora.

In 2022, the new, innovative Premium Banking centre created by Postbank in the city of Burgas welcomed its first clients. The specialized Premium Banking centre provides a comfortable environment in combination with uncompromising standards of service for the Premium segment of the institution. The financial institution develops in sync with the global tendencies in the banking sector; and provides its clients and partners excellent solutions, spaces and concepts designed to meet their highest expectations.

The first innovative video banking zones set up within a bank branch in Bulgaria have welcomed their first clients. In conformity with our strategy of transforming our network of branches and providing new and additional opportunities to our clients, Postbank has developed zones for video banking consultation within its existing branches. Following the successful pilot deployment of this new model of video banking consultation at Financial Centre Sofia, the bank launched a second Video Banking Consultation Zone, this one located at financial centre Sofia Beli Dunav. The introduction of this new service enables our clients to use a specially designed digital space to communicate with our specialists at the Online Home Financing Centre, as well as those at the Digital Hub of the Small Business Banking division, and receive professional advice and specific recommendations about their preferred financial products.

At a ceremony in Sofia on 25 October 2022, Postbank awarded the top prize of the promotional campaign for Visa debit and credit cards to the winning entrant. The winner received the keys to a brand new premium hybrid vehicle, a Lexus UX 250h Hybrid EXECUTIVE Plus, from Angel Mateev, General Manager, Retail Banking, Rumen Radushev, Manager at the Retail Banking Division of the financial institution, and Krasimira Raycheva, Manager, Visa Bulgaria. The sweepstakes also featured other prizes, including travel vouchers worth BGN 8,000 each to a destination of choice; these went to ten other contestants, all clients of the Bank.

In 2022, this financial institution was a key partner in a series of business discussions held in Sofia, Plovdiv, Stara Zagora, Varna, Ruse, Burgas, Veliko Tarnovo, as part of the project Imoti.bg Annual Awards, which took place for the seventh consecutive year with the aim of promoting good practices in the sector. At their meetings with representatives of the real estate business, experts from the bank discussed the current trends in the development of the sector while, from its perspective as a leader in the lending business, they presented their market analysis, consumer profiles and the most recent terms of applying for home loans at Postbank.

NEW PRODUCTS

In 2022, Postbank introduced more innovative products and services, focusing on improving the ease of access while providing additional benefits for its clients. As a result of the steady development of the financial sector towards digitization, businesses were supposed to be quicker in adopting solutions that provide more convenient services to their clients. Therefore, Postbank also continued to support its clients by developing and implementing modern and high-tech financial solutions that they could use remotely, through their preferred communication channel, thus giving them more added value.

The financial institution launched a special Youth Program called "Project YOUth", targeting children and young people with the idea of introducing them to the world of banking products and services, cultivating in them the ability to take good care of their own finances. That modern solution was developed to help form financial habits and teach young people to become self-reliant from a young age. At the same time, it provides them with a convenient tool for making their daily payments, for which suitable, age-appropriate limits can be set. Amongst the numerous advantages of this solution are the variety of attractive debit card designs, the advantageous terms of the program, the option of setting individual limits for cash withdrawal as well as for parents or custodians to exercise control of the use of the card. The ownership of a debit card educates young people the virtues of appropriate consumption, responsible behaviour and reasonable management of their personal finances.

To enhance the excellent user experience of our clients, Postbank has developed an innovative design for its debit cards, one that promotes a special sense of style and comfort. The financial institution is the first in Bulgaria to offer its plastic debit cards with a totally new design, with the card holder's personal data being entirely situated on the reverse side of the card. This latest change reflects Postbank's aspiration to always deliver to its clients financial solutions and products of a high standard and impeccable quality.

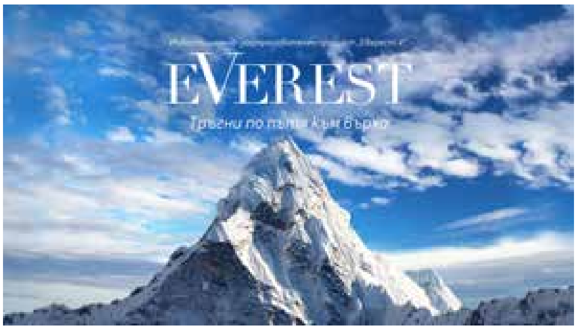
Postbank launched on the market its newest financial solution, which integrates combines some of the most sought-after products while offering a wide range of attractive, value-adding banking services. The "Welcome" Program enables clients of the institution to benefit from obtaining a consumer or home loan in combination with the key advantage of using over 10 additional banking services included in the "My Family" package, free of charge for an entire year. Thus, they have access to the needed funding while saving time, effort and money in their routine banking operations, while also being able to take advantage of the special promotional terms offered by a credit card. With this innovative concept, the bank offers comprehensive banking service based on an all-round approach, thus reaffirming its position as a preferred and trusted financial partner.

In November, Postbank made available to its clients a next-generation innovative banking service: EVA, a digital assistant based on artificial intelligence AI technology. Intuitive, efficient and modern, this chatbot was developed with a vision to the future, and is available on all digital channels of the financial institution for use by both current and future clients. EVA – Digital Assistant is the only bot on the Bulgarian market set up with the Speech to Text functionality allowing conversion of a voice message to a text format; it is also fluent in both English and Bulgarian. Thanks to this next-generation chatbot, users can get instant answers to their questions, within 1 second, quickly and easily on a channel of their choice: www.postbank.bg, e-Postbank, m-Postbank, Viber, Facebook messenger.

In 2022, Postbank expanded the client base for its mobile payment tool ONE wallet by Postbank by making the application available to users who are not clients of the bank. ONE wallet is the modern answer to the dynamic needs of present-day users; it provides services with an emphasis on convenience, security and perfect control when using contactless card payments or cash transfers by phone. Each registered user of the service is issued a free digital card with access to an electronic cash account, which can be used for contactless payments from POS terminals, online shopping, ordering cash transfers and for taking advantage of the many more convenient options that ONE wallet offers its users.

A sustainable future is important for the Bank and its customers in the current economy conditions,, innovative technologies and digital services. With its Green Credit financial solution, Postbank encourages small businesses having their own green ideas to implement them freely. The new product is geared towards environmental projects of companies that have formulated clear goals as to how they can reduce their environmental footprint. The purchase of electric or hybrid electric vehicles, the generation of green energy from biomass, solar panels or other renewables (up to 35 kW installed capacity), the acquisition of new, energy saving equipment or the replacement of energy wasting machines and equipment with ones that will help protect the environment – all of these are small steps that lead to a big change.

With its innovative "Green Home Loan", this financial institution enables its clients to contribute to a more sustainable future by reducing their environmental footprint while seeing their dream of a new home come true. The financing solution can be used both for buying an energy-efficient residential property of Class A, or higher, or for refinancing an existing home loan, as well as for energy-efficient home improvements such as renewable energy production through photovoltaic panels, solar panels for production of hot water or investment in smart home energy systems in order to minimize energy consumption.



In June 2022, Postbank and Bulstrad Life launched an insurance-based investment product under the name Everest V, thus meeting consumer demand for financial solutions with the potential for higher returns. The new Life insurance policy integrated with a structured investment product is an exceptional option currently marketed solely by these two companies. Everest V is an alternative to existing savings products that offers repayment in full of the invested capital on the due date and an option for obtaining an attractive return pegged to the performance of index EURO STOXX 50 ESG (SX5EESG). This index collates the performance of the shares of the top 50 European companies and the economic performance of the Eurozone.

The bank continues to offer its clients a fully remote process of issuance of debit and credit cards allowing clients not just to order their cards online but also to receive them at an address of their choice without having to visit a bank branch at all during the entire process.

Postbank also constantly expands and diversifies its deposit portfolio. To meet the expectations of its clients, in March 2022 the company launched the innovative structured deposit Index Health Care offering an opportunity for extra return. Index Health

Care is a long-term deposit in Euro over a 5-year period that offers the option of an interest pegged to the performance of the investment component of index STOXX Europe 600 Health Care. This is a price index based on the performance of the shares of key European companies operating in the healthcare sector. The client invests directly into the companies making up that index, and the potential return is formed on the basis of its performance over the period between the initial and the final date for determining its numerical value.

Another savings product which allows its users to receive additional interest based upon the performance of an index is the structured deposit Index DAX. Introduced in July, it has a 3-year term with return of basic 1% fixed annual interest and an option for additional interest, which itself is based upon the performance of Index DAX on the maturity date of the deposit.

Index ESG Leaders is the latest addition to the rich deposit portfolio of the institution; this is a product with an active ESG policy released in December, that ensures a fixed basic interest for each year of its period, in addition to an option of additional return pegged to the performance of the index STOXX® Europe ESG Leaders Select 30 Price EUR, which traces the performance of 30 European companies that are leaders in terms of environmental, social and governance criteria.

In response to the growing consumer aspirations for greener transport, more nature-oriented behaviour and a greener way of life, Postbank launched the "green idea" in its core business of consumer lending by offering its clientele the option for a smoother transition towards the "new" future. ECO Car Loan is the bank's latest product, wholly oriented towards financing the purchase of environmentally friendly electric vehicles.

Postbank is the first certified bank in Bulgaria to have offered, as early as 2021, the modern service of instant payment in Bulgarian leva featured in the Blink Program of the National Card and Payment Scheme (NCPS), a member of BORICA AD*. In 2022, clients of the institution were able to order cash transfers from their current accounts in BGN and EUR throughout the year, 24/7, including on bank holidays, already using the digital banking channels for online banking (e-Postbank) and mobile banking (m-Postbank).

Postbank continued to offer targeted consumer loans for business studies around the world, a product that is unique on the Bulgarian market. It can be used to pay tuition fees for different educational programs like Master of Business Administration, Executive Master of Business Administration, Advanced Management, etc. The product was created to satisfy the growing interest in financing studies that open the way for career grouth and development, as recorded by the bank in recent years.

Clients of Postbank can take advantage of the convenience of the Online Home Financing Centre, which has launched a new model of quick and convenient customer service. The new digital solution integrated in the process of home financing represents a continuation of the services offered by the bank in its specialized home Financing Centres. In this way, the bank has upgraded the service of applying online for a housing loan in order to meet as fully as possible the consumer expectations for remote consulting and communication with the bank in the lending process by transferring it in a fully digital environment.

The bank continues to offer the option of a Savings Home Loan, in which clients are given the opportunity to pay interest only on half of the amount of the loan. This allows them to either pay lower monthly instalments or repay the loan over a shorter period of time.

Cashless payments continued their upward trend, as evidenced by the latest data Postbank has gathered about consumer habits in 2022. An analysis performed by the institution shows that the customers increasingly prefer to use their electronic cards rather than cash when paying for goods and services, with the share of card purchases over cash withdrawals from ATMs having increased by 14%. In the past 12 months, the total volume of online purchases that clients of this credit institution have made using their debit or credit cards has increased by an impressive 40%. In 2022, the overall value of purchases made using a digitized debit or credit card integrated into a mobile wallet has reached BGN 80 million. Thus, in the course of a single year, the total number of transactions made with digitized bank cards has increased fivefold and the number of users of ONE wallet by Postbank has more than doubled..

SUSTAINABLE DEVELOPMENT

In addition to its business operation, Postbank has continued its focus on the needs of the community, by supporting programs and initiatives jointly with established institutions and public bodies. The bank seeks to cultivate among its staff, as well as among its clientele and the public at large, a responsible attitude to everything and anything that surrounds us. It aspires not only to build itself a competitive advantages by integrating more and more value in the products it offers, but also to decrease its environmental footprint by using every opportunity to contribute to the conservation of the natural environment.

In 2022, the bank implemented a number of socially significant projects in areas like entrepreneurship, education, environmental protection, sports and corporate sponsorship. The bank is an active member and works in support of the initiatives of The Confederation of Employers and Industrialists in Bulgaria (CEIBG), AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, UN Global Compact Network in Bulgaria, Bulgarian Association of Advertisers and Bulgarian Fintech Association.

In 2022, Postbank integrated an innovative approach to the recruitment of interns. This financial institution launched a dedicated Instagram profile under the name of PostbankSuperstarter, designed to build upon its innovative talent scouting strategy. The channel was developed especially for the internship program of the financial institution and will be part of the bank's careers platform. The purpose of PostbankSuperstarter is to reach out to all talented and ambitious young people seeking opportunities for a successful launch of their careers in a modern company, an innovator in the banking services market, a leader in the banking sector with over 30 years" history. Postbank is also the first Bulgarian bank to have launched its own channel in the popular social network TikTok.

In November 2022, Postbank joined, for the seventh year running, the social responsibility initiative "Proud of My Parents" Work", organized by the Bulgarian Network of the UN Global Compact. Students in second, third, fourth and fifth grade from almost 30 schools in the capital Sofia have visited the headquarters of this financial institution to learn more about the jobs and the work of their parents in specially developed educational programs. This year's edition of the project, which is traditionally launched every year on 1 November, was implemented in the course of the whole month in response to the exceptionally avid interest on the part of children from over 30 school classes.

At a special event held on 26 September, Postbank awarded the winners of the second edition of its innovative CSR program "A Universe of Opportunities". It was created to promote exciting ideas related to social entrepreneurship in service to society. This year's edition, which was organized in response to an exceptionally high public interest in our social program, generated 105 projects in the key areas of "Digital Innovation", "Education", and "Green Projects". The 30 proposals that garnered the strongest public support reached its final stage. The winning entrants were awarded by the financial institution a general prize fund in grants worth a total of BGN 30,000, which they have committed to use to implement their projects within 6 months from the date of receipt of the respective grant.

In 2022, this financial institution, which traditionally is a leading partner of the Bulgarian business sector, gave its support for the fourth time running to the unique growth program Dare to Scale, the first of its kind in Bulgaria, targeting businesses with the potential to substantially scale up their operation. In the project proposed by the global network Endeavour Bulgaria, on account of the great interest shown this year, 12 Bulgarian companies were chosen for support. The selected entrepreneurs underwent trainings and interactive sessions delivered by successful practitioners and leaders of the Endeavour network; among the mentors were experts from Postbank. The Dare to Scale growth program is to continue in the coming years, in order to facilitate the sustainable growth of more and more local businesses. Through its participation in the Dare to Scale growth program, Postbank actively contributes both to the development of promising scale-up companies in this country and to the business climate in general. This is yet another expression of its commitment to encourage bold ideas, to support innovation and competitiveness in the business sector and the economy as a whole.

For the eighth consecutive year , Postbank was the key partner in the successful small business of the year contest, "The Big Little Ones", sponsored by The 24 Hours Daily. Every year the entrants - small innovative Bulgarian businesses, present their ideas, which they have successfully developed into a marketable product or service.

The education of children and young people in Bulgaria has always been part of the corporate social responsibility projects CSR projects developed or supported by Postbank. This is why the bank continued to pursue its joint project with SoftUni in support of Bulgarian education, which was launched back in 2018. The project includes various activities designed to prepare young people for the jobs of the future and for their personal realization in Bulgaria. Through their strategic partnership, the two organizations have made it their aim to encourage students to develop their potential as IT and digital leaders, ready to operate in a dynamically changing environment and master the new trends in banking. The design for an application for a specialized Postbank POS Terminal won the Grand prix and a cash prize of BGN 1,000 in the "Coding" category at SoftUni Fest 2022. The fourth edition of that contest, held entirely online between 17 and 19 June, challenged young people interested in coding, digital marketing and design to develop specific projects on preset topics. A total of 66 teams faced off in the three categories of this year’s edition; 7 of those were shortlisted to compete in the finals for the Grand Prix of Postbank in the "Coding" category.

Postbank has been a traditional supporter of the SoftUniada 2022 coding contest. In the two-day event, held entirely online, 176 participants demonstrated their knowledge and skills in the area of information technology and presented their projects in four categories. Dobromir Angelov, a school pupil from Varna, was placed first in the wildly contested category "Competitive Coding: Junior Category" and deservedly won the prize of Postbank and the high appreciation of the panel of judges.

IT experts from Postbank took part once again in the career-building online seminar IT Journey, by presenting to young SoftUni students attractive opportunities for employment and career advancement in the company. This financial institution, with its strong international know-how and modern technological solutions constantly implemented in its operation, offers attractive opportunities for internship and professional development to young IT specialists,. Postbank is a preferred top employer for young software specialists standing at the start of their professional career.

During the current year, the financial institution provided two scholarships for students at the American University in Bulgaria. As the American University in Bulgaria marked its 30th anniversary, Postbank was part of the celebrations dedicated to its jubilee. The event was honoured by the presence of alumni, faculty, management and public figures at a gala event. During the ceremony, Postbank was acknowledged by the University with a special award for its sustainable and consistent support in building the future leaders of Bulgaria and the region itself.

The first day of the large-scale, Postbank-sponsored training seminar for a total of 215 students from the National High School of Commerce and Banking and the Private Vocational High School for Banking, Commerce and Finance ended with a lecture on "Development of Potential". A total of 113 twelfth-graders from both schools received certificates for successfully completed practicum in the presence of Ms.

Emilia Ivanova, principal of the National School of Commerce and Banking. Thanks to the experienced team of experts of the financial institution with their international know-how and professional expertise, the students build upon their already existing knowledge while receiving practical guidance for their future career development and personal fulfilment. In the final lecture, experts of the financial institution presented to the school graduates the attractive opportunities for professional advancement offered by Postbank. The centrepiece of the training seminar was the year-long internship program offered by the financial institution, which provides a genuine option for young people to make a successful start with a modern company, an innovator in the market for banking services and one of the leaders in the Bulgarian banking sector its 30-year history.

Postbank and Sofia University have been cooperating in providing education for future financiers in the Master's program "Finance and Banking" delivered by the Faculty of Business Administration and Economics. The modern subjects "Bank Management" and "Investment Banking" are part of the compulsory curriculum for the 2021–2022 academic year and are taught by experts from the bank.

Experts from Postbank once again took part in educational initiatives aimed at improving financial literacy as part of the events marking Global Money Week. This year, the financial institution supports school students by using innovative digital formats to teach them their very first lesson in personal finance management. The bank's participation in this international initiative is part of the sustainable corporate social responsibility policy of the financial institution with a focus on the education and personal development of young people. The international initiative Global Money Week aims to raise public awareness on matters of financial education and financial literacy by organizing various events for children and youths at both national and global level.

For the seventh consecutive year, Postbank, as a member of the Association of Banks in Bulgaria (ABB), takes an active part in a European campaign designed to counteract money laundering schemes and the recruitment of "financial mules".

Postbank joined the major initiative "The New Sofia Forest" in its second edition, held in 2022. Almost 100 volunteers from the staff of the company planted over 1,000 young trees as part of its all-round corporate environmental protection program "Green Together with Postbank" and in line with the sustainable long-term environmental policy of the institution. The afforestation campaign was implemented on the lands of the village of Negovan, in the district of Novi Iskar, and involved the planting of 86,000 one-year-old saplings of the species of Austrian oak (genus Quercus) in an area of 13.7 hectares. The initiative of Postbank to join the campaign took place under the motto "Let's Give a Hand to the New Sofia Forest"; it demonstrated how, with our joint efforts, the surrounding environment can change for the better, contributing to the wellbeing of all of society.

In June 2022, Postbank was once again the key partner in the charity relay racing event Postbank Business Run, organized annually by the Begach ("Runner") Sports Club. A total of 309 teams made up of 1,240 participants from businesses operating in different sectors participated in the 10th edition of the event. The event, which took place on the grounds of Business Park Sofia, was organized by the Begach Sports Club with the decisive support of Postbank. A part of it was the children's relay race Kids Run, carried out under the guidance of certified coaches under the IAAF program Kid's Athletics; 50 children aged 4 through 16 joined the race. Apart from that, 10 top executives from various companies took part in the traditional CEO Dash race. Like every previous year, this year's edition of the biggest teambuilding event in Bulgaria, Postbank Business Run 2022, was organized in support of two socially meaningful causes. Funds raised in excess of BGN 10,000 will support the project "Day Centre: a Place for Games, Dreams and Growth" of For Our Children Foundation, developed for children with special needs, and the Para Chiado event organized by the Shark Sports Club, which offers sports activities for children with disabilities, spinal deformities or excessive body weight.

Postbank is the only bank in Bulgaria which has its own "Green Board" and an Environmental Office unit within its organizational structure, which both work for the conservation of nature both in terms of limiting the resources used by the bank and in terms of its financing activity. In addition, members of the Board organize various outdoor initiatives in which they seek to involve other staff.

In July 2022, Postbank and Mastercard successfully implemented phase two of the social responsibility initiative "Green Classroom" in the territory of Vitosha Nature Park. This resulted in building a connecting educational trail between the innovative amphitheatre venue located in the vicinity of the Bear Museum and the Dendrarium locality, enabling hikers to move safely between the two sites without using the main thoroughfare. The trail is part of a joint project between the two companies implemented in partnership with the Directorate of Vitosha Nature Park, which was launched in the summer of 2021 as a creative space for learning, fun and games out in the open, available to visitors of the mountain.

Almost 100 employees of both companies, together with representatives of the Directorate of Vitosha Nature Park, took part in putting the finishing touches on the project. Once again, special guests at the event were Radina Kardzhilova and Deyan Donkov, who had also joined in phase one of the project in 2021. The volunteers signposted the connecting trail to assist in the orientation of visitors to the mountain; they polished and put the finishing touches on the information boards containing interesting educational information about the tree species that can be seen in the Dendrarium locality, applied a coat of varnish on several "Vitosha-style" tables, a gazebo and an existing timber bridge in the area. Situated along the trail is an all-new recreation area comprising several park benches, a table with a built-in board game and an interactive electronic board with moving elements for the youngest visitors who, by moving the animal figures depicted on it in the right sequence, will be able to learn exciting information about them.

Employees of Postbank are regular blood donors to the National Centre for Transfusion Haematology; they participate in donor campaigns organized by the bank's Central Office.

In 2022, Postbank supported the podcast "Property – Bought or Rented", part of the project Imoti.net Annual Awards, which is released with the cooperation of the financial institution.

Postbank also supported the fourth edition of the festival "Off the Beaten Path", held in the town of Gotse Delchev and the village of Kovachevitsa.

The most successful businesses in Burgas Region were awarded at the first of its kind gala ceremony Burgas Business Awards, which took place at the convention centre of Hotel Bulgaria. Postbank was the general partner of the event, which showcased, promoted and awarded successful businesses and companies operating not just in the city of Burgas but along the entire southern Black Sea coast of Bulgaria.

"Media and Rescue" was the motto of the 17th Global Meeting of Bulgarian Media on 1 and 3 November in Israel, traditionally organized by the Bulgarian Telegraph Agency (BTA). Postbank is a partner to this prestigious forum, which brings together representatives of Bulgarian media active overseas.

In the course of 2022, the bank continued its long-standing support for, and interaction with, underprivileged social groups to promote their more active role in society. We supported children from underprivileged families in the town of Kazanlak, elderly people in the city of Ruse, the national campaign "Easter for Everyone: Donate a Holiday to Granny and Gramps", as well as many other smallscale initiatives.

Postbank has traditionally contributed to the festive decorations of Sofia. In keeping with its established values, this financial institution believes that the overall prosperity and development of society depends on our efforts to improve, each one of us, our living environment; therefore, along with its other projects with a social orientation, for the past several years Postbank has been contributing to the festive decoration of the capital city during the winter holiday season..

AWARDS

- Postbank won two gold distinctions in the annual Employer Branding Awards 2022, organized for the fifth time running in Bulgaria by b2b Media. The Bank won first place in the ***Excellence in Teamwork*** category, introduced for the first time as a way of rewarding innovative solutions for building a successful and motivated team. The gold distinction in the ***Employer Branding Idea*** category was also awarded to Postbank for its strategic approach to engaging the staff, as part of the process of establishing an employer brand.

- 2022 has the tenth year running in which Postbank was singled out as ***The best custodian bank in Bulgaria***. This recognition comes from the prestigious global magazine about capital markets, asset management and investments Global Custodian (www.globalcustodian.com).

- Postbank received the prestigious distinction ***Business Honoris Causa*** at the annual awards of The 24 Hours Daily, in recognition for its innovative solutions and steady contribution of the financial institution in support of Bulgarian education.

- Postbank won two distinctions at the seventh edition of the competition organized by the Bulgarian Advertisers Association, BAAwards 2022. The financial institution won silver in the ***New service*** category for its campaign ***How We Introduced Digital Office at Postbank and Stayed Together***. Postbank's social responsibility campaign ***The Power is in Our Hands***, implemented in support of Bulgaria's medical workers' efforts to fight the COVID-19 epidemic, was rewarded with a bronze award by the panel of judges in the Corporate Social Responsibility category.

- Postbank won the Green Planet distinction, part of the ***Golden Heart annual awards*** for charity and corporate social responsibility. This distinction comes as yet another recognition of the financial institution for its sustainable green policy and constant efforts for cultivating a green consciousness, with the emphasis this year being on the ***Green Classroom*** multi-layered project implemented by the bank in partnership with Mastercard.

- Postbank was awarded the gold distinction in the ***Green Idea*** category of the national competition ***The Greenest Companies in Bulgaria***, organized by b2b Media.

- Postbank was honoured with the gold distinction in the ***Green Educational Initiative*** category of the national competition The Greenest Companies in Bulgaria, organized by b2b Media. The bank received this distinction for its project ***Green Classroom***, which is part of its policy of social responsibility and is implemented jointly with Mastercard Bulgaria.

- Postbank was recognized for its steady and consistent support for the shaping up of future leaders in Bulgaria and the region. This recognition came from the American University in Bulgaria and was delivered at an official ceremony marking the 30th anniversary of the founding of that higher education institution.

- Postbank was recognized with the silver prize for its innovative digital online platform ***A Universe of Opportunities*** in support of social entrepreneurship in the ***Best Use of Social Networks*** category at the competition for best overall achievements in public relations, PR Prize 2022.

- Postbank won the silver distinction in the ***Campaign for Sustainable Development/Corporate Social Responsibility*** category of the PR Prize 2022 competition for best overall achievements in public relations. This distinction came in acknowledgment of the Green Classroom initiative, which is part of Postbank's comprehensive policy of social responsibility and is implemented jointly with Mastercard Bulgaria.

- Postbank won the special prize of the panel of judges in the twenty-second edition of the PR Prize 2022 competition for best overall achievements in public relations in Bulgaria. Postbank's social responsibility campaign ***The Power Is in Our Hands*** was jointly implemented with Visa Bulgaria, in support of Bulgaria's medical workers in their efforts to fight the COVID-19 epidemic.

- Postbank won the ***Innovative Management*** prize at the 12th annual edition of the Business Lady 2022 awards.

- For pursuing its policy in the area of corporate social responsibility Postbank was awarded a distinction in the ***Business with a Cause*** category. The cause ***Future for the Children*** has been part of the social programs of the financial institution for over 12 years now.

- Postbank won a gold distinction in the ***Leader in Digital Transformation*** category of the annual Company of the Year awards. This award came in acknowledgment of the successful launch of digital solutions for the bank's clients and its innovative product ***ONE Wallet*** by Postbank, a last generation mobile wallet.

- ***Mastercard UNIVERSE***, the metal credit card issued by Postbank, won a prestigious recognition at this year's edition of the Elan Awards 2021 contest sponsored by the International Card Manufacturers Association (ICMA). The prize for Postbank's card is in the ***Environmentally Friendly Cards*** category and comes as an acknowledgment of the innovations in the design, security and technical excellence that went into creating this next-generation special payment instrument.

- Postbank won the Grand Prix at the 30th jubilee edition of the Bank of the Year Awards 2022, organized by the Bank of the Year Association.

  At the awards ceremony, Postbank also won the prize in the ***Development Dynamic*** category.

- Postbank won a gold prize in the eighth edition of the b2b Media Awards 2022. The distinction in the ***Campaign with a Cause*** category was awarded to the Bank for its campaign ***The Power Is in Our Hands***, jointly implemented with Visa Bulgaria, in support of Bulgaria's medical workers in their efforts to fight the COVID-19 epidemic.

- Postbank won a gold prize in the eighth edition of the b2b Media Awards 2022. The panel of judges awarded the bank a gold prize in the ***Innovative Campaign in Social Media*** category, for its digital platform ***A Universe of Opportunities***, a venue for presenting projects with social orientation and sustainability in the area of education, green projects and digital innovations.

- Postbank won a gold prize in the eighth edition of the b2b Media Awards 2022. In the ***Green Initiative*** category, the financial institution was awarded for its ***Green Classroom*** project that has meanwhile grown into a successful and sustainable green initiative implemented in partnership with Mastercard Bulgaria and the Directorate of Vitosha Nature Park.

- Postbank won, for the fifth consecutive time, ***the Best Retail Banks***, Bulgaria prize at the World Finance Banking Awards in 2022 The competition is organized by the prestigious international publication World Finance, which monitors and analyses the global financial industry, business and economy.

- Postbank won the gold in the ***Innovations in Personnel Selection*** category and a bronze distinction in the ***Employer Branding Strategy*** category in the leading Career Show Awards 2022 for best employer.

- Petya Dimitrova was awarded the ***Banker of the Year 2022 prize*** at the twenty-ninth ceremony of the Banker of the Year awards organized by The Banker Weekly. She was recognized with that award for the high organic growth achieved in the course of the year. This is the sixth time that the Chief Executive Officer and Chair of the Management Board of Postbank has received that award.

- Postbank won a bronze ***EFFIE*** in the Services category for its campaign ***Every Dream Is Worth It.***

SHARE CAPITAL STRUCTURE

As of 31 December 2022 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 directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

MANAGEMENT BOARD

As of 31 of December, 2022 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) – Member of the Management Board;

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

International Banking Institute (non-profit legal entity) – Manager

Hellenic Business Council in Bulgaria (non-profit legal entity) – Member of the Management Board;

- **Asen Yagodin**

  Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman and Member of the Board of Directors;

  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;

- **Panagiotis Mavridis**

  IMO Property Investments Sofia EAD, Bulgaria – Executive Director and Member of the Board of Directors;

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 Commerce Act during 2022.

SUPERVISORY BOARD

As at 31 December 2022, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis 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;
- Oliver Ellingham – Member of the Supervisory Board;
- Raika Ontzova – 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

- **John David Butts**

Lex RX Bulgaria EOOD, Bulgaria – Sole Owner;

Ubad - Toro OOD, Bulgaria – Partner;

Lexrx Capital OOD, Bulgaria – Partner.

- **Oliver Ellingham**

Tanhurst LLP – Partner.

- **Raika Ontzova**

VPS Lilia & Ontzovi SD - Partner.

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;

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 – 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;

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;

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;

NEU 03 Property Holdings Limited, Cyprus – Chairman and member of the Board of Directors;

ERB New Europe Funding III Limited, Cyprus – Chairman and member of the Board of Directors;

Eurobank S.A – Member of the Executive Board.

- **John David Butts**

  Lexrx Capital OOD, Bulgaria – Managing Director.

- **Oliver Ellingham**

  Self Storage Number I Ltd – Sole Director;

  Eurobank Cyprus Ltd, Cyprus – Chairman and member of the Board of Directors;

  National Asset Management Agency (NAMA), Ireland – Member of the Board of Directors.

- **Iasmi Ralli**

  Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors (resignation 15.2.2022)

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

In 2022, the Bank did not conclude contracts within the meaning of Art. 240 b para. 1 of the Commercial Law.

BANK STRUCTURE

Eurobank Bulgaria AD has no subsidiaries as of 31 December 2022. The Bank employees are 3,333 people (2021:3,289).

OBJECTIVES FOR 2023

While the long-term strategy of the bank remains unchanged – focus on organic growth, digitalization and excellent customer service, in the next year the bank faces two major challenges, which will require a significant amount of resources and management attention, namely the acquisition of the business of the Bulgarian branch of BNP Paribas Personal Finance and the preparation for the adoption of the euro, despite the recent postponement.

On 20 January 2023 Postbank signed a business transfer agreement with BNP Paribas Personal Finance for the acquisition of its business in Bulgaria. The branch is one of the leaders in the consumer finance market in the country and this acquisition presents a huge opportunity for the Bank to enter into a new fast-developing and high margin segment. In the last more than 15 years, BNP Paribas Personal Finance has built a recognizable franchise on which the Bank wants to build upon and enhance. The acquisition will not only enable Eurobank Bulgaria to increase its market share and target the second place in the segment, but also offers opportunities for cross selling and new ways to service customers.

The other important project for the year is the preparation for the euro adoption. In the medium term the adoption of the euro is expected to bring many benefits for the country in general and the Bank in particular such as reduced currency risk, higher capital adequacy, more opportunities for investments and better access to funding.

The expected slowdown of the economy and the tighter monetary policy means that a primary goal for the bank will be to ensure sufficient liquidity at the right price in order to sustain the lending growth and to protect the liquidity ratios of the Bank. The lending growth in the market will be much lower than the record one seen in 2022, therefore the focus will shift to profitability rather than gaining market share. Cost-income ratio will be under strain from the still elevated inflation and the rising cost of funds as the existing lending stock cannot be so easily repriced.

The quality of the portfolio will be closely monitored through the early warning system and other suitable indicators to ensure that the Bank stays ahead of the events and is able to proactively address the changes in the environment.

Maintaining solid capital buffers will remain a top priority. Eurobank Bulgaria will continue to rely on internal capital generation to support growth. In the same time, more long-term liabilities will be sought in order to comply with the binding MREL target from the beginning of 2024.

In parallel to the two major projects, the Bank will invest in enhancing its IT capabilities and laying the foundations for overhauling key front and back office systems in the next years.

As always, special attention will be given to customer service, not least through finalizing the branch transformation project presenting the clients with more opportunities to bank in a modern and luxurious way. The same high standards for customer service will be applied to the new clients after the acquisition of BNP Paribas Personal Finance in order for them to feel welcome becoming part of Postbank's family.

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: 2023.03.30 18:44:46 +03'00'

Petia Dimitrova

Chairperson of the Management Board and Chief Executive Officer
30 March 2023
Sofia, Bulgaria

Dimitar Borisov Shoumarov

Digitally signed by Dimitar Borisov Shoumarov
Date: 2023.03.30 17:02:04 +03'00'

Dimitar Shoumarov

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

CORPORATE GOVERNANCE STATEMENT 2022

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 Articles of Association ("AoA") and all adopted internal rules and manuals are in a 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 behavior.

The 2022 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 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 31.12.2022 is 8 (eight) members, after the decision of the General Meeting of Shareholders, Mr. Theodoros Karakasis and Mr. Anastasios Nikolaou were dismissed and a new member was appointed, namely Mrs. Raika Ontzova, 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.

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, 2022 the members of the Supervisory Board are:

- Georgios Provopoulos - Chairman of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakis 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;
- Oliver Ellingham - Member of the Supervisory Board;
- Raika Ontzova – Member of the Supervisory Board.

The Chairman 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 2022 the RC held 4 (four) regular meetings and 3 (three) 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 comprise of at least three members. As of December 2022 the Audit Committee consisted of four 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.

The Audit Committee members' term of office is until 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 2022 the Audit Committee held 4 (four) regular and 7 (seven) 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 twelve (12) years in total. All of the members are non-executive directors and the majority of them are independent.

In 2022 the Remuneration Committee consisted of three members. During 2022 the Remuneration Committee held 5 (five) meetings.

3.2.4. Nomination Committee

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

In 2022 the Nomination Committee consisted of three members. During 2022 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 2022 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 2022 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 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 the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

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 functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

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 deal with customers with ratings above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

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 deal with customers with ratings above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the Chief Executive Officer) and senior management from Credit sector function from 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 products, both in the retail and the wholesale areas.

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 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 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 and Sustainability Committee

Environmental and Sustainability Committee ("ESC") is a Mamanagement Committee which provides all strategic decisions within the scope of the Environmental Policy of the Bank.

The Committee consists of key management personnel in the areas of Operations, Legal, Risk, Corporate Communications and Marketing, Retail and Wholesale.

3.3.12. Special Handling Monitoring Committee

The Special Handling Monitoring Committee (SHMC) is established as a MB committee that monitors and decides on strategy of problematic 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.

3.4. 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 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 2022:

In discharging its responsibilities for 2022 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;
- Other decisions as per Bank's Statutes.

b) Capital Adequacy:

- review of the 2022 Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) – Pillar 2 Report. Capital Adequacy report was reviewed every quarter.

c) Business monitoring:

- approval of the 2021 Annual Financial Statements;
- review of business developments and liquidity.

d) Risk Management and Internal Control:

- review of annual reports on evaluation of Internal Control Systems and Compliance Polices;
- review and approval of the 2021 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 in order to function effectively.

The Nomination 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 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 and members for the 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 which 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 and 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 through recommending best practices in internal control;

- 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 global 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 unit with permanent function, independent of the Bank's business activities.

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Eurobank Group Compliance Sector 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.

Compliance Division duties and responsibilities indicatively include:

- Raise compliance awareness throughout the Bank;

- 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;

- 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;

- Provide advice to the 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;

- Monitor and test whether staff applies effectively the internal processes and procedures aimed at achieving regulatory compliance;

- 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.

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	• Establish the policies and processes for identifying and understanding business risks.
Assess	• Establish and implement measurement and reporting standards and methodologies.
Control	• 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	• Interpret and report on risk exposures, concentrations and risk-taking outcomes. • Communicate with external parties.
Manage and Challenge	• Review and challenge all aspects of the Group's risk profile; • Assess new risk-return opportunities; • Advise on optimising the Group'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 interests 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 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 2022

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.

ENVIRONMENTAL POLICY

ENVIRONMENTAL POLICY STATEMENT

Postbank Bulgaria believes that environmental responsible actions are an essential part of its business and seeks efficiency in the use of natural resources, as well as minimization of waste. It also recognizes sustainable business growth. As a financial services institution, Postbank acknowledges the impact on the environment from its operations indirect impacts stemming from lending and investment activities and from relationships with its stakeholders and society at large.

Postbank is committed to assess the environmental impact of its activities, set appropriate objectives and targets, continuously control and improve its environmental performance and comply with the local national and international environmental laws and regulations.

Postbank believes that environmental management is an integral part of an enterprise's proper and socially responsible behavior. To this end it pursues responsible environmental attitude towards its shareholders, employees, clients, suppliers and society at large, by implementing sound environmental practices, whilst promoting economic growth.

During the reporting period Postbank has adopted its ESG Strategic Vision thus reiterating its ambition to act as a leader in sustainable finance in Bulgaria, and it has been published on its website.

POSTBANK 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.

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 abided by daily.

We are well aware 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 products that help 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 maintain 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 financial solutions to them;
- 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 stakeholders 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 activities.

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 sparing 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 ESG and broader issues.

We have formed a special management committee - the Environmental and Sustainability Committee (ESC) and have endowed it with the governance of the implementation of our ESG vision and our Environmental Policy Statement, as well as with oversight of the bank's compliance with requirements stemming from being a signatory of international initiatives, such as the United Nations Principles for

Responsible Banking (PRB). The committee discusses the materiality of ESG impacts for the bank and identifies key impact areas, upon which sets annual targets. Under the ESC supervision, several thematic working groups operate to ensure the achievement of the targets as set out and the undertaking of remedial actions whenever necessary.

In addition to the ESC, we have established a special function - the Environmental and Social Affairs Coordinator - who is in charge of coordinating the implementation of the decisions of the ESC.

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 is a United Nations Environmental Program – Finance Initiative (UNEP FI) member since 2013, and a signatory of the Principles for Responsible Banking (PRB) since 2020. This makes Postbank the first and to date the only bank in Bulgaria to join these international financial initiatives.

Drawing on international expertise and best banking practices through engaging in UNEP FI's initiatives enhances the Bank's internal expertise and provides it with innovative ideas and possible solutions to address the most pressing ESG challenges.

1. Postbank environmental management overview

Today's world is facing the phenomena of pollution and climate change. There is hardly any individual or organization who would doubt the importance of managing the consequences of the changes pollution and climate change create in the environment, and of coming up with the proper means to curb them.

There are two main types of environmental aspects of the activity of an organization – direct and indirect, and they lead to the manifestation of two corresponding types of impacts. The direct impacts on environment originate from the operation of a company (operational footprint), while the indirect stem from the products and services the company offers.

Banks do not directly impact the environment to a large extent since their consumption of energy and other resources is minor on the background of other industries. They, however, could contribute significantly to the effort to save the environment through selective lending practices as well as though the implementation of environmental risk management in their loan portfolios. Apart from that, banks could serve as a good example to society taking care of how internal resources are used.

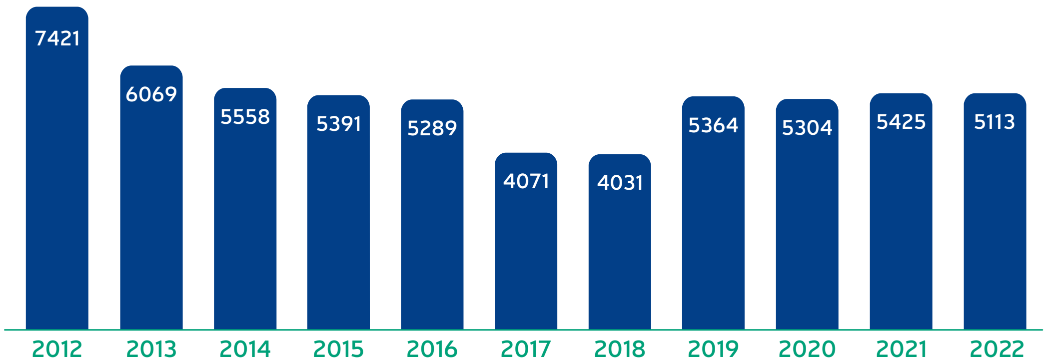
Postbank is committed to actively manage both its direct and indirect environmental impacts on the environment. For that matter it has established Environmental and Sustainability Committee, Green Board and Environmental and Social Affairs Coordinator in its organizational structure, which are in charge of implementing the environmental policy of the Bank.

2. Resource consumption management at Postbank

Postbank has analyzed the materiality of its direct impacts on climate change and the environment and have identified three areas in which to concentrate systematic efforts to manage impacts – CO_2 emissions from electricity consumption, and the use of paper and water.

The outcome of the analysis on 2022 data is presented in Fig. 1, 2, and 3 below through three selected environmental indicators. These indicators are presented in dynamics for a period of 11 years spanning 2012-2022, and they reveal the trends of internal resource use as a result of the various initiatives that the Bank has been undertaking in order to manage them.

Fig 1. Postbank CO_2 Footprint from Electricity Consumption, 2012-2022



Source: Environmental Office calculations based on Premises Department data

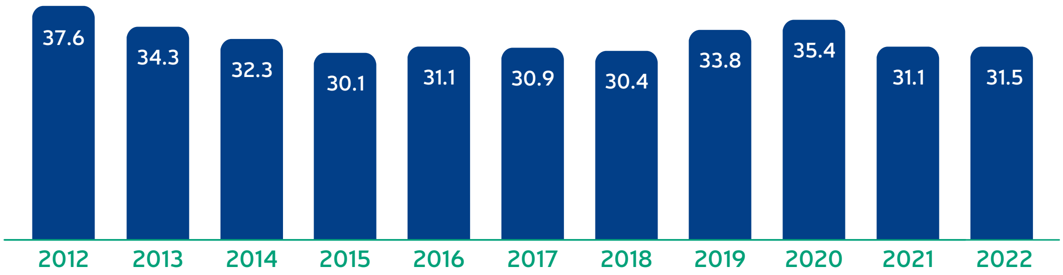
As evident from the chart presented in Fig. 1, CO_2 emissions from electricity use in Postbank have slightly decreased – by 6% in 2022 YoY, and 31% when compared to the base 2012 year. In the reporting period, the Bank has initiated two large projects with the aim of achieving further energy efficiency of its premises and improve its CO_2 footprint – massive reconstruction of the Head Office building and solar panels deployment on its roof. The outcome of these projects will start materializing in 2023.

Another major step towards reducing CO_2 emissions was the gradual replacement of the conventional car fleet with hybrid vehicles. In 2022, 73% of the car fleet has already been changed.

The data on paper consumption are presented on Fig 2. They show that the Bank has consumed 1% more paper in 2022 YoY despite increased business volumes. Containing paper use in an environment of significant business growth is the outcome of broad efforts in the area of digitalization, improving internal processes, and increased staff awareness for resource efficiency.

Compared to the base 2012 year, there is a decrease of 16%.

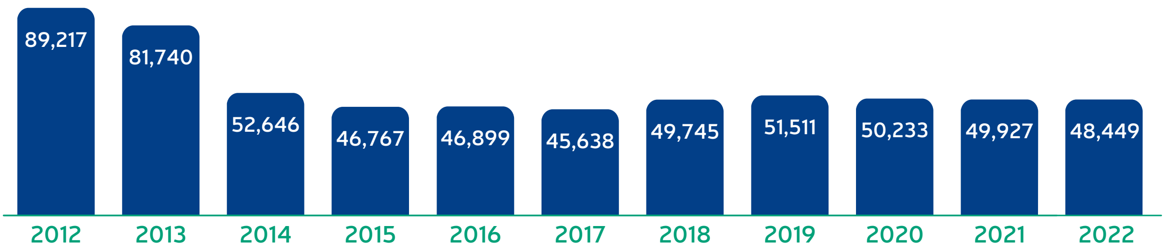
Fig. 2 Paper Consumption in Postbank, millions sheets of paper, 2012-2022



Source: Environmental Office calculations based on Premises Department data

Water consumption for office needs has shown a slight decrease of 3% in 2022 YoY. Data are presented on Fig. 3 below. The analysis of the data on water consumption for the past 11 years shows that it has been decreased significantly and for the past several years it has stabilized, revealing that the current level is most probably the optimum one.

Fig. 3 Water Consumption in Postbank, m^3, 2012-2022



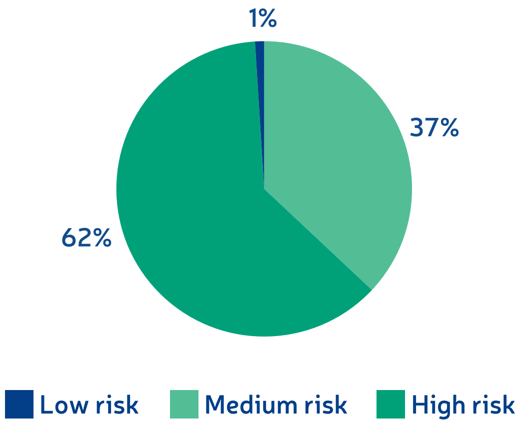
Source: Environmental Office calculations based on Premises Department data

3. Climate-change related, environmental and social risk management in lending

Apart from the direct aspects and its impact on society, Postbank is continuously investigating the indirect environmental aspects from its operations. These are related primarily to its corporate and small and medium enterprises loan portfolio. In this area, Climate Change-Related, Environmental and Social Risk Management Procedure is implemented to ensure that lending is provided accounting for the risks for the climate, the environment and society. The Bank encourages green businesses indirectly though the implementation of this procedure. It prescribes the particular methodology which is followed to ensure that environmental and social risks are evaluated and monitored in the loan approval and subsequently monitoring process.

The data on the distribution of environmental and social risk across the corporate and small and medium enterprises loan portfolio are presented in Fig. 4 below. They show that the Bank has preserved the distribution of levels of risk in its commercial portfolio from the past year - a significant number of the deals, 37%, have low environmental and social risk, 62% have medium risk, and only 1% are characterized by having high such risks.

Fig. 4. Distribution of Levels of Environmental and Social Risk in the Commercial Loan Portfolio of the Bank



Source: Environmental Office calculations based on Corporate and Small Business banking Divisions data

Postbank views responsible relationships with its clients and customers as instrumental for working in accordance with its Environmental Policy Statement. The key document in this direction is the Climate Change-Related, Environmental and Social Risk Management Procedure of the Bank. It is applicable to all small business and corporate clients.

According to it, all commercial deals are evaluated based on how the applicants are dealing with climate change-related, environmental and social matters in their operations. The Bank appraises each such deal based on a number of both quantitative and qualitative environmental, climate-related and social criteria, part of which are then input in an automated scorecard. The aim is to ensure that the customer demonstrates high awareness of the related matters and is making his best efforts to act accordingly.

An important part of the evaluation process includes requesting the customer to fill in a short questionnaire with qualitative questions on how his business activities relate to the environmental, climate and social considerations. This questionnaire is completed by the customer with the assistance of the bank employee in charge of him so that exchange of information could take place as to what the needs of the customers are and how the Bank could meet them.

As a result of the application of the procedure and the automation of the process, deals are being monitored for their environmental, climate-related and social aspects on an annual basis and, if necessary, remedial actions could be requested from the client so that proper management of associated risks is ensured.

Apart from risk management, during the reporting period Postbank formalized the steps that need to be taken inside the bank in order for green banking products to be launched. The bank intends to encourage the creation and spread of green products that could meet the demands of its customers, which will lead to more sustainable relationships them.

The Bank is proactive towards its clients by proposing them green products so that they could benefit from such opportunities. In the reporting period, the following sustainable products have been launched: ESG structured deposit product, green corporate and SME loans as well as green mortgage loan. The Bank is planning to expand its green products portfolio in the coming years.

During the reporting period all corporate banking staff as well as small business banking and finance management staff have undergone training in climate-related, environmental and social risk management principles and in the application of the respective Procedure at the bank. Within this period one presentation dedicated on the EU Green Deal impact on banking was presented at an Executive Committee meeting, and a training dedicated to the same topic was done for the Management Board and Supervisory Board members.

The EU Taxonomy (Regulation (EU) 2020/852 of the European Parliament and of the Council) is a green classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes. The Taxonomy Regulation is a key component of the European Commission's action plan to redirect capital flows towards a more sustainable economy.

For an economic activity to be defined as environmentally sustainable under the Taxonomy, and thereby classified as aligned with the Taxonomy, it must meet the following criteria:

1. making a substantial contribution to at least one environmental objective;
2. doing no significant harm to any other environmental objective;
3. complying with minimum social safeguards;
4. complying with the technical screening criteria.

The Taxonomy is currently limited to the classification of environmentally sustainable economic activities. However, work is ongoing at the EU level to review whether the Taxonomy will be expanded to classify e.g. social sustainability and activities that could cause significant harm to the environment.

The year 2022 is the first year that NFRD undertakings, including the Bank, are reporting according to the Taxonomy. For financial undertakings, according to the Art. 10 of the same Delegated Act, the transitional rules for the period from 1 January 2022 until 31 December 2023 are limited to the reporting of the extent to which their customers and counterparties' activities are Taxonomy-eligible as well as information on assets that cannot be assessed under the Taxonomy Regulation, e.g. derivatives.

The Bank has calculated the data needed for the requisite disclosures based on the EBA's recommendations and the European Commission's FAQs and used the FINREP reporting format. "FINREP" is the required format of reporting based on the Regulation (EU) No 575/2013 of the European Parliament and of the Council Regulation (EU) No 575/2013 (CRR) and Regulation (EU) No 680/2014. A conservative approach was utilized in the analysis: if insufficient data is available to assess counterparty's eligibility, the Bank considers it as non-eligible.

All amounts are shown in BGN thousands unless otherwise stated

The reported KPIs are included in the table below:

Taxonomy KPIs	**2022**	**2021**
Taxonomy-eligible assets/ Covered assets	**28.79%**	**27.1%**
Taxonomy non-eligible assets/ Covered assets	**71.21%**	**72.9%**
Non-NFRD counterparties/ Total Assets	**28.53%**	**26.7%**
Derivatives, hedge accounting / Total Assets	**0.18%**	**0.0%**
Trading and On-demand interbank loans/ Total Assets	**1.6%**	**1.2%**
Central governments, central banks, supranational issuers/ Total Assets	**17.4%**	**24.9%**

Taxonomy-eligible assets include residential and commercial real estate mortgages towards households and non-financial corporations (categories according to FINREP).

Covered assets include financial assets at amortized cost, financial assets at FVOCI, financial assets at FVPL, repossessed collaterals by the Bank. Total covered assets do not include exposures to central governments, central banks and supranational issuers.

The exposure to undertakings that are not subject to NFRD has been identified excluding the counterparties that are subject to NFRD from the total asset of the Bank.

Central governments, central banks, derivatives, trading positions and on-demand interbank loans have been identified according to FINREP.

The Bank will continue developing its environmental management strategy by closely monitoring ESG and climate change regulatory and market developments, identifying and exploiting areas of most significant positive and negative environmental and climate-change impact of its operations and building strategic business opportunities in relation to the increase of positive impacts and reduction of negative impacts.

4. ESG internal management, staff awareness, external reporting and publicity

In 2022, Postbank has completed projects related to improving the well-being of its staff such as the equipment of fitness center in the Head Office premises and the deployment of mini golf facilities in the area surrounding them.

During the reporting period presentations dedicated on the EU Green Deal impact on banking were presented and discussed at Executive Committee meetings, and a training dedicated to the same topic was done for the Management Board and Supervisory Board members thus ensuring awareness and alignment at top management level.

Being a signatory to the Prinicples for Responsible Banking (PRB) during the reporting period Postbank successfully completed the respective reporting requirements which has been evidenced in its Second Year Progress Report to the PRB.

In order to provide for the necessary publicity towards its stakeholders, the Bank launched a website dedicated to its ESG strategy and activities where all information relating to them is concentrated in one place.

In 2022 Postbank achieved the goals it had set for the year in the area of environmental management:

- Develop a more-detailed impact analysis to identify areas of most significant (potential) positive and negative environmental and climate-change impact of its operations;
- Identify strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts;
- Continue staff training in ESG and climate change-related topics: Supervisory and Management Board members passed training on the impact of ESG-related regulations on banks.

For 2023 Postbank has identified the following goals in the area of ESG:

- Deploy ESG reporting and disclosures to fulfill regulatory requirements and meet best management practices in the area;
- Improve automation of processes related to internal reporting of ESG risks and opportunities;
- Enhance staff training to boost further internal awareness.

5. Fines, sanctions or cases brought through dispute resolution mechanisms

In 2022 Postbank had no fines, sanctions or cases in the area of environmental management.

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 2022

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
73.00%	27.00%	75.00%	25.00%	78.00%	22.00%	80.00%	20.00%	81.00%	19.00%

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 2022

	Specialist positions	Expert positions	Managerial positions
Female	92%	77%	58%
Male	8%	23%	42%

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 Department 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 2022, we initiated the strategic partnership with INSEAD, one of the leading business schools in the world. We conducted the MBA Essentials Program and Leadership Development Program for over 300 managers and the first edition of the SBB Development Academy, focusing on the development of employees from the Branch Network in Small Business Banking. We also launched the NEXT Development Program, which lasts for 3 (three) years and provides a long-term perspective and opportunity for bank employees to develop their talents, upgrade their knowledge, skills and accelerate their growth as leaders.

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 2022, we implemented an innovative approach of digital and Virtual Reality (VR) gamification of the employer brand and created: 1. An interactive career site with gamification - www.careers.postbank.bg with an integrated recruitment platform; 2. Career Viber chatbot for talent attraction; 3. VR software application for the Bank as an employer with innovative gamification in a virtual environment.

We also have integrated an automated learning platform with a rich variety of functionalities and modules, which is distinguished and valuable by the individualized learning paths for development for each position in the Bank.

In 2022, we launched the following initiatives:

- 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" 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 competition with an award in the "Employer Brand Strategy" category, as well as the honors from the Employer Branding Awards of b2b media - first place in the categories: "Excellence In Team Work" - 2022,"Employer Branding Idea (in Pandemic Times)" 2022, Among our achievements is the prize from the Career Show Awards in 2022 - first place in the category "Innovations in recruitment".

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 2022, we upgraded the benefits program in direction of work/life balance with new working options for home office, more time off with 1 paid day of absence for birthdays, outdoor fitness and mini golf at Bank Headquarters, as well as various 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' 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 upgraded the digitalization process of the annual assessment and it grew into the WE GROW Performance Management Process.

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 2022, 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.

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 2022 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 2022, 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 launched a strategic partnership with the American University in Bulgaria. For the sixth 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.

FINANCIAL STATEMENTS

Income statement

	Notes	Year ended 31 December 2022	2021
Interest income calculated using the effective interest method		433,884	371,182
Other interest income		15,441	6,951
Interest expense and similar charges		(22,223)	(11,070)
Net interest income	**6**	**427,102**	**367,063**
Fee and commission income		181,913	148,479
Fee and commission expense		(39,876)	(24,578)
Net fee and commission income	7	**142,037**	**123,901**
Other operating income, net	8	379	2,254
Dividend income		601	517
Net trading income	9	(862)	486
Gains less (losses) from trading securities	17	(2,090)	168
Gains less (losses) from investment securities	19b	(2,919)	1,230
Repossesed assets impairment		(1,271)	(240)
Other operating expenses	10	(237,412)	(207,178)
Deposit Insurance Fund expense		(19,530)	(15,524)
Impairment charge for credit losses	12	(75,985)	(84,385)
Profit before income tax		**230,050**	**188,292**
Income tax expense	13	(23,224)	(19,066)
Profit for the year		**206,826**	**169,226**

The following notes set out on pages 75 to 211 form an integral part of these financial statements

The financial statements were authorized by the management on 30 March 2023.

Petia Nikolova Dimitrova
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Petia Dimitrova
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Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

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Statement of comprehensive income

	Notes	Year ended 31 December 2022	2021
Profit for the year		**206,826**	**169,226**
Items that are or may be reclassified subsequently to profit and loss:	**14**	***(61,550)***	***(13,437)***
Debt securities at FVOCI			
-net changes in Fair Value, net of tax		(88,279)	(7,089)
-reclassified to profit or loss, net of tax		26,729	(6,348)
Items that will not be reclassified to profit or loss:		***3,736***	***7,702***
Change in FV of property, plant and equipment, net of tax		3,234	3,371
Remeasurements of retirement benefit obligations, net of tax		502	4,331
Other comprehensive income for the year	**14**	**(57,814)**	**(5,735)**
Total comprehensive income for the year		**149,012**	**163,491**

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All amounts are shown in BGN thousands unless otherwise stated

Statement of financial position

	Notes	As at 31 December	
		2022	**2021**
ASSETS			
Cash and balances with the Central Bank	15	1,571,141	2,139,549
Loans and advances to banks	16	1,443,596	505,362
Trading assets	17	35,228	38,369
of which pledged	17	14,537	-
Derivative financial instruments	25	52,615	11,460
Loans and advances to customers	18	10,063,433	8,793,951
Investment securities	19a	2,747,713	2,635,788
of which pledged	19	593,986	239,011
Deferred tax assets	28	7,053	8,556
Property, plant and equipment, including right of use assets	21	278,184	235,255
Investment property	20	488	797
Intangible assets	22	80,572	79,670
Other assets	23	85,952	41,337
Total assets		**16,365,975**	**14,490,094**
LIABILITIES			
Deposits from banks	24	23,904	9,535
Derivative financial instruments	25	36,873	9,139
Due to customers	26	13,682,032	12,313,508
Other borrowed funds	27	475,598	166,578
Current income tax payable		476	976
Provisions for other liabilities and charges	29	12,237	11,417
Retirement benefit obligations	30	3,389	3,629
Other liabilities	31	195,416	188,274
Total liabilities		**14,429,925**	**12,703,056**
SHAREHOLDERS' EQUITY			
Share capital		560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		1,093,206	944,194
Total shareholders' equity	32	**1,936,050**	**1,787,038**
Total shareholders' equity and liabilities		**16,365,975**	**14,490,094**

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All amounts are shown in BGN thousands unless otherwise stated

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 2021	**560,323**	**2,766**	**19,174**	**282,521**	**758,763**	**1,623,547**
Profit for the year					169,226	**169,226**
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI			(13,437)			**(13,437)**
Revaluation of property, plant and equipment		3,371				**3,371**
Remeasurements of retirement benefit obligations, net of tax					4,331	**4,331**
Total comprehensive income for 2021		3,371	(13,437)		173,557	**163,491**
Balance at 31 December 2021	**560,323**	**6,137**	**5,737**	**282,521**	**932,320**	**1,787,038**
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**

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Statement of cash flows

	Year ended 31 December 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	487,491	381,992
Interest paid	(17,768)	(10,563)
Dividends received	601	517
Fees and commission received	183,612	148,421
Fees and commission paid	(37,234)	(23,892)
Amounts paid to and on behalf of employees	(127,245)	(110,659)
Net trading and other income received	(1,472)	503
Other operating expenses paid	(108,881)	(94,538)
Tax paid	(14,400)	(14,400)
Cash from operating activities before changes in operating assets and liabilities	**364,704**	**277,381**
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Net (increase) in reserve with the Central Bank	(67,283)	(104,532)
Net decrease in loans and advances to banks	97,812	-
Net decrease in trading securities	3,141	2,303
Net (increase) in loans and advances to customers	(1,347,476)	(1,091,773)
Net (increase)/ decrease in other assets	(42,257)	2,729
Net (decrease)/increase in derivatives instruments	13,766	(3,261)
Net (decrease)/ increase in due to other banks	14,369	1,796
Net increase in amounts due to customers	1,364,510	2,079,352
Net increase/ (decrease) in other liabilities	(17,976)	14,355
Net cash flows from operating activities	**383,310**	**1,178,350**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets (Notes 21,22)	(59,095)	(29,644)
Purchase of investment securities	(1,362,941)	(1,919,922)
Proceeds on disposal of property and equipment	282	136
Proceeds from sale of investment securities	1,146,284	734,745
Net cash flow/(used in) from investing activities	**(275,470)**	**(1,214,685)**

	Year ended 31 December 2022	2021
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES		
Long-term financing received	312,933	146,687
Long-term debt repaid	(5,654)	(9,566)
Payment of lease liability	(15,518)	(12,398)
Net cash used in financing activities	**291,761**	**124,723**
Effect of exchange rate changes on cash and cash equivalents	1,094	261
Net change in cash and cash equivalents	**400,695**	**88,649**
Cash and cash equivalents at beginning of year	1,980,415	1,891,766
Cash and cash equivalents at end of year (Note 33)	**2,381,110**	**1,980,415**

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Galina Lokmadjieva
Registered Auditor responsible for the audit

The following notes set out on pages 75 to 211 form an integral part of these financial statements

NOTES TO THE 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 199 network locations and 13 business centers (2021: 199 network locations and 13 business centers). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employees are 3,333 people (2021: 3,289).

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

POSITION OF EUROBANK GROUP, GREECE

The year 2022 was marked by the Russian invasion of Ukraine, which gave rise to a global but predominantly European energy crisis, added to the mounting inflationary pressures, and led to widespread economic uncertainty and increased volatility in the global economy and financial markets. Nevertheless, the post-pandemic recovery continued for a second consecutive year in Greece, with its GDP growth overperforming that of most of its EU peers.

On the monetary policy front, although net bond purchases under the temporary Pandemic Emergency Purchase Programme (PEPP) ended in March 2022, as scheduled, the European Central Bank (ECB) will continue to reinvest principal from maturing securities at least until the end of 2024, including purchases of Greek Government Bonds (GGBs) over and above rollovers of redemptions. Moreover, the Governing Council of ECB, in line with its strong commitment to its price stability mandate, has proceeded with five rounds of interest rate hikes (in July, September, October, December 2022, and in February 2023), raising the three key ECB interest rates by 300 basis points in aggregate, and approved a new instrument (the "Transmission Protection Instrument" – TPI) aimed at preventing fragmentation in the sovereign bonds market.

Regarding the outlook for the next 12 months the major macroeconomic uncertainties in Greece and our region are as follows: (a) the ongoing war of Russia against Ukraine and its ramifications on regional and global stability and security, the European and Greek economy, and the energy and fuel markets in particular, (b) a prolongation of the ongoing inflationary wave, especially in the energy and food sectors, and its impact on economic growth, employment, public finances, household budgets, firms' production costs, external trade and banks' asset quality, as well as any potential social and/or political ramifications these may entail (c) the ongoing and upcoming central bank interest rate hikes worldwide, and in the Euro Area in particular, that may exert upward pressures on sovereign and private borrowing costs, especially those of highly indebted borrowers, discourage investment, increase turbulence in the financial markets and lead economies to a slow down or even a recession (albeit, most likely, a shallow and short-lived one), (d) the geopolitical developments in the near region, (e) the evolution of the pandemic, and the probability of emergence of new Covid-19 variants that could further impact economic growth, fiscal balances and international trade by prolonging the disruptions in the global supply chain, and (f) the exacerbation of natural disasters due to the climate change and their effect on GDP, employment, fiscal balance and sustainable development in the long run.

The Russia - Ukraine war poses uncertainties in global economy and international trade with far-reaching and long-term consequences. However, the risks coming from the geopolitical upheaval could be potentially mitigated with coordinated measures at the European level, as per the pandemic precedent, although progress so far is very limited and slow. In this context, the Group holds non-significant exposure in Russian or Ukrainian assets, is continuously monitoring the developments on the macroeconomic and geopolitical fronts as well as the evolution of its asset quality KPIs and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business goals in accordance with the business plan for 2023-2025.

RELATED PARTY TRANSACTIONS - EUROBANK S.A. SHAREHOLDING STRUCTURE

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 32,99% of Eurobank Holdings voting rights as of 31 December 2022 (31 December 2021: 33%), is considered to have significant influence over the Eurobank Holdings.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

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, acknowledging the risks with, the ongoing war of Russia against Ukraine and its impact to the economy and the banking system, a prolongation of the ongoing inflationary wave, the evolution in probability of emergence of new Covid-19 variants and taking into account factors relating to (a) the measures adopted by the Bulgarian and European authorities to mitigate the negative economic impact, (b) the Bank's pre-provision income generating capacity and the adequacy of its capital and liquidity position and (c) the continuing Bank's NPE reduction plan, has been satisfied that the 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 2021, except for those that relate to the impact of the Covid-19 pandemic to the estimation of the expected credit losses (ECL) on loans and advances to customers (Note 3.1).

2.1.1. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

New and amended standards adopted by the Bank as of 1 January 2022

The following amendments to standards as issued by the IASB and endorsed by the EU, apply as of 1 January 2022:

IFRS 3, Amendments, Reference to the Conceptual Framework

The amendments to IFRS 3 *"Business Combinations"* updated a reference to the current version of Conceptual Framework while added a requirement that, for obligations within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. In addition, for a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy exists at the acquisition date.

Moreover, the issued amendments added a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition in a business combination at the acquisition date.

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

Annual improvement to IFRSs 2018-2020 cycle: IFRS1, IFRS9 and IFRS 16

The improvements introduce changes to several standards. The amendments that are relevant to the Bank's activities are set out below:

The amendment to IFRS 1 *"First-time Adoption of International Financial Reporting Standards"* provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result, the amendment allows entities that have elected to measure their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported in the parent's consolidated financial statements. This amendment also applies to associates and joint ventures that have taken the same IFRS 1 exemption.

The amendment to IFRS 9 *"Financial Instruments"* clarifies which fees should be included in the 10% test for derecognition of financial liabilities. The fees to be included in the assessment are only those paid or received between the borrower (entity) and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment to IFRS 16 *"Leases"* removes the illustration of the reimbursement of leasehold improvements, in order to avoid any potential confusion about the treatment of lease incentives.

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

IAS 37, Amendment, Onerous Contracts – Costs of Fulfilling a Contract

The amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets' clarify which costs to include in determining the cost of fulfilling a contract when assessing whether a contract is onerous. In particular, the direct costs of fulfilling a contract include both the incremental costs and an allocation of other costs directly related to fulfilling contracts' activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

New and amended standards not yet adopted by the Bank

A number of new standards and amendments to existing standards are effective after 2022, 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:

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 insurance 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, 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 to assist entities in its implementation. 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 at the same time.

The Bank has not issued contracts within the scope of IFRS 17; therefore, the standard is not expected to impact its 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 (a) how accounting policies and accounting estimates relate to each other by (i) explaining that accounting estimates are used in applying accounting policies and (ii) making the definition of accounting policies clearer and concise and, (b) that selecting an estimation or valuation technique and choosing the inputs to be used constitutes making an accounting estimate.

The adoption of the amendments is not expected to impact 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, while 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 these amendments the Board has also developed guidance and examples to explain and demonstrate the application of the "four-step materiality process' described in IFRS Practice Statement 2 Making Materiality Judgements to accounting policy disclosures, in order to support the amendments to IAS 1.

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

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2024, not yet endorsed by EU)

The amendments, published in January 2020, affect only the presentation of liabilities in the balance sheet and provide clarifications over the definition of the right to defer the 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 recognised as equity.

In October 2022, the IASB issued *Non-current Liabilities with Covenants (Amendments to IAS 1)* with respect to the classification (as current or non-current), presentation and disclosures of 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 to IAS 1 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 financial statements of the Bank.

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 is not expected to impact the financial statements of the Bank.

IFRS 16, Amendment, Lease Liability in a Sale and Leaseback (effective 1 January 2024, not yet endorsed by EU)

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 financial statements of the Bank.

2.2. PRINCIPAL ACCOUNTING POLICY

The accounting policies set out below have been consistently applied to the years 2022 and 2021.

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.

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 2022, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2021: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.545343 (2021: BGN 1 for USD 0.579089).

2.2.3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments:

- 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;
- 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;
- 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 a derivative contract becomes effective.

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.

The Bank may also use the hypothetical derivative method, an approach to the dollar offset method, mainly applied in portfolio hedges that carry embedded derivatives, where the hedged risk is modelled through hypothetical derivatives, which replicate the embedded derivative. The fair value of the hypothetical derivative is used as a proxy for the net present value of the hedged future cash flows against which changes in value of the actual hedging instrument are compared to assess effectiveness and measure ineffectiveness. 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 as well as differences between expected and actual cash flows.

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 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);

(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, except for changes in fair value attributable to changes in the Bank's own credit risk, which are recognised in 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 2022 and 2021 the Bank classifies all its financial liabilities at amortized cost.

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 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 recognize changes in 12-month ECL through the allowance and move lending exposures 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 at origination date has increased significantly since its recognition. 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.

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.

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 shell 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 and short-term government securities. Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition. 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;

(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

3.1. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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:

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 existing methodology incorporates behaviour and macroeconomic factors in the modelling following the best practice for IFRS9 modeling. 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 2022 and 31 December 2021, 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	Range of SICR thresholds	
	2021	2022
Consumer	0.01% - 100%	0.01% - 100%
Mortgage	80% - 100%	80% - 100%
SBB	20% - 100%	20% - 100%
Wholesale	50% - 500%	30% - 500%

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 31.12.2022 remains unchanged compared to 31.12.2021 – 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 is expected to continue in 2023 implying prolonged period of constraints on international trade, elevated prices, geopolitical instability and muted economic activity in the region. Even though oil and gas prices eased over the last few months in response to EU's efforts to find alternative energy sources and suppliers to Russia, this calmness will likely be temporary. The EU managed to ensure enough supply for its needs over the winter season, but continued deterioration in the geopolitical climate will raise the same question next year.

- If trends on global markets continue and no further shocks to the energy prices arise, utilities prices will ease off and so will the inflation rate.

- The housing and utilities category marked the fastest annual growth in September, contributing approximately 3.5 p.p to the 15.6 annual growth in HICP. Food prices, however, contributed 5.7 p. p and will likely continue to be the main component to keep the overall price level elevated during the winter season. Nevertheless, inflationary pressure will remain wide spread over the short term.

- The GDP figure for 2022 has been upgraded compared to the June vintage, underlined by stronger than expected growth in exports, although imports did negate some of that positive contribution. Domestic demand aligned with expectations.

- Domestic demand was expected to contract moderately in 2022 H2 as household expenditures ease off notably and investment activity is postponed in light of a challenging environment and gradual tightening in credit conditions. Government capital expenditures is expected to be cut back, in attempt to lower the budget deficit for the year.

- Households would be supported by continued growth in wages and disposable income, which already marked a notable increase by mid-2022, but their budget will feel the strain of tightening credit conditions.

- Income will continue to grow, catching up to inflation. Latest figures point at strong growth in both wages and disposable income. It is not yet clear if and by how much the minimum wage will increase in 2023 but it is highly likely, under the demand of workers and unions.

- Employment will gradually decline, as businesses refrain from active hiring during the turbulent short term period. This will see the unemployment tick up, but not by much as the labour market remains tight and participation rate changes only slowly.

- Still favourable mortgage conditions could underline short term increase in house prices, as households use their resources to buy durables rather than losing value from the high inflation.

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 remain persistently high. Household budgets will take a larger hit 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 limiting economic activity. Political instability will hinder economic activity, adding further uncertainty.

II. Upside risk

- If geopolitical tension related to the conflict in Ukraine eases over the next year, inflationary pressures will decelerate faster. Trade conditions will improve, easing off supply chain disruptions. 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 adoption of the Recovery and Resilience Plan will result in stronger economic growth. 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 2022, the arithmetic averages of the scenarios' probability-weighted annual forecasts from 2023 to 2027, are set in the following table:

	Unit	Arithmetic Average (2023 - 2027) Probability weighted annual forecast
Gross Domestic Product	YOY % 2010 prices	3.23%
Domestic Demand	YOY % 2010 prices	2.79%
Number of Employed	YOY %	(0.80%)
Unemployment Rate	%	5.27%
Long term interest rate	%	3.85%
Retail Sales	YOY %	3.26%
Average Monthly Wage	YOY %	4.15%
Total Disposable Income Per Person	YOY %	5.38%
House Price Index	YOY % 2015=100	4.37%
Interest Rate Spread (companies)	%	4.77%
Central Bank Policy Rate	%	2.90%
Imports (goods and services)	YOY %	4.17%

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.

In the first half of 2022, the Bank revisited the temporary management overlays formed in 2020 to reflect existing risk factors in the Covid-19 environment not fully captured in the modelled results. The Bank made a thorough assessment and considers that the incorporated SICR indicators in the IFRS9 ECL models have sufficient predictive power for estimation of the risk of the clients due to the following reasons:

- The last moratoria measures expired in the end of Y2021, which resulted in reintroduction of the days past due SICR criteria as the customers returned to normal payment behavior.
- The analysis on the Moratoria portfolio shows that most of the performing portfolio have already returned to regular servicing of the pre-moratorium installments; forbearance measures are applied to those customers experiencing difficulties in servicing the exposure in accordance to post-moratoria terms. This results in a natural transition to Stage 2.
- The PD calculation is taking into account normal future cash flows (not deferred) and naturally segregate the customers according to the risk profile, which was impeded during the moratoria period.

Based on all of the above post-model SICR adjustments were discontinued and COVID-19 related management overlays in form of buffers were released.

Following the COVID-19 pandemic, the global economy faced many new challenges in Y2022. The conflict in Ukraine introduced a new tension, layering further pressure on already observed wide-based price increase. Inflation continued to rise quickly, owing to oil and natural gas supply constraints following Russia's response to EU sanctions. In response to the surging inflation, most of the central banks in the world, including ECB, FED and Bank of England, have increased the interest rate multiple times this year, resulting in a significant increase of the interbank rates. The Bank closely monitored the development and possible effect of the above mentioned risk factors and considers that as of 31.12.2022 the effects from the conflict in Ukraine, the high inflation and rising interest rates have been partially mitigated through the undertaken actions by the government and the trend in the salaries, and also incorporated in the calculated ECL via the forward looking macroeconomic element in the IFRS9 models. Nevertheless, taking into account the overall uncertainty of the economic development, the Bank performed additional analyses on the effect on the coverage ratios in case of negative economic development by running a simulation of weight adjustments of the macroeconomic scenarios to 50%, 30% and 20% for Adverse, Baseline and Optimal scenario, respectively, and the possible effect on the most risky part of the consumer portfolio in case of transfer to Stage 3. Based on the results of the analyses, the Bank booked additional ECL management buffer at the amount of BGN 10,638 thousand.

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 (2023-2027), compared to the actual probability weighted macroeconomic scenarios. The values presented below for baseline 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 optimistic scenario are a probability weighted average with a 75% weight used for the optimistic macro forecast and 25% weight of the baseline macro forecast. The value presented for the adverse scenario are a probability weighted average with a 75% weight used for the adverse macro forecast and 25% weight of the baseline forecast.

Sensitivity Scenario							
Indicator	Unit	Scenario	2023	2024	2025	2026	2027
Gross Domestic Product	YOY % 2010 prices	Optimal	8.01%	6.56%	5.67%	5.20%	4.72%
		Baseline	3.07%	3.73%	3.24%	3.13%	2.96%
		Adverse	-1.64%	0.94%	0.79%	0.85%	0.91%
Domestic Demand	YOY % 2010 prices	Optimal	6.89%	4.24%	3.89%	3.71%	3.51%
		Baseline	3.10%	2.88%	2.73%	2.68%	2.57%
		Adverse	-0.78%	1.41%	1.47%	1.52%	1.53%
Number of Employees	YOY %	Optimal	0.68%	-0.23%	-0.28%	-0.24%	-0.30%
		Baseline	-0.71%	-0.81%	-0.84%	-0.82%	-0.80%
		Adverse	-2.07%	-1.38%	-1.42%	-1.42%	-1.34%
Unemployment Rate	%	Optimal	4.23%	4.41%	4.60%	4.68%	4.72%
		Baseline	5.12%	5.30%	5.37%	5.32%	5.23%
		Adverse	6.03%	6.20%	6.15%	5.96%	5.73%
Long term interest rate	%	Optimal	3.05%	3.40%	3.91%	4.75%	5.64%
		Baseline	2.71%	3.08%	3.63%	4.48%	5.35%
		Adverse	2.37%	2.76%	3.35%	4.21%	5.06%
Retail Sales	YOY %	Optimal	5.11%	5.37%	4.75%	4.49%	4.17%
		Baseline	2.24%	4.02%	3.50%	3.38%	3.17%
		Adverse	-0.73%	2.59%	2.16%	2.15%	2.08%
Average Monthly Wage	YOY %	Optimal	7.53%	5.31%	5.22%	5.02%	4.76%
		Baseline	5.00%	4.01%	4.02%	3.94%	3.79%
		Adverse	2.44%	2.65%	2.75%	2.77%	2.74%
Total Disposable Income Per Person	YOY %	Optimal	11.87%	8.84%	8.61%	8.53%	8.15%
		Baseline	6.35%	5.07%	5.09%	5.23%	5.19%
		Adverse	1.05%	1.16%	1.31%	1.44%	1.57%
House Price Index	YOY % 2015=100	Optimal	9.23%	8.09%	7.90%	7.62%	7.13%
		Baseline	4.11%	4.45%	4.50%	4.46%	4.30%
		Adverse	-0.78%	0.81%	0.97%	1.03%	1.02%
Interest Rate Spread (companies)	%	Optimal	4.52%	4.50%	4.39%	4.38%	4.41%
		Baseline	4.93%	4.89%	4.73%	4.67%	4.64%
		Adverse	5.35%	5.27%	5.06%	4.95%	4.87%
Central Bank Policy Rate	%	Optimal	1.93%	2.55%	3.27%	3.73%	3.87%
		Baseline	1.76%	2.35%	3.09%	3.56%	3.74%
		Adverse	1.58%	2.12%	2.87%	3.36%	3.60%
Imports (goods and services)	YOY %	Optimal	10.11%	5.94%	6.02%	5.67%	5.33%
		Baseline	4.33%	3.46%	3.62%	3.44%	3.30%
		Adverse	-1.30%	1.07%	1.19%	1.14%	1.15%

As at 31 December 2022				
	Impact			
	in € million		% of allowance	
Lending portfolio	**Positive Change**	**Adverse Change**	**Positive Change**	**Adverse Change**
Wholesale Lending	(5.64)	6.03	(5.82%)	6.23%
Retail Lending	(14.73)	14.92	(18.27%)	18.51%
Total	**(20.37)**	**20.96**	**(11.48%)**	**11.81%**

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 critical judgment 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.

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.

3.4. RETIREMENT BENEFIT OBLIGATIONS

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 valuators.

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 valuators 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 /at the date of transition. 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 2022, 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 20.2%, not including the interim profit for the fourth quarter of 2022 ending on 31 December 2022.

The capital adequacy ratio stands at 20.7% including the profit attributable to the shareholders of the Bank for the period ended 31 December 2022 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 – 1% 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 financial risks, such as credit risk, market risk (including currency and interest rate 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 risk arises principally from the different activities of the Bank with the aim to achieve specific business goals. Following this, the Bank has established adequate mechanisms for identifying the inherent risks at an early stage and assesses their potential impact over the achievement of these objectives.

As the conditions in which the Bank operates, of an economic, sectoral and regulatory nature, will continue to change, the risk management mechanisms are defined (and adjusted where needed) in a way that identifies and manages risks associated with change.

The Bank' structure, its internal processes and existing mechanisms of control guarantee both the principle of independence and the exercise of sufficient supervision.

The management of the Bank considers effective risk management a top priority, as well as a great 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), 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, which is formally documented, outlines the Bank's overall focus in terms of risk and capital management, including risk management mission and objectives, risk definitions, risk management principles, risk appetite framework, risk management framework, strategic objectives and top management's initiatives to improve the risk management framework, which is applied.

The maximum amount of risk the Bank can assume following its strategic objectives can be defined by means of a set of quantitative and qualitative indicators for individual types of risk, including specific levels of risk tolerance. The main goal is the Bank's growth to be supported by balancing a strong capital position with a high return on equity and ensuring regulatory compliance.

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 2023-2025, which envisages projected NPEs stock to reach BGN 482 million by the end of 2023, and BGN 501 million (NPE ratio below 4.0%) by the end of 2025.

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;
  - 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, and the product type (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 exposures

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.).

Counterparty risk

The Bank 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	
	2022	**2021**
Loans and advances to banks	1,444,087	505,528
Less: Impairment allowance	(491)	(166)
Loans and advances to customers:		
- Mortgages	3,082,986	2,571,218
- Consumer lending (including credit cards)	1,869,385	1,498,719
- Small Business lending	907,957	760,460
- Corporate lending	4,550,292	4,262,292
Less: Impairment allowance	(347,187)	(298,738)
Trading assets - debt securities	33,604	37,097
Derivative financial instruments	52,615	11,460
Debt securities at fair value through other comprehensive income	1,251,510	1,611,726
Debt securities at amortised cost	1,436,645	961,653
Less: Impairment allowance	(2,041)	(1,287)
Other financial assets (*)	56,061	16,863
Less: Impairment allowance	(3,829)	(1,710)
Credit risk exposures relating to off-balance sheet items are as follows (Note 35):		
Guarantees and Letters of credit	225,476	203,422
Loan commitments	1,847,543	1,704,848
Less: Impairment allowance	(969)	(329)
Total	**16,403,644**	**13,843,056**

(*) 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 2022 and 31 December 2021, 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 2022, the Bank's default exposures amounted to BGN 391,337 thousand (2021: BGN 442,927 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 2022, the Bank's gross amount of non-performing exposures amounted to BGN 391,337 thousand (2021: BGN 442,927 thousand). POCI loans included in non-performing exposures are BGN 54,509 thousand (2021: BGN 64,790 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 2022, the Bank's gross amount of performing exposures amounted to BGN 10,019,283 thousand (2021: BGN 8,649,762 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 347,187 thousand, of which BGN 130,137 thousand represents the individually impaired loans provision and the remaining amount of BGN 217,050 thousand represents the portfolio provision. During 2022, the Bank's total net loans and advances increased by 13%. 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 2022 and 31 December 2021:

All amounts are shown in BGN thousands unless otherwise stated

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*

As at 31 December 2021															
	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	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		
Retail Lending	**4,106,244**	**461,019**	**93,656**	**156,755**	**4,850**	**7,873**	**4,830,397**	**(29,453)**	(34,178)	(69,812)	**(93,930)**	**(2,595)**	**(1,536)**	**4,598,893**	**3,235,832**
- Mortgage	2,284,363	155,042	46,956	73,680	3,964	7,213	2,571,218	(2,379)	(9,088)	(34,731)	(38,084)	(1,863)	(1,090)	2,483983	-
Value of collateral	*2,264,578*	*141,110*	*11,864*	*35,102*	*2,095*	*5,735*	-	-	-	-	-	-	-	-	*2,460,484*
- Consumer lending	1,258,751	176,632	-	63,171	-	165	1,498,719	(19,241)	(17,519)	-	(40,981)	-	(121)	1,420,857	-
Value of collateral	56,340	2,466	-	162	-	-	-	-	-	-	-	-	-		58,968
- Small business	563,130	129,345	46,700	19,904	886	495	760,460	(7,833)	(7,571)	(35,081)	(14,865)	(732)	(325)	694,053	
Value of collateral	*587,899*	*112,676*	*11,476*	*4,005*	*154*	*170*	-	-	-	-	-	-	-	-	*716,380*
Corporate lending	3,546,133	532,800	123,278	4,448	54,524	1,109	4,262,292	(5,672)	(1,857)	(48,907)	(2,447)	(7,781)	(570)	4,195,058	
Value of collateral	*2,781,278*	*475,710*	*66,879*	*1,612*	*46,968*	*528*	-	-	-	-	-	-	-	-	*3,372,975*
Total	7,652,377	993,819	216,934	161,203	59,374	8,982	9,092,689	(35,125)	(36,035)	(118,719)	(96,377)	(10,376)	(2,106)	8,793,951	
Total Value of collateral	***5,690,095***	***731,962***	***90,219***	***40,881***	***49,217***	***6,433***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***6,608,807***
Credit related commitments	1,775,408	130,307	1,975	580	-	-	1,908,270	(203)	(5)	(120)	(1)	-	-	-	-
Loan commitments	1,589,163	114,340	767	578	-	-	1,704,848	-	-	-	-	-	-	-	-
Financial guarantee contracts and other commitments	186,245	15,967	1,208	2	-	-	203,422	(203)	(5)	(120)	(1)	-	-	-	-
Value of collateral	*115,906*	*14,582*	*109*	-	-	-	-	-	-	-	-	-	-	-	*130,597*

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)

All amounts are shown in BGN thousands unless otherwise stated

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 2022						
		Non-impaired		Credit-impaired		
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	POCI	Total gross carrying amount
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	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**

	Internal credit rating	31 December 2021 Non-impaired 12-month ECL	Non-impaired Lifetime ECL not credit-impaired	Credit-impaired Lifetime ECL credit-impaired	POCI	Total gross carrying amount
Retail Lending						
Mortgage	PD<2.5%	2,253,584	319	-	-	**2,253,903**
	2.5%<=PD<4%	-	708	-	-	**708**
	4%<=PD<10%	20,752	7,587	-	-	**28,339**
	10%<=PD<16%	-	13,878	-	-	**13,878**
	16%<=PD<99.99%	10,027	132,550	-	-	**142,577**
	100%	-	-	120,636	11,177	**131,813**
Consumer	PD<2.5%	143,713	3,192	-	-	**146,905**
	2.5%<=PD<4%	461,935	909	-	-	**462,844**
	4%<=PD<10%	652,885	7,843	-	-	**660,728**
	10%<=PD<16%	-	4,352	-	-	**4,352**
	16%<=PD<99.99%	217	160,337	-	-	**160,554**
	100%	-	-	63,171	165	**63,336**
Small business	PD<2.5%	7,015	1,086	-	-	**8,101**
	2.5%<=PD<4%	20,957	503	-	-	**21,460**
	4%<=PD<10%	533,682	1,983	-	-	**535,665**
	10%<=PD<16%	-	6,630	-	-	**6,630**
	16%<=PD<99.99%	1,477	119,142	-	-	**120,619**
	100%	-	-	66,604	1,381	**67,985**
Wholesale lending	PD<2.5%	2,636,337	45,317	-	-	**2,681,654**
	2.5%<=PD<4%	-	41,151	-	-	**41,151**
	4%<=PD<10%	-	147,010	-	-	**147,010**
	10%<=PD<16%	-	3,421	-	-	**3,421**
	16%<=PD<99.99%	-	10,176	-	-	**10,176**
	100%	-		46,667	47,687	**94,354**
SME's	PD<2.5%	898,646	161,026	-	-	**1,059,672**
	2.5%<=PD<4%	-	45,214	-	-	**45,214**
	4%<=PD<10%	11,150	49,499	-	-	**60,649**
	10%<=PD<16%	-	2,361	-	-	**2,361**
	16%<=PD<99.99%	-	27,625	-	-	**27,625**
	100%	-	-	81,059	7,946	**89,005**
Total		**7,652,377**	**993,819**	**378,137**	**68,356**	**9,092,689**
Corporate Lending						
	Strong	2,166,161	99,544	-	-	**2,265,705**
	Satisfactory	1,155,324	261,367	-	-	**1,416,691**
	Watch list	224,648	171,889	-	-	**396,537**
	Impaired			127,726	55,633	**183,359**
Total		**3,546,133**	**532,800**	**127,726**	**55,633**	**4,262,292**

All amounts are shown in BGN thousands unless otherwise stated

31 December 2022					
		Non impaired		Credit-impaired	
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total nominal amount
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**

31 December 2021					
	Internal credit rating	Non impaired		Credit-impaired	Total nominal amount
		12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Retail Lending					
Loan Commitments	PD<2.5%	463,467	2,320	-	**465,787**
	2.5%<=PD<4%	12,175	712	-	**12,887**
	4%<=PD<10%	134,195	14,989	-	**149,184**
	10%<=PD<16%	-	,200	-	**200**
	16%<=PD<99.99%	-	6,491	-	**6,491**
	100%	-	-	565	**565**
Financial Guarantee contracts and Other Commitments	PD<2.5%	14,481	-	-	**14,481**
	2.5%<=PD<4%	-	-	-	**-**
	4%<=PD<10%	-		-	**-**
	10%<=PD<16%	-	-	-	**-**
	16%<=PD<99.99%	-	-	-	**-**
	100%	-	-	2	**2**
Wholesale Lending					
Loan Commitments	Strong	703,489	69,460	-	**772,949**
	Satisfactory	255,260	15,248	-	**270,508**
	Watch list	20,577	4,920	-	**25,497**
	Impaired	-	-	780	**780**
Financial Guarantee contracts and Other Commitments	Strong	110,604	2065	-	**112,669**
	Satisfactory	56,741	13,370	-	**70,111**
	Watch list	4,419	532	-	**4,951**
	Impaired	-	-	1,208	**1,208**
Total		**1,775,408**	**130,307**	**2,555**	**1,908,270**

All amounts are shown in BGN thousands unless otherwise stated

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 01.01.2022 to 31.12.2022 and from 01.01.2021 to 31.12.2021:

31 December 2022

	Wholesale				Mortgage				Consumer				Small Busines				
	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**
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)*	*(1 230)*		-
-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**

31 December 2021																	
	Wholesale				Mortgage				Consumer				Small Busines				
	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	**2,752,715**	**854,145**	**161,111**	**66,638**	**1,948,887**	**157,626**	**154,884**	**14,922**	**1,046,429**	**137,122**	**51,677**	**400**	**538,617**	**91,618**	**84,777**	**2,275**	**8,063,843**
New loans and advances originated or purchased	883,629	-	-	-	594,945	-	-	-	451,656	-	-		214,731	-	-	-	**2,144,961**
Arising from merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer between stages:																	
-to 12-month ECL	*555,474*	*(554,633)*	*(841)*	-	*75,049*	*(65,785)*	*(9,264)*	-	*45,057*	*(43,120)*	*(1,938)*	-	*33,527*	*(30,360)*	*(3,166)*	-	-
-to lifetime ECL	*(262,758)*	*264,095*	*(1,338)*	-	*(66,264)*	*83,684*	*(17,420)*		*(89,372)*	*94,645*	*(5,272)*	-	*(63,742)*	*65,778*	*(2,036)*	-	-
-to lifetime ECL credit-impaired loans	*(27,099)*	*(6,173)*	*33,272*	-	*(3,852)*	*(17,934)*	*21,786*	-	*(12,006)*	*(22,088)*	*34,094*	-	*(3,189)*	*(17,544)*	*20,733*		-
Loans and advances derecognised	-	-	(10,159)	-	-	-	(3,164)	-	-	-	(556)	-	-	-	(711)	-	**(14,590)**
Amounts written-off	-	-	(16,256)	-	-	-	(4,455)	-	-	-	(12,657)	-	-	-	(14,634)	-	**(48,002)**
Repayments	(371,011)	(42,107)	(14,624)	-	(247,789)	(22,033	(22,040)	-	(155,380)	(19,879)	(4,993)	-	(122,962)	(21,396)	(13,732)	-	(1,057,946)
Foreign exchange differences and other movements	15,183	17,473	(23,439)	(11,005)	(16,613)	19,484	309	(3,745)	(27,633)	29,952	2,816	(235)	(33,852)	41,249	(4,627)	(894)	4,423
Gross carrying amount at 31 December	**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**
Impairment allowance	(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)
Carrying amount at 31 December	**3,540,461**	**530,943**	**76,372**	**47,282**	**2,281,984**	**145,954**	**47,821**	**8,224**	**1,239,510**	**159,113**	**22,190**	**44**	**555,297**	**121,774**	**16,658**	**324**	**8,793,951**

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.

All amounts are shown in BGN thousands unless otherwise stated

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 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**

31 December 2021

	Retail lending								
	Mortgage	POCI	Consumer	POCI	Small business	POCI	Corporate lending	POCI	(Lifetime ECL credit-impaired)
up to 90 days	44,909	6,003	20,009	47	23,996	354	82,746	25,126	**203,190**
90 to 179 days	5,273	190	6,501	-	4,762	-	1,019	619	**18,364**
180 to 360 days	5,302	119	13,653	2	6,598	1	20,546	5	**46,226**
more than 360 days	65,152	4,865	23,008	116	31,248	1,026	23,415	29,883	**178,713**
Gross carrying amount	**120,636**	**11,177**	**63,171**	**165**	**66,604**	**1,381**	**127,726**	**55,633**	**446,493**
Impairment Allowance	(72,815)	(2,953)	(40,981)	(121)	(49,946)	(1,057)	(51,354)	(8,351)	**(227,578)**
Carrying amount	**47,821**	**8,224**	**22,190**	**44**	**16,658**	**324**	**76,372**	**47,282**	**218,915**
Value of collateral	**46,966**	**7,830**	**162**	**-**	**15,482**	**324**	**68,491**	**47,496**	**186,751**

(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	
	2022	**2021**
Mortgages		
Less than 50%	898,880	485,765
50%-70%	1,035,542	714,338
71%-80%	510,905	659,222
81%-90%	474,839	461,667
91%-100%	25,142	43,529
101%-120%	84,392	99,529
121%-150%	22,184	48,524
Greater than 150%	31,102	58,644
Total exposure	**3,082,986**	**2,571,218**
Average LTV	**50.06%**	**58.20%**

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
	31.12.2022	**31.12.2021**	
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

All amounts are shown in BGN thousands unless otherwise stated

The breakdown of collateral and guarantees is presented below:

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**
As at 31 December 2021					
	Value of collateral received				
	Real Estate	Financial	Other Collateral	Total	Guarantee received
Retail Lending	2,753,594	158,076	324,162	3,235,832	10,019
Wholesale Lending	1,365,871	532,996	1,474,108	3,372,975	120,578
Total	**4,119,465**	**691,072**	**1,798,270**	**6,608,807**	**130,597**

The fair value of the presented collaterals in the tables above is capped at the amount of the loan outstanding balance.

Repossessed 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 repossesses against repayment or reduction of the outstanding loan is real estate, which is recognized within repossessed assets. They are included in Other assets (Note 23). 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 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 repossessed assets, as well as the movement during 2022 and 2021:

Nature of assets	**2022**	**2021**
Commercial property and other moveable assets	9,476	8,008
Residential property	2,750	3,116
Land	685	994
Total	**12,911**	**12,118**

Reconciliation of Level 3 movement:	2022	2021
Balance at 1 January	**12,118**	**15,647**
Additional	3,109	603
Sales	(1,045)	(3,892)
Impairment	(1,271)	(240)
Balance at 31 December	**12,911**	**12,118**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	Fair value 31/12/2022 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2022	Range (BGN) (weighted average) 2021	Connection between the unobservable input and FV
Land	1,141	Market comparison approach	price per m²	0.98 - 1466.87 (28.07)	0.76 – 1160.45 (15.12)	A significant increase in price per m^2 would result in a higher fair value
Residential	2,747	Market comparison approach	price per m²	41.62 - 1811.99 (164.22)	11.00-2112.00(166.03)	A significant increase in price per m^2 would result in a higher fair value
Mixed	9,023	Market comparison approach	price per m²	28.81 - 1908.89 (271.66)	32.98-1867.82 (256.13)	A significant increase in price per m^2 would result in a higher fair value
		Income approach	price per m²	1.53 - 8.45 (3.18)	1.90-7.49 (3.58)	A significant increase in price per m^2 would result in a higher fair value
		Cost approach	price per m²	6.34 - 456.25 (156.30)	6.59 – 224.11 (122.73)	A significant increase in price per m^2 would result in a higher fair value

All amounts are shown in BGN thousands unless otherwise stated

(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 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)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufactu-ring	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 commit-ments	**1,925,431**	**79,275**	**2,182**	**21**	**(969)**	**3,888**	**47**	**-**	**4**	**-**	**61,221**	**73**	**-**	**-**	**-**	**867**	**10**	**-**	**-**	**-**
Loan commit-ments	1,728,221	52,302	889	21	-	3,888	47	-	4	-	61,221	73		-	-	867	10	-	-	-
Financial guarantee contracts and other commit-ments	197,210	26,973	1,293	-	(969)	-	-	-	-	-	-	-		-	-	-	-	-	-	-

31 December 2021																				
	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	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance
Retail Lending	**4,071,155**	**458,245**	**246,347**	**12,475**	**(228,448)**	**5,454**	**460**	**205**	**61**	**(256)**	**22,712**	**1,906**	**2,507**	**-**	**(1,442)**	**6,923**	**408**	**1,352**	**187**	**(1,358)**
Mortgage	2,262,382	153,704	117,595	10,956	(85,260)	3,284	128		34	(46)	13,553	1,026	1,780	-	(699)	5,144	184	1,261	187	(1,230)
Consumer	1,245,679	175,200	62,148	138	(76,781)	2,170	332	205	27	(210)	9,142	880	727	-	(743)	1,760	220	91	-	(128)
Small business	563,094	129,341	66,604	1,381	(66,407)	-	-	-	-	-	17	-	-	-	-	19	4	-	-	-
Wholesale Lending	**3,325,765**	**528,386**	**127,726**	**55,633**	**(67,129)**	**-**	**-**	**-**	**-**	**-**	**220,368**	**-**	**-**	**-**	**(87)**	**-**	**4,414**	**-**	**-**	**(18)**
Commerce and services	89,581	3,464	17,164	68	(2,931)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	1,027,285	58,419	40,224	2,606	(19,243)	-	-	-	-	-	15,504	-	-	-	(3)		-	-	-	-
Construction	36,822	4,859	-	-	(34)	-	-	-	-	-	59,117	-	-	-	(62)		-	-	-	-
Tourism	52,757	620	530	-	(93)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	246,361	41,369	12,568	26,084	(8,519)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	1,872,959	419,655	57,240	26,875	(36,309)	-	-	-			145,747	-	-	-	(22)	-	4,414	-	-	(18)
Total	**7,396,920**	**986,631**	**374,073**	**68,108**	**(295,577)**	**5,454**	**460**	**205**	**61**	**(256)**	**243,080**	**1,906**	**2,507**	**-**	**(1,529)**	**6,923**	**4,822**	**1,352**	**187**	**(1,376)**
Credit related commitments	**1,699,773**	**130,139**	**2,551**	**-**	**(329)**	**4,182**	**48**	**4**	**-**	**-**	**70,597**	**81**	**-**	**-**	**-**	**856**	**39**	**-**	**-**	**-**
Loan commitments	1,513,528	114,172	742	599	-	4,182	48	-	4	-	70,597	81	-	-	-	856	39	-	-	-
Financial guarantee contracts and other commitments	186,245	15,967	1,210	-	(329)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(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.

All amounts are shown in BGN thousands unless otherwise stated

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 forborne loan have been substantially modified, the original forborne 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 forborne 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 forborne activities for loans measured at amortised cost. The relevant tables below are presented on a gross carryingamount 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 forborne activities:

Forbearance measures:	**2022**	**2021**
Loan term extension	**156,942**	**62,007**
Reduced payment below interest owed	11,044	10,585
Interest rate reduction	22,236	33,026
Reduced payment above interest owed	30,323	17,873
Arrears repayment plan	8	11
Interest only	50,091	18,008
Grace period	8,113	103,359
Total gross carrying amount	**278,757**	**244,869**
Less: cumulative impairment allowance	(57,931)	(51,288)
Total carrying amount	**220,826**	**193,581**

The following tables present a summary of the credit quality of forborne loans and advances to customers:

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**	

All amounts are shown in BGN thousands unless otherwise stated

As at 31 December 2021			
	Total loans and advances	Forborne loans and advances	% of Forborne loans and advances
Gross carrying amounts:			
12-month ECL	7,652,377	-	-
Lifetime ECL non credit-impaired	993,819	114,103	11%
Lifetime ECL credit-impaired	446,493	130,766	29%
Total Gross Amount	**9,092,689**	**244,869**	**3%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	**(35,125)**	**-**	**-**
Lifetime ECL (not credit-impaired) allowance	**(36,035)**	**(7,116)**	**-**
Lifetime ECL (credit-impaired) allowance of which:	**(227,578)**	**(44,172)**	**-**
- Individually assessed	**(129,095)**	**(28,791)**	**-**
- Collectively assessed	**(98,483)**	**(15,381)**	**-**
Total carrying amount	**8,793,951**	**193,581**	**2%**
Collateral received	**6,608,807**	**143,973**	**-**

The following table presents the movement of forborne loans and advances:

Gross carrying amount at 1 January 2021	**437,050**
Forbearance measures in the year	**212,373**
Repayment of loans	(73,234)
Write-offs of forborne loans	(641)
Loans and advances that exited forbearance status	(243,783)
Other	(86,896)
Less cumulative impairment allowance	(51,288)
Carrying amount at 31 December 2021	**193,581**
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**

The following table presents the Bank's exposure to forborne loans and advances by product line:

	As at 31 December	
	2022	**2021**
Retail Lending	**151,144**	**167,276**
- Mortgage	53,108	72,752
- Consumer	58,418	52,913
- Small business	39,618	41,611
Wholesale Lending	**127,613**	**77,593**
Total gross carrying amount	**278,757**	**244,869**
Less cumulative impairment allowance	(57,931)	(51,288)
Total carrying amount	**220,826**	**193,581**

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	As at 31 December	
	2022	**2021**
Bulgaria	278,084	243,155
Greece	143	43
Rest of Europe	530	1,482
Other countries	-	189
Total gross carrying amount	278,757	244,869
Less cumulative impairment allowance	(57,931)	(51,288)
Total carrying amount	220,826	193,581

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	
	2022	**2021**
Modified loans during the year		
Gross carrying amount at 31 December	130,540	130,766
Modification (loss)	(733)	(977)
Modified loans since initial recognition		
Gross carrying amount at 31 December for which loss allowance has changed to 12-month ECL measurement	98,571	67,712

All amounts are shown in BGN thousands unless otherwise stated

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 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**

31 December 2021 Non-impaired						
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	184,406	414,136	9,640	-	608,182
A- to A+	-	363,164	19,885	101,504	-	484,553
BBB- to BBB+	37,097	917,477	-	204	-	954,778
BB- to BB+	-	146,679	40,788	-	-	187,467
Lower than BB-	-	-	13,572	296,187	6,046	315,805
Unrated	-	-	471,985	97,827	5,414	575,226
Total	**37,097**	**1,611,726**	**960,366**	**505,362**	**11,460**	**3,126,011**

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.

	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, Romania and France.*

	Bulgaria	Greece	Rest of Europe*	Other countries	Total
Loans and advances to banks	-	296,188	142,704	66,470	505,362
Trading assets – debt securities	37,097	-	-	-	37,097
Debt securities at fair value through other comprehensive income	484,855	146,679	788,249	191,943	1,611,726
Derivative financial instruments	5,414	6,046	-	-	11,460
Debt securities at amortised cost	-	133,350	827,016	-	960,366
31 December 2021	**527,366**	**582,263**	**1,757,969**	**258,413**	**3,126,011**

* *The five largest exposures of debt securities have issuers from the following countries: Ireland, Italy, Poland, France, Romania.*

All amounts are shown in BGN thousands unless otherwise stated

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 off setting 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**

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after off setting 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 2021					
Derivative assets	6,046	-	6,046	6,046	-
Liabilities as of 31 December 2021					
Derivative liabilities	(8,485)	-	(8,485)	13,029	**4,544**

5.2.2 MARKET RISK

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in market parameters, such as interest rates, foreign exchange rates, equity prices and implied volatilities. Market risk can generally affect both trading and banking book positions, at both the asset and the liability side of the balance sheet. This risk for the Bank comprises:

- interest rate risk;
- foreign exchange risk;
- equity risk.

Interest rate risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of interest rates/interest rate derivatives, the shape of the yield curve and the spread between different interest rates.

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in spot and forward currency exchange rates in the banking and trading books.

Equity risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of equity prices/indices or changes in the relationship between different equity prices/indices.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market and Counterparty Risk Policy, developed in line with the Group Market and Counterparty Risk Policy. The objectives of the Bank's Market and Counterparty Risk Policy are to:

- set the framework and standards for market risk control and management throughout the Bank;
- enable compliance with the requirements of local and foreign regulators;
- be duly compliant with Group Guidelines;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making.

The Market and Counterparty Risk Policy 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 Bank's Market and Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria AD and maintained by Market Risk Department. Market Risk Department reviews the policy at least annually and submits changes to the Risk Committee for approval.

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;

- help align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;

- develop transparent, objective and consistent market risk information as a basis for sound decision making;

- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb because of adverse changes in market variables. It is related to its ability to absorb those losses, which depends on the Bank's capital and reserves; the potential losses arising from other, non-market risks; and the regulatory capital, which is required to support the business. The Bank's market risk appetite is also expressed in terms of nominal limits set on the exposures to market risks. The market risk appetite is determined by the Bank's Risk Committee, which approves all risk limits at Bank level. These limits are also part of the global limit structure of the Group and are ratified at Group level. The Bank's market risk appetite is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

Market risk measurement techniques

The Bank ensures that all material positions that are exposed to market risks are included within the market risk measurement system. At a minimum, the market risk measurement system should measure risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions:

- foreign exchange rates;

- interest rates, and

- equity prices.

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. Daily VaR is calculated only for the listed equities portfolio. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

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 overnight open positions and these limits are monitored on a daily basis.

Interest rate risk

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.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary repricing that may be undertaken on a monthly basis.

Sensitivity of assets and liabilities

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity from reasonable possible shifts, based on the market dynamics and economic environment that have been observed during the reporting period.

31 December 2022				
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate +100 bps parallel shift for all currencies	**(38,860)**	(898)	(25,645)	(12,317)
Equities / Equity Indices / Mutual Funds -10% equity price drop across the board	**(162)**	(162)	-	-
Foreign exchange -10% depreciation of local currency	**(186)**	(186)	-	-

31 December 2021				
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate +100 bps parallel shift for all currencies	**(55,944)**	(1,442)	(36,913)	(17,589)
Equities / Equity Indices / Mutual Funds -10% equity price drop across the board	**(127)**	(127)	-	-
Foreign exchange -10% depreciation of local currency	**346**	346	-	-

All amounts are shown in BGN thousands unless otherwise stated

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 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**

Market risk measure As at 31 December 2021			
	Carrying amount	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	2,139,549	-	2,139,549
Trading assets	38,369	38,369	-
Derivative financial instruments	11,460	11,460	-
Loans and advances to banks	505,362	-	505,362
Loans and advances to customers	8,793,951	-	8,793,951
Investment securities	2,635,788	-	2,635,788
Other financial assets	15,153	-	15,153
Total assets subject to Market risk	**14,139,632**	**49,829**	**14,089,803**
Liabilities subject to Market risk			
Derivative financial instruments	9,139	6,310	2,829
Deposits from banks	9,535	-	9,535
Due to customers	12,313,508	-	12,313,508
Other borrowed funds	166,578	-	166,578
Other financial liabilities	168,623	-	168,623
Total liabilities subject to Market risk	**12,667,383**	**6,310**	**12,661,073**

Sensitivity to changes to the three major market risk factors – foreign exchange rates, interest rates and equity prices, has been calculated and presented above. The calculation parameters used have been determined based on the market environment and the dynamics observed during the last couple of years and represent reasonable possible shifts in the market variables.

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 10% depreciation of the local currency against all foreign currencies (except Euro), which include mainly USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with fair value changes recorded through profit and loss (trading portfolio securities and derivatives);
- Direct equity effect - for items with fair value changes included in OCI (FVOCI securities);
- Banking book effect - for items with no accounting revaluation (assets and liabilities not measured at fair value), the effect is through changes in the economic value of capital.

The sum of the three columns gives the total effect on the economic value of the Bank.

3. Equity price risk sensitivity has been calculated by applying a 10% drop in equity prices across for all of the traded equities portfolio.

All amounts are shown in BGN thousands unless otherwise stated

Foreign exchange risk concentration

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2022 and 2021:

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						
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**

As at 31 December 2021						
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	1,342,287	786,736	5,434	1,747	3,345	**2,139,549**
Loans and advances to banks	-	385,502	67,766	9,283	42,811	**505,362**
Trading assets	38,369	-	-	-	-	**38,369**
Derivative financial instruments	206	7,992	2,670	-	592	**11,460**
Loans and advances to customers	6,409,003	2,290,244	83,027	11,674	3	**8,793,951**
Investment securities	109,575	2,128,293	397,920	-	-	**2,635,788**
Other financial assets	8,336	4,110	2,701	1	5	**15,153**
Total financial assets	**7,907,776**	**5,602,877**	**559,518**	**22,705**	**46,756**	**14,139,632**
Liabilities						
Deposits from banks	7,061	1,377	273	209	615	**9,535**
Derivative financial instruments	48	8,515	576	-	-	**9,139**
Due to customers	7,645,856	3,759,941	808,504	21,942	77,265	**12,313,508**
Other borrowed funds	19,813	146,765	-	-	-	**166,578**
Other financial liabilities	70,052	86,283	11,779	444	65	**168,623**
Total financial liabilities	**7,742,830**	**4,002,881**	**821,132**	**22,595**	**77,945**	**12,667,383**
Off balance sheet Credit related commitments	**1,627,690**	**247,750**	**32,830**	**-**	**-**	**1,908,270**

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.

Liquidity risk management process

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.

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

In addition to the internally defined liquidity ratios and reports, further to 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.

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.

Cash flows

The table 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 2022 and 2021. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

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**

All amounts are shown in BGN thousands unless otherwise stated

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 assets (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)**

As at 31 December 2021							
	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	***14,128,172***	***15,503,588***	***5,045,089***	***500,667***	***1,126,498***	***4,880,601***	***3,950,733***
Cash and balances with Central Bank	2,139,549	2,139,549	2,139,549	-	-	-	-
Loans and advances to banks	505,362	506,509	408,235	-	98,274	-	-
Loans and advances to customers	8,793,951	10,064,602	2,273,051	226,277	936,743	3,556,998	3,071,533
Financial assets held for trading	38,369	38,387	1,287	18	33	36,052	997
Investment securities	2,635,788	2,739,388	207,814	274,372	91,448	1,287,551	878,203
Other financial assets	15,153	15,153	15,153	-	-	-	-
Derivative financial instruments	***11,460***	***1,382,331***	***1,030,330***	***301,631***	***1,898***	***27,473***	***20,999***
Inflow from net settled		51,261	-	891	1,898	27,473	20,999
Inflow from gross settled		1,331,070	1,030,330	300,740	-	-	-
Total assets (contractual maturity)	**14,139,632**	**16,885,919**	**6,075,419**	**802,298**	**1,128,396**	**4,908,074**	**3,971,732**
Financial liabilities							
Non-derivative liabilities	***12,737,358***	***(12,746,983)***	***(7,963,609)***	***(909,816)***	***(3,378,243)***	***(466,712)***	***(28,603)***
Due to other banks	9,535	(9,535)	(9,535)	-	-	-	-
Due to customers	12,313,508	(12,314,068)	(7,784,322)	(906,798)	(3,360,573)	(262,375)	-
Other borrowed funds	166,578	(175,409)	-	(767)	(7,934)	(166,708)	-
Lease liabilities	79,114	(79,348)	(1,129)	(2,251)	(9,736)	(37,629)	(28,603)
Other financial liabilities	168,623	(168,623)	(168,623	-	-	-	-
Derivative financial instru-ments	***9,139***	***(1,378,788)***	***(1,031,070)***	***(302,270)***	***(2,751)***	***(25,733)***	***(16,964)***
(Outflow) from net settled	-	(46,829)	-	(1,381)	(2,751)	(25,733)	(16,964)
(Outflow) from gross settled	-	(1,331,959)	(1,031,070)	(300,889)	-	-	-
Total assets (contractual maturity)	**12,746,497**	**(14,125,771)**	**(8,994,679)**	**(1,212,086)**	**(3,380,994)**	**(492,445)**	**(45,567)**

All amounts are shown in BGN thousands unless otherwise stated

As at 31 December 2021- 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	(1,704,848)	(256,520)	(232,965)	(807,640)	(389,760)	(17,963)
Guarantees and other commitments	(203,422)	(10,942)	(6,890)	(6,067)	(150,909)	(28,614)
Total amount	**(1,908,270)**	**(267,462)**	**(239,855)**	**(813,707)**	**(540,669)**	**(46,577)**

Based on the 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.

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.

5.2.4. INTEREST RATE BENCHMARK REFORM – IBOR REFORM

During 2022, the Bank's IBOR transition program managed successfully the transition of IBOR rates that ceased after 31 December 2021 (CHF, GBP, 1W and 2M USD and EUR Libor) to the new risk-free rates (RFRs). The Bank implemented the transition during 2022 away from CHF Libor and EUR Libor, where the new alternative rates that were used were SARON Compound Rate and Euribor, respectively.

In particular, the Bank's financial instruments, referencing the abovementioned IBOR rates, have transitioned to the new RFRs on their first repricing date within 2022 for loan and deposit contracts . Currently, the Bank focuses on the exposures referencing the remaining USD LIBOR tenors ahead of 30 June 2023 scheduled cessation date.

With respect the forthcoming cessation of the rest of the USD Libor settings (1M/3M/6M/12M) after 30/06/2023, the bank has endorsed CME Term SOFR (for the respective tenor) as a replacement rate. No material impact is expected for the bank from the replacement, as the exposures referencing USD

Libor are limited in terms of number/size of the underlying transactions and the bank has adopted a strategy to re-negotiate to the alternative benchmark (CME Term SOFR) prior to USD Libor cessation date (30/06/2023).

As at 31 December 2022, the Bank's exposures subject to transition to the new RFRs that mature after the IBORs' cessation dates specified above related to USD LIBOR cessation are on Loans and advances to customers BGN 553 thousands, and on Due to customers BGN 8,656 thousands.

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 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**

All amounts are shown in BGN thousands unless otherwise stated

At 31 December 2021					
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to customers					
- Corporate	-	-	4,064,212	4,064,212	4,195,058
- SBB	-	-	672,629	672,629	694,053
- Consumer	-	-	1,448,372	1,448,372	1,420,857
- Mortgage	-	-	2,424,779	2,424,779	2,483,983
- Inv. Securities AC	446,510	515,237	-	961,747	961,653
Total	**446,510**	**515,237**	**8,609,992**	**9,571,739**	**9,755,604**
Financial liabilities					
Other borrowed funds	**-**	**166,578**	**-**	**166,578**	**166,578**

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.

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 2022 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:

All amounts are shown in BGN thousands unless otherwise stated

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	855,989	395,521	-	**1,251,510**
- Investment securities at FVOCI	179	48,065	13,355	**61,599**
- Investment securities at FVTPL	**891,396**	**496,201**	**13,355**	**1,400,952**
Total financial assets				
Derivative financial instruments	-	36,873	-	**36,873**
Total financial liabilities	**-**	**36,873**	**-**	**36,873**

31 December 2021				
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	37,097	-	-	**37,097**
-Equity securities	1,272	-	-	**1,272**
Derivative financial instruments	-	11,460	-	**11,460**
Investment securities	1,310,739	300,987	-	**1,611,726**
- Investment securities at FVOCI	-	46,123	17,573	**63,696**
- Investment securities at FVTPL	**1,349,108**	**358,570**	**17,573**	**1,725,251**
Total financial assets				
Derivative financial instruments	-	9,139	-	**9,139**
Total financial liabilities	**-**	**9,139**	**-**	**9,139**

Reconciliation of Level 3 fair value measurement	2022	2021
Balance at 1 January	**17,573**	**15,605**
Total (loss)/ gain for the period included in profit or loss	(4,218)	1,968
Balance at 31 December	**13,355**	**17,573**

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 Sector. 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.

All amounts are shown in BGN thousands unless otherwise stated

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

	2022	2021
Loans and advances to customers	390,888	352,904
Loans and advances to banks	20,210	4,095
Investment securities	22,786	14,183
Interest income calculated using the effective interest method	**433,884**	**371,182**
Derivative instruments	13,592	5,578
Trading securities	628	481
Interest income on lease receivables	1,221	892
Other Interest income	15,441	6,951
Total interest income	**449,325**	**378,133**

The unwinding of the discount of the ECL allowance (Note 18) amounting to BGN 3,149 thousand (2021: BGN 6,457 thousand) is included in interest income on impaired loans and advances to customers. Interest income includes BGN 10,116 thousand (2021: BGN 16,944 thousand) interest income, recognised on impaired loans to customers, out of which BGN 970 thousand (2021: BGN 1,777 thousand) remain due by the customer as of year-end.

Interest income includes BGN 21,017 thousand (2021: BGN 19,071 thousand) income from insurers related to insurance premiums paid by borrowers as an integral part of loan deal origination.

Interest expense and similar charges	**2022**	**2021**
Deposits from customers	6,157	2,751
Hedging instruments	3,439	2,616
Deposits from banks	3,972	5,312
Other borrowed funds	**8,572**	**324**
Operating lease	69	67
Derivative instruments		-
Total interest expense and similar charges	**22,223**	**11,070**
Total Net interest income	**427,102**	**367,063**

7 Net fee and commission income

Fees and commission income	2022	2021
Money transfers	44,281	36,046
Account maintenance	40,034	37,037
Foreign exchange operations	26,170	19,468
Loans' fees and commissions	13,572	12,422
Receipts from sales of services	35,529	23,509
Cash operations	15,851	13,348
Management, brokerage and securities trading	2,347	2,641
Other fees	1,080	830
Total fees and commission income from contracts with customers	**178,864**	**145,301**
Financial guarantee contracts and loan commitments	3,049	3,178
Total fees and commission income	**181,913**	**148,479**

Fee and commission expense	2022	2021
Loans related fees	9,121	2,767
Transactions processing	24,799	18,615
Cash transactions and correspondent accounts	1,299	1,018
Other fees	3,951	1,354
Management, brokerage and securities trading	706	824
Total fees and commission expense	**39,876**	**24,578**
Total Net fees and commission income	**142,037**	**123,901**

8 Other operating income, net

	2022	2021
Net gain arising from derecognition of financial assets	4,082	2,591
Net (loss) from Modification of non-forborne loans	(351)	(325)
Net gain from non-current fixed assets	391	545
Rental income	118	174
Other (expenses)/ income (Operating Leases IFRS 16)	(21)	(27)
Investment and own property impairment	(3,840)	(704)
Total	**379**	**2,254**

All amounts are shown in BGN thousands unless otherwise stated

9 Net trading income

	2022	2021
Net results from derivative instruments	(862)	486
of which:		
(Losses) on derivative fin. Instruments – Hedging (Note 25)	*(2,231)*	*(40)*
Gains on derivative fin. instruments - Non-Hedging	*1,369*	*526*
Net trading income	**(862)**	**486**

10 Other operating expenses

	2022	2021
Staff costs (Note 11)	130,946	115,400
Depreciation of PPE and ROA (Note 21)	23,914	21,518
Repairs and maintenance	17,054	14,077
Software costs	14,407	11,866
External services	12,295	10,718
Amortisation of intangible assets (Note 22)	11,270	9,089
Advertising and marketing	8,968	6,914
Security	8,069	7,118
Other operating costs	5,353	6,729
Operating lease rentals	1,043	1,146
Materials	1,169	1,048
Travel and accommodation	1,068	109
Insurance	1,068	760
Communication	788	686
Total	**237,412**	**207,178**

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.

The amounts accrued in 2021 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 352 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 37 thousand excluding VAT. In 2021 the Bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 134 thousand excluding VAT and by Baker Tilly Klitou – BGN 2 thousand excluding VAT.

11 Staff costs

	2022	2021
Wages and salaries	108,482	96,159
Pension costs – defined contribution plans	11,875	10,370
Social security costs	6,956	6,166
Other	3,075	2,148
Pension costs / (income) – defined benefit plans (Note 30)	558	557
Total staff cost	**130,946**	**115,400**

12 Impairment charge for credit losses

	2022	2021
Loans and advances to customers (Note 18)	(71,878)	(83,375)
Credit commitments (charge) / release of impairment	(640)	197
Other impairment losses	(3,467)	(1,207)
Total	**(75,985)**	**(84,385)**

Other impairment losses include the ECL charge during 2022 and 2021 as per IFRS 9 regarding financial assets other than loans and advances to customers (securities, placements, etc.).

13 Income tax expense

	2022	2021
Deferred tax (benefit) / expense (Note 28)	1,088	1,779
Current income tax	22,136	17,287
Total	**23,224**	**19,066**

All amounts are shown in BGN thousands unless otherwise stated

Tax is payable at an actual rate of 10% (2021: 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:

	2022		2021	
	Tax rate	**Amount**	**Tax rate**	**Amount**
Profit before income tax		**230,050**		**188,292**
Tax calculated at the basic tax rate	10%	23,005	10%	18,829
Tax effect of:				
Non-tax deductible expenses	(2.4%)	(5,558)	0,7%	1,290
Non-taxable income	(0.5%)	(1,063)	(1.3%)	(2,541)
Loss /(gain) recognized in OCI	3%	6,840	0,8%	1,488
Income tax expense	**10.1%**	**23,224**	**10.2%**	**19,066**

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 2022			Year ended 31 December 2021		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Investment Securities at FVOCI	(68,389)	6,839	(61,550)	(14,930)	1,493	(13,437)
Change in FV of property, plant and equipment	3,593	(359)	3,234	3,746	(375)	3,371
Remeasurements of retirement benefit obligation	558	(56)	502	4,812	(481)	4,331
Total	**(64,238)**	**6,424**	**(57,814)**	**(6,372)**	**637**	**(5,735)**

15 Cash and balances with the Central Bank		
	2022	**2021**
Cash in hand	183,171	157,775
Balances with Central bank	1,387,970	1,981,774
Total	**1,571,141**	**2,139,549**
of which: Mandatory reserve with Central Bank in accordance with BNB Regulation 21	1,268,308	1,133,742

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 2022 and 2021 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		
	2022	**2021**
Deposits in other banks	1,444,087	505,528
Less impairment loss allowance	(491)	(166)
Total	**1,443,596**	**505,362**

Included in the amount of loans and advances to banks is accrued interest of BGN 120 thousand (2021: BGN 27 thousand). The impairment provisions under IFRS9 as of end of December, 2022 amounted to BGN 491 thousand (2021: BGN 166 thousand).

Approximately 100 % (2021: 81 %) 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		
	2022	**2021**
Bulgarian government bonds	33,604	37,097
of which pledged	14,537	-
Shares	1,624	1,272
Total	**35,228**	**38,369**
Equity securities: - Listed	1,624	1,272
Debt securities: - Listed	33,604	37,097
of which pledged	14,537	-

Included in the amount of the bonds is accrued interest in the amount of BGN 23 thousand (2021: BGN 23 thousand).

All amounts are shown in BGN thousands unless otherwise stated

Gains less (losses) from trading securities	**2022**	**2021**
Debt securities	(2,520)	(83)
Equity securities	430	251
Total	**(2,090)**	**168**

18 Loans and advances to customers

	2022	**2021**
Consumer lending (including credit cards)	1,869,385	1,498,719
Small Business lending	907,957	760,460
Mortgages	3,082,986	2,571,218
Corporate lending	4,550,292	4,262,292
Gross loans and advances	**10,410,620**	**9,092,689**
Less allowance for impairment losses on loans and advances	(347,187)	(298,738)
Net outstanding balance of loans and advances to customers	**10,063,433**	**8,793,951**

Included in the amount of loans and advances to customers is accrued interest of BGN 33,941 thousand (2021: BGN 34,059 thousand). In 2022 the Bank acquired no portfolios (In 2021 the Bank acquired no portfolios).

	2022	**2021**
The ten largest exposures to customers	893,263	948,653
Percentage of gross loans	8.58%	10,43%

The following table presents the impairment allowance movement by product line:

31 December 2022																	
	Wholesale				Mortgage				Consumer				Small business				
	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	14,318	179	791	(426)	6,219	1,337	(5,631)	3,030	22,853	7	1,348	(743)	2,797	(338)	**55,582**
Recoveries from written - off loans	-	-	12,024	-	-	-	4,149	-	-	-	3,638	-	-	-	2,261	–	**22,072**
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**

All amounts are shown in BGN thousands unless otherwise stated

31 December 2021	Wholesale				Mortgage				Consumer				Small business				
	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	**13,750**	**8,557**	**51,877**	**5,271**	**3,881**	**3,752**	**58,878**	**836**	**12,071**	**10,292**	**34,353**	**15**	**7,492**	**8,010**	**45,312**	**621**	**264,968**
New loans and advances originated or purchased	3,168	-	-	-	1,085	-	-	-	11,348	-	-	-	4,924	-	-	-	**20,525**
Transfers between stages:																	
-to 12-month ECL	*(5,262)*	*4,984*	*278*	-	*(5,325)*	*1,028*	*4,297*	-	*(4,777)*	*2,037*	*2,740*		*(4,621)*	*2,194*	*2,427*	-	-
-to lifetime ECL	*1,452*	*(1,453)*	*1*	-	*133*	*(5,528)*	*5,395*	-	*1,135*	*(3,963)*	*2,828*		*1,121*	*(2,144)*	*1,023*	-	-
-to lifetime ECL credit-impaired loans	*164*	*19*	*(183)*	-	*8*	*798*	*(806)*	-	*161*	*2,435*	*(2,596)*		*54*	*2,015*	*(2,069)*	-	-
Impact of ECL net remeasurement	(7,599)	(10,250)	18,756	3,080	2,599	9,041	9,764	2,117	(697)	6,718	15,406	106	(1,137)	(2,380)	16,890	436	**62,850**
Recoveries from written - off loans	-	-	8,517	-	-	-	6,277	-	-	-	3,142	-	-	-	3,185	–	**21,121**
Loans and advances derecognised/ reclassified as held for sale	-	-	(10,159)	-	-	-	(3,164)	-	-	-	(556)	-	-	-	(711)	–	**(14,590)**
Amounts written-off	-	-	(16,256)	-	-	-	(4,455)	-	-	-	(12,657)	-	-	-	(14,634)	–	**(48,002)**
Unwinding of discount		-	(1,346)	–	-	-	(2,236)	–	-	-	(1,522)	-	-	-	(1,353)	–	(6,457)
Foreign exchange differences and other movements	(1)	-	(131)	-	(2)	(3)	(1,135)	-	-	-	(157)	-	-	(124)	(124)	-	(1,677)
Impairment allowance as at 31 December	**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**

Loan commitments, financial guarantees and other commitments as of 31 December 2022 and as of 31 December 2021				
	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 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**
Impairment allowance as at 1 January 2021	**392**	**7**	**122**	**521**
New financial assets originated or purchased	123	-	-	123
Amounts charged during the year	(190)	(7)	-	(197)
Foreign exchange and other movements	(122)	5	(2)	(119)
Impairment allowance as at 31 December 2021	**203**	**5**	**120**	**328**

	2022	**2021**
Impairment allowance as at 1 January	**298,738**	**264,968**
Amounts written off	(36,312)	(48,002)
Movement recognized in profit or loss (Note 12)	71,878	83,375
Recoveries from written - off loans	22,072	21,121
Unwinding of Discount	(3,149)	(6,457)
Loans and advances derecognized during the year	(250)	(14,590)
Other movements (Collection costs, FX, Modification loss)	(5,790)	(1,677)
Impairment allowance as at 31 December	**347,187**	**298,738**

All amounts are shown in BGN thousands unless otherwise stated

19 Investment securities

a) Investment securities breakdown	2022	2021
Investment securities at FVTPL	23,935	24,571
Investment securities measured at amortised cost	1,436,645	961,653
of which pledged	72,212	-
ECL on investment securities measured at amortised cost	(2,041)	(1,287)
Investment securities at FVOCI - debt instruments	1,251,510	1,611,726
of which pledged	521,774	239,011
Investment in Mutual funds at FVTPL	37,664	39,125
Total	**2,747,713**	**2,635,788**
Equity securities		
- Listed	179	-
- Unlisted	61,421	63,696
Debt securities		
- Listed	1,513,537	2,102,448
- Unlisted	1,172,576	469,644
Total	**2,747,713**	**2,635,788**

6) Investment securities at FVOCI

The movement of investment securities at FVOCI is presented in the table below:

Fair value as at 31 December 2022	**1,251,510**
Additions	734,000
Disposals	(364,718)
Change in accrued interest	1,731
Amortization of discounts or premium	(23,990)
Net fair value loss	(98,087)
Foreign Exchange differences from translation into entity currency	24,387
Redemption	(633,539)
Fair value as at 31 December 2021	**1,611,726**
Additions	1,312,312
Disposals	(46,926)
Change in accrued interest	1,625
Amortisation of discounts and premium	(14,114)
Net fair value loss	(22,573)
Foreign exchange differences	25,198
Redemptions	(631,687)
Fair value as at 31 December 2020	**987,891**

Gains less (losses) and impairment of investment securities	2022	2021
Transfer the fair value reserve from equity to income statement	(220)	16
(Losses) OCI Bonds (Securities)	223	(16)
Gain recognized on investment securities	(1,461)	1,230
Gains/ (Losses) on investment in Mutual funds at FVTPL	(1,461)	-
Total	**(2,919)**	**1,230**

c) Investment securities measured at amortized cost	2022	2021
Bonds issued by banks	645,892	526,674
ECL on Bonds issued by banks Government bonds ECL	(1,538) 195,539 (460)	(1,272)
Other financial corporations bonds	595,214	434,979
ECL on Other financial corporations bonds	(43)	(15)
Total	**1,434,604**	**960,366**

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 2021	**820**	**703**
New financial assets originated or purchased	834	856
Changes due to change in ECL risk parameters,incl. FX effect	(234)	(79)
Financial assets disposed during the period	(133)	(16)
Balance at 31 December 2021	**1,287**	**1,464**
New financial assets originated or purchased	1,289	717
Changes due to change in ECL risk parameters (other than transfers)	(504)	2,109
Financial assets disposed during the period	(31)	(449)
Balance at 31 December 2022	**2,041**	**3,841**

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	**2022**	**2021**
Beginning of the year	797	890
Impairment	(417)	(116)
Modification	108	23
Closing balance 31 December	**488**	**797**

As at 31 December 2022 the amount of Right of use of Investment Property included in the above table is BGN 48 thousand (2021: BGN 345 thousand).

Quantitative information about fair value measurements using significant unobservable inputs (Level 3).

Class property	**Fair value 31/12/2022 (BGN)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2022 (BGN)**	**Range (weighted average) 2021(BGN)**	**Connection between the unobservable input and FV**
Land	440	Market comparison approach	price per m^2	13.01	13.35	A significant increase in price per m^2 would result in a higher fair value
Commercial	48	Income approach	rent per m^2	13.69	13.69	A significant increase in rent per m^2 would result in a higher fair value
			discount rate	11.2%	11.2%	A significant increase in discount rate would result in a lower 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
At 31 December 2020						
Gross amount	**99,287**	**36,423**	**104,347**	**83,133**	**2,960**	**326,150**
Accumulated depreciation	**(1,405)**	**(24,985)**	**(65,799)**	**(21,145)**	**(1,561)**	**(114,895)**
Net book amount	**97,882**	**11,438**	**38,548**	**61,988**	**1,399**	**211,255**
Year ended 31 December 2021						
Opening net book amount	**97,882**	**11,438**	**38,548**	**61,988**	**1,399**	**211,255**
Additions	2,981	5,319	7,557	-	201	**16,058**
Revaluations, impairment and write offs	3,525	(246)	(169)	-	-	**3,110**
Transfers	1,332	(1,332)	428	-	-	**428**
Terminations/Modifications	-	-	-	23,808	(951)	**22,857**
Movement in accumulated depreciation						
Depreciation charge (Note 10)	(2,258)	(1,206)	(5,661)	(11,512)	(881)	**(21,518)**
Termination/Modifications	-	-	-	2,063	1,002	**3,065**
Closing net book amount	**103,462**	**13,973**	**40,703**	**76,347**	**770**	**235,255**
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**
Year ended 31 December 2022						
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**
Revaluation, impairment and write offs	3,372	(56)	(37)	-	-	**3,279**
Termination / 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**
At 31 December 2022						
Gross amount	**(2,515)**	**(2,253)**	**(6,370)**	**(12,078)**	**(698)**	**(23,914)**
Accumulated depreciation	**-**	**-**	**-**	**1,999**	**680**	**2,679**
Net book amount	**111,463**	**29,143**	**53,156**	**81,896**	**2,526**	**278,184**

	2022	2021
Land and buildings at revalued amount	**111,463**	**103,462**
Revaluation reserve, net of tax	(9,371)	(6,138)
Difference between accumulated depreciation based on cost and based on re-valued amount not yet transferred to retained earnings	630	629
Deferred tax on revaluation	(1,041)	(682)
Land and buildings at cost less accumulated depreciation	**101,681**	**97,271**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

Class property	**Fair value 31/12/2022 in BGN thousands**	**Valuation technique**	**Significant unobservable input**	**Range (BGN) (weighted average) 2022 in BGN**	**Range (BGN) (weighted average) 2021 in BGN**
Land	15,077	Market comparison approach	price per m^2	11.25 - 778.17 (451.68)	11.68 - 756.20 (497.26)
Office	82,305	Income approach	rent per m^2	5.53 - 32.52 (18.81)	6.57-22.61 (19.79)
Office	13,802	Market comparison approach	price per m^2	60.59 - 3700.43 (1276.71)	62.45-2280.5 (760.94)
Office	279	cost approach	price per m^2	34.9	34.24
Total	**111,463**				

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**	**Total intangible assets**
At 31 December 2020				
Gross book amount	**94,757**	**32,389**	**7,563**	**134,709**
Accumulated amortisation	**(36,358)**	**(18,531)**	**(2,904)**	**(57,793)**
Net book amount	**58,399**	**13,858**	**4,659**	**76,916**
Year ended 31 December 2021				
Opening net book amount	**58,399**	**13,858**	**4,659**	**76,916**
Additions	5,552	7,020	1,214	13,786
Revaluation and write offs	(245)	(1,270)	-	(1,515)
Transfers	-	(428)	-	(428)
Amortisation charge (Note 10)	(5,643)	(2,828)	(618)	(9,089)
Closing net book amount	**58,063**	**16,352**	**5,255**	**79,670**
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**

All amounts are shown in BGN thousands unless otherwise stated

23 Other assets

	2022	2021
Amounts in transit	47,001	12,599
Prepaid expenses	20,057	13,364
Repossessed collaterals	12,911	12,118
Other debtors	7,319	2,291
Other assets	1,741	1,974
Materials	752	701
Less: impairment on other financial assets	(3,829)	(1,710)
Total	**85,952**	**41,337**

The financial assets contained in the Other assets note amounted to BGN 52,232 thousand (for the year ended 31 December 2021: BGN 15,153 thousand). The impairment on financial assets amounted to BGN 3,829 thousand (for the year ended 31 December 2021: BGN 1,710 thousand). BGN 33,720 thousand (for the year ended 31 December 2021: 26,183 thousand) of the non-financial assets are expected to be realized within 12 months.

Impairment on other financial assets movement	**2022**	**2021**
Opening balance at 1st of January	1,710	3,468
Charged to the income statement	638	780
Reversed to the income statement	(3)	(88)
Charged/(Used) during year	1,484	(2,450)
Closing balance 31 December	**3,829**	**1,710**

24 Deposits from banks

	2022	2021
Current accounts from other banks	3,996	9,190
Deposits from other banks	19,908	345
Total	**23,904**	**9,535**

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.

All amounts are shown in BGN thousands unless otherwise stated

The fair values of derivative instruments held are set out below:

	Fair values		
	Contract / notional amount	**Assets**	**Liabilities**
Year ended 31 December 2022			
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
FX forwards	3,827	123	117
OTC currency swaps	1,268,380	76	12,654
Total OTC currency derivatives for trading	**1,272,207**	**199**	**12,771**
Interest rate derivatives			
OTC interest rate swaps	523,944	22,543	23,295
OTC IR options bought and sold	54,361	807	807
Total OTC interest rate derivatives for trading	**578,305**	**23,350**	**24,102**
Derivatives designated as fair value hedges			
OTC interest rate swaps	335,969	29,066	0
Total OTC interest rate derivatives for hedging	**335,969**	**29,066**	**0**
Total recognised derivative assets / liabilities		**52,615**	**36,873**
Year ended 31 December 2021			
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,283,213	762	149
Total OTC currency derivatives for trading	**1,283,213**	**762**	**149**
Interest rate derivatives			
OTC interest rate swaps	202,361	5,996	6,113
OTC IR options bought and sold	61,331	48	48
Total OTC interest rate derivatives for trading	**263,692**	**6,044**	**6,161**
Derivatives designated as fair value hedges			
OTC interest rate swaps	389,301	4,654	2,829
Total OTC interest rate derivatives for hedging	**389,301**	**4,654**	**2,829**
Total recognised derivative assets / liabilities		**11,460**	**9,139**

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.

In 2022 the Bank recognized a gain of BGN 51,855 thousand (2021: BGN 7,030 gain) from changes in the fair value of the hedging instruments, used as the basis of recognising hedge ineffectiveness and BGN 54,086 thousand loss (2021: BGN 7,070 loss) from changes in the fair value of the hedged items attributable to the hedged risk. The amount of hedge ineffectiveness recognized for 2022 in the income statement is a BGN 2,231 thousand loss (2021 BGN 40 thousand loss). In 2022 the fair value hedges were effective (2021: highly effective).

Fair value hedges

At 31 December 2022, the amounts relating to items designated as FV hedged items were as follows:

Year ended 31 December 2022			
Fair Value Hedges	**Carrying amount**	**Accumulated amount of FV hedge adjustments on the hedged item**	**Change in value as the basis for recognising hedge ineffectiveness**
Debt securities	299,424	30,113	-
Total	**299,424**	**30,113**	**-**

At 31 December 2022, the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses was BGN 0 (2021: BGN 0).

At 31 December 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 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**

All amounts are shown in BGN thousands unless otherwise stated

26 Due to customers

	2022	2021
Large corporate customers	3,053,112	2,627,456
Medium corporate customers	754,426	725,842
Total due to corporate customers	**3,807,538**	**3,353,298**
Retail customers	9,874,494	8,960,210
Total due to customers	**13,682,032**	**12,313,508**

Included within due to customers is related accrued interest payable of BGN 5,696 thousand (2021: BGN 1,682 thousand).

27 Other borrowed funds

	2022	2021
MREL Debt Eurobank S.A.	461,414	146,765
Long term debt from Bulgarian Development Bank	14,184	19,813
Total	**475,598**	**166,578**

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented in the table below:

	2022	2021
Opening balance at 1 January	**166,578**	**29,370**
New funding	312,933	146,687
Repayment of long-term debt (principal)	(5,654)	(9,566)
Interest expense	8,571	429
Interest paid	(6,830)	(342)
Balance at 31 December	**475,598**	**166,578**

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 2022 the total liability amounted to BGN 8,854 thousand (2021: BGN 12,368 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 2022, the total liability amounted to BGN 5,330 thousand (2021: BGN 7,445 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 2022 and 2021 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. As of 31 December 2022, the outstanding balance of the loan is BGN 146,856 thousand, (2021: BGN 146,765 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 2022, the outstanding balance of the loan is BGN 97,869 thousand.

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 2022, the outstanding balance of the loan is 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

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All amounts are shown in BGN thousands unless otherwise stated

28 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 10% (2021: 10%). The movement on the deferred tax account is as follows:

	2022	2021
Deferred tax asset at the beginning of year	(8,556)	(11,191)
Deferred tax liability, net, recognized in OCI	415	856
Deferred tax expense/ (benefit) (Note 13)	1,088	1,779
Net deferred tax (asset) / liability at end of year	**(7,053)**	**(8,556)**

Deferred tax assets and liabilities are attributable to the following items:

	2022	2021
Deferred tax liabilities		
Accelerated tax depreciation	6,035	4,865
Property revaluation	1,041	682
Gain on share exchange	519	519
Deferred tax liability on bargain gain (FV of loans,shares)	311	354
IFRS 16 contracts	4,369	2,936
Deferred tax assets	**12,275**	**9,356**
Unused holidays	122	119
Provision for legal proceedings	1,193	1,113
Provision for retirement benefit obligations	887	855
Deferred tax assets on actuarial loss	(548)	(492)
Deferred tax assets on provisions for restructuring	629	278
Deferred tax assets on bargain gain (FV of loans, shares)	10,402	11,568
Deferred tax asset on investment property IFRS 16	521	476
Other temporary differences	2,215	1,376
IFRS 16 contracts	3,907	2,619
Total	**19,328**	**17,912**

The deferred tax charge/ (credit) in the income statement comprises of the following temporary difference:

	2022	2021
Depreciation	1,170	396
Unused holidays	(2)	21
Provision for legal proceedings and off balances	(80)	(33)
Other temporary differences	(840)	(177)
Provisions for restructuring and other liabilities	(350)	263
Provision for retirement benefit obligations	(32)	(21)
DTA PBB transaction	1,122	1,202
DTA investment property IFRS 16	(45)	(11)
DTL IFRS 16 contracts	1,433	1,385
DTA IFRS 16 contracts	(1,288)	(1,246)
Net deferred tax expense/ (benefit) (Note 13)	**1,088**	**1,779**

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	2022	2021
Opening balance at 1st of January	11,113	11,028
Charged to the income statement	4,830	5,076
Used during year	(1,889)	(3,934)
Reversed during the year	(2,121)	(1,057)
Closing balance	**11,933**	**11,113**

b) Provisions for restructuring

In 2019 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 Piraeus Bank Bulgaria. The plan envisaged material contracts, branch locations and staff optimization and is expected to take place in three-year horizon, following the merger.

All amounts are shown in BGN thousands unless otherwise stated

The table below presents movement in provision for restructuring:

Provisions for restructuring	**2022**	**2021**
Opening balance at 1st of January	304	2,398
Used during year	-	(2,094)
Closing balance	**304**	**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**	
	2022	**2021**	**2022**	**2021**
Cash with Central bank (held as mandatory reserve)	1,268,308	1,133,742	14,188,272	12,499,367
Trading and investment securities (pledged under government accounts)	219,010	82,003	72,359	51,715
Investment securities (pledged under Securities lending agreement)	389,512	157,008	-	-
Loans pledged under long term debt agreement	9,098	11,347	14,184	19,813
Total	**1,885,928**	**1,384,100**	**14,274,815**	**12,570,895**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2022 was BGN 1,885,928 thousand (2021: BGN 1,384,100 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 (2021: BGN 300 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 15,764 thousand (2021: BGN 6,982 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	**2022**	**2021**
Retirement benefit obligation at 01 January	3,629	8,238
Service cost	536	524
Interest cost	22	33
Benefits paid	(238)	(353)
Remeasurement	(560)	(4,813)
Retirement benefit obligation at 31 December	**3,389**	**3,629**
Expenses recognised in profit or loss		
Service cost	536	524
Interest cost	22	33
Total (income) / expense included in staff costs (Note 11)	**558**	**557**
Total remeasurement recognised in OCI	**(560)**	**(4,813)**

Significant actuarial assumptions	**2022**	**2021**
Discount rate	3.23%	0.60%
Future salary increase:		
2021:	2.00%	2.00%
2022:	2.00%	2.00%
2023:	3.00%	2.00%

All amounts are shown in BGN thousands unless otherwise stated

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 2022 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 4.4% or BGN 149 thousand/by 4.1% or BGN 139 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 4.1% or BGN 139 thousand/ by 4.4% or BGN 149 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

	2022	**2021**
Lease liabilities	84,940	79,114
Other creditors	66,022	69,055
Accrued expenses	33,115	28,231
Withholding tax obligations	8,439	9,572
Other	1,351	776
Unused paid leave accrual	1,215	1,192
Deferred income	334	334
Total	**195,416**	**188,274**

As at 31 December 2022 the financial liabilities contained in the Other liabilities note amounted to BGN 181,136 thousand (2021: BGN 168,623 thousand).

32 Capital and reserves

a) Share capital

As at 31 December, 2022 and 2021 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 Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is 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 or more 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 2022 and 2021 the Bank did not pay dividend on ordinary shares.

All amounts are shown in BGN thousands unless otherwise stated

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:

	2022	2021
Cash in hand (Note 15)	183,171	157,775
Balances with Central bank excluding the minimum level of mandatory reserves	753,852	1,414,924
Loans and advances to banks	1,444,087	407,716
Total amount of cash and cash equivalents	**2,381,110**	**1,980,415**
Less impairment allowance	(528)	(49)
Net amount of cash and cash equivalents	**2,380,582**	**1,980,366**

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 32,99% of Eurobank Holdings voting rights as of 31 December 2022 (31 December 2021: 33%), is considered to have significant influence over the Company.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

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 2022			31 December 2021		
	Parent company	Other Group companies*	Key management personnel	Parent company	Other Group companies*	Key management personnel
Purchased loans and advances to customers (Note 18)	-	-	-	-	-	-
Loans and advances to banks (weighted interest rate 2022: 1.87%, 2021: 0.99%)	1,280,498	-	-	296,211	97,812	-
Loans and advances to customers } (weighted interest rate 2022: 0.45%, 2021: 0.39%)	-	-	985	-	254,289	22
Debt securities lending	201,889	-	-	79,564	2,349	-
Derivative financial instruments assets	29,949	-	-	6,046	-	-
Other assets	-	74	2	-	3	-
Due to other banks	462,020	336	-	152,123	450	-
Due to customers (weighted interest rate 2022: 0.002% , 2021: 0.001%)	-	4,370	2,181	-	7,734	843
Derivatives Liabilities	36,066	-	-	8,485	-	-
Other liabilities	-	59	-	169	79	-
Interest income	29,435	940	-	9,550	1,662	-
Interest expense	(11,696)	-	-	(2,719)	-	-
Fee and commission income	2,522	810	-	1,890	647	-
Fee and commission expense	(131)	(4)	-	(137)	(1)	-
Net trading (expense)/ income	36,110			1,362	-	-
Salaries and other short-term benefits	-	-	3,238	-	-	3,206
Rental income/(expense)	-	5	-	-	69	-
Other expenses	-	(565)	-	(59)	(745)	-
Letters of guarantee received	-	-	-	254,258	1,565	-

**represent other entities under common control*

All loans lent to related parties as at 31 December 2022 and as at 31 December 2021 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.

All amounts are shown in BGN thousands unless otherwise stated

A list of the related parties of the Bank during 2022 is presented in the table below:

Related party (company name)	Country	Related company category
Eurobank S.A.	Greece	Parent company
ERB Hellas Plc	United Kingdom	Other company within the Group * Under liquidation since 21.06.2022
Be-Business Exchanges S.A.	Greece	Other company within the Group
Eurobank Direktna A.D.(former Eurobank A.D. Beograd)	Serbia	Other company within the Group
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 *In 2019 the legal name of the company has been amended with the inclusion of the term "Single member"
Eurobank Holding (Luxembourg) S.A.	Luxembourg	Other company within the Group The entity was liquidated in December 2021
IMO Property Investments Sofia E.A.D.	Bulgaria	Other company within the Group
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

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 2022 and 31 December 2021, 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:

	2022	2021
Guarantees	182,742	175,708
Letters of credit	42,734	27,714
Loan commitments and other credit related liabilities	1,847,543	1,704,848
Total	**2,073,019**	**1,908,270**

(c) Capital Expenditures

As at 31 December 2022, the Bank had the following capital expenditure commitments:

	2022	2021
Capital Expenditures	**23,398**	**16,932**

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 2022, the right-of-use assets included in property plant and equipment amounted to BGN 84,422 thousand (2021: BGN 77,117 thousand) (Note 21), while those that meet the definition of investment property amounted to BGN 48 thousand (2021: BGN 345 thousand) (Note 20).

Lease Liabilities

As at 31 December 2022 the lease liability included under other liabilities amounted to BGN 84,940 thousand (2021: BGN 79,114 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 15,518 thousand in December 2022 (BGN 12,398 thousand in 2021).

All amounts are shown in BGN thousands unless otherwise stated

Reconciliation of movements of liabilities to cash flows arising from lease financing activities is presented in the table below:

	2022	2021
Opening balance at 1 January	**(79,114)**	**(66,811)**
New Leases	(11,072)	(2,375)
Repayment of principal part of lease liability	14,406	13,932
Interest expense	(69)	(67)
Interest paid	69	67
Expense for leases of low-value assets	(1,043)	(1,146)
Payments for leases of low-value assets	1,043	1,146
FX Revaluartion	(47)	(50)
Modifications	(9,113)	(23,810)
Balance at 31 December	**(84,940)**	**(79,114)**

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:

	2022	2021
Not later than one year	81	173
One to two years	39	137
Two to three years	33	117
Three to four years	-	115
Four to five years	-	85
More than five years	-	64
Total	**153**	**691**

Finance Lease

The following table presents the balances of the finance leases for the Bank as lessor for the period ended 31 December 2022 and 31 December 2021:

	2022	2021
Not later than one year	14,448	12,525
One to two years	11,590	9,934
Two to three years	8,257	7,085
Three to four years	4,575	4,187
Four to five years	2,495	1,802
More than five years	289	586
Gross investment in finance leases	**41,654**	**36,119**
Less: unearned finance income	(5,325)	(2,818)
Net investment in finance leases	**36,329**	**33,301**
Less: impairment allowance	(756)	(425)
Total	**35,573**	**32,876**

37 Shares in subsidiary undertakings

As at 31 December 2022 and 31 December 2021 the Bank has no shares in subsidiaries.

38 Disclosure under art. 70, para. 6 of the Law on Credit institutions

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	Bulgari, Sofia	632,218	3,333	230,050	(23,224)	1.36%	2,854

** In 2022 and 2021 the Bank has benefited from the preferences under the Government Program for compensation of non-household electricity customers, approved by Decision No 739 and 771 of the Council of Ministers of 2021 and accounted this benefit as a government grant under IAS 20.*

All amounts are shown in BGN thousands unless otherwise stated

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 2021 :

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	531,267	3,289	188,292	(19,066)	1.28%	288

39 Events after the balance sheet date

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. After the successful completion of the Consultation Process, Postbank and BNP Paribas Personal Finance SA signed a business transfer agreement on 20 January 2023. The parties are in a process of satisfying two Condition Precedents – obtaining the Competition Clearance(s) from the Commission of Protection of Competition and BNB Approval.The branch is one of the leaders in the consumer finance market in the country and this acquisition presents a huge opportunity for the Bank to enter into a new fast-developing and high margin segment. In the last more than 15 years, BNP Paribas Personal Finance has built a recognizable franchise on which the Bank wants to build upon and enhance. The acquisition will not only enable Eurobank Bulgaria to increase its market share and target the second place in the segment, but also offers opportunities for cross selling and new ways to service customers.

There are no other than stated above significant post balance sheet events with effect on the financial statements as of 31 December 2022.