Translation from Bulgarian

MUNICIPAL BANK AD

ANNUAL CONSOLIDATED ACTIVITY REPORT
INDEPENDENT AUDITORS' REPORT
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

GENERAL INFORMATION

Management Board

Nedelcho Nedelchev - Chairman of the Management Board and Executive Director
Borislav Chilikov – Member of the Management Board and Executive Director
Vladimir Kotlarski – Deputy Chairman of the Management Board
Todor Vanev – Member of the Management Board
Ivaylo Ivanov – Member of the Management Board

Supervisory Board

Stefan Nenov – Chairman of the Supervisory Board
Zdravko Gargarov – Deputy Chairman of the Supervisory Board
Spas Dimitrov – Member of the Supervisory Board

Seat and registered office

6, Vrabcha Str.
1000 Sofia
Bulgaria

Register and registration number

UIC 121086224

Joint auditors

Grant Thornton OOD
26, Cherni Vrah Blvd.
1421 Sofia

RSM BG OOD
9, Professor Fridtjof Nansen Str.1142 Sofia
1142 Sofia

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MUNICIPAL BANK AD

ANNUAL CONSOLIDATED ACTIVITY REPORT

The English version is a translation of the original in Bulgarian for information purposes only. In case of a discrepancy, the Bulgarian original will prevail.

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Economic environment

The economic environment in 2022 has been shaped by several global factors - the recovery from the Covid 19 pandemic, the war in Ukraine, the sharp rise in prices and the reversal of the interest rate cycle. Production bottlenecks and disrupted transport chains caused by the pandemic are gradually being overcome. The war in Ukraine has caused further disruptions and constraints in the supply of goods, food and raw materials, causing further price increases. The energy transition under the "green deal" with the curtailment of conventional electricity generation amplified inflationary processes.

The war in Ukraine and the escalation of political tensions in other parts of the world, including between China and Taiwan, have increased economic uncertainty. Inflation, with the ensuing monetary tightening, and the energy crisis are at the heart of the projected economic slowdown in the European Union.

Price pressures deepened and widened in 2022 - inflation in EU countries reached record highs in recent decades. Inflation peaked during the year at 25% in the Baltic republics directly affected by the war in Ukraine - with trade and energy flows disrupted or interrupted. Annual consumer inflation figures are in a very wide range in December 2022 - from 5.5% in Spain to 20.7% in Latvia and a eurozone average of 9.2%. Inflation is estimated to have peaked in the last quarter of 2022 with a gradual deceleration of the rise starting in 2023. The energy shock has hit consumer prices hard. EU governments have taken various measures at national and union level, sometimes controversial, to support households and businesses.

Key central banks have raised interest rates after a very long period of stimulative monetary policy, including through negative interest rates. Following the decisions of the other major central banks, the ECB in July 2022 raised the deposit facility rate from -0.50% to 0.00% and by a further three steps to 2.00%, and for refinancing operations from 0.00% to 2.50%, alongside a tapering of asset purchase programmes. The ECB has been cautious with rate hikes given the burden of interest rates on public finances in southern Europe, constraints on growth, and recent evidence of slowing inflation.

Stimulative monetary policy has strongly supported financial asset and property prices, but downside risks are now open as the macroeconomic outlook deteriorates and financing conditions tighten.

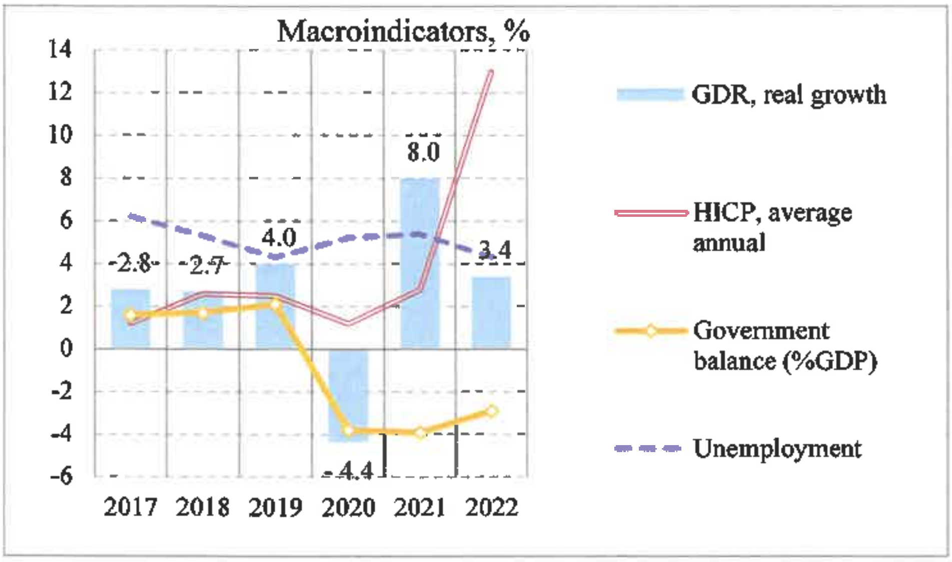
EU GDP indicators in 2022 remain good with annual growth of 3.5%, following the post-pandemic recovery in all Member States except Estonia in the first three quarters. In the fourth quarter, EU GDP contracted by 0.1% y-o-y, while year-on-year growth slowed to 1.7%.

With interest rates rising and economic growth slowing, public finances and debts are becoming highly vulnerable in several Member States, although their debt as a share of GDP is falling in 2022. EU public debt is unevenly distributed. As of Q3 2022, it is 85.1% of GDP, but in Southern European countries it is above 100% and they are pushing for fiscal easing (Italy 147%, Greece 178%, Portugal 120%, France 113%, Spain 116%), while in Germany it is 67% and the Netherlands 49%.

Unemployment in the EU is at a record low of 6.2% for decades and there are persistent staff shortages in some service sectors. A strong labour market is driving wage growth, but wages need more time to fully adjust to the inflation shock.

Under the impact of external demand, the Bulgarian economy is recovering, but growth slows after mid-2022 - annual growth is 3.7%, 4.3%, 3.1% and 2.3% by quarter, respectively. Real annual growth is forecast at 3.4%, weakening in a challenging business environment -

rapidly rising prices and interest rates, the ongoing war in Ukraine, and political instability in the country with a series of parliamentary elections.



As of December 2022, the public debt-to-GDP ratio is 23.9% and at the end of 2021 it is 23.4%. Preliminary data for a 2.9% budget deficit on an accrued basis are better than expected and budgeted.

The labour market is stable with a declining unemployment rate. At the end of 2022, the unemployment rate is 4.7%, compared with an average of 4.8% in 2021. The unemployment rate is falling for economic and demographic reasons (ageing population and emigration). Economic activity in the face of labour shortages is leading to a rapid increase in wages. Due to lower wages compared to the EU average, incomes are rising faster in Bulgaria, in parallel with the outpacing of price increases, especially for services.

Inflationary processes have only accelerated since mid-2021, despite years of stimulative monetary policy. On top of the monetary mass, the effects of the opening up of economies after the Covid 19 restrictions, the energy shock and the war in Ukraine have been superimposed as a cause of the substantial price increases. Bulgaria is an open economy and inflationary processes are quickly transmitted. The year-on-year change in the HICP peaked at 15.6% in September 2022 and was 14.3% as of December. The CPI, which reflects the specific Bulgarian consumer basket, for these periods was 18.7% and 16.9%, respectively.

The country's long-term credit rating from S&P Global Ratings is BBB, affirmed in November 2022. The stable outlook is maintained, despite expectations of weaker growth in 2023, but with a sustainable fiscal position.

Banks in Bulgaria

The economic environment in 2022 was favourable for banks' activities. Lending was booming, interest rates on funds raised by individuals and companies were almost zero, while interest rates on debt securities, money market and corporate lending rose. Banks' profit reached BGN 2,079 million with an annual growth of 46.8% (2021: 73.8%), following which return on assets and return on equity rose to 1.4% and 12.3% from 1.1% and 8.9% in 2021. Credit quality did not deteriorate, and impairment charges were BGN 604 million (2021: BGN 598 million).

Banks' net interest income leads the improved performance, although in percentage terms the growth in costs is double that of income. The main reason for this increase in expenses is the increased cost of financial liabilities held for trading, which several large banks own

Statement of comprehensive income, BGN million, selected items	2020	2021	2022	Change		
				2021	2022	
Total operating income, net	**4,162**	**4,452**	**5,278**	**7.0%**	**18.6%**	**827**
Net interest income	*2,649*	*2,757*	*3,227*	*4.1%*	*17.0%*	*470*
Fees and commissions income, net	*1,039*	*1,241*	*1,430*	*19.5%*	*15.2%*	*189*
Dividend income	*190*	*114*	*280*	*(39.8%)*	*144.4%*	*165*
From derecognition of FA not at fair value	*50*	*43*	*10*	*(15.0%)*	*(76.9%)*	*(33)*
Net gains from FA and hedging	*112*	*207*	*250*	*85.5%*	*20.7%*	*43*
Net foreign exchange gains	*56*	*20*	*(7)*	*(64.6%)*	*-*	*(27)*
From derecognition of non-financial assets.	*6*	*4*	*5*	*(28.9%)*	*15.4%*	*1*
Other operating income, net	*60*	*65*	*82*	*8.4%*	*25.8%*	*17*
Administrative expenses	1,677	1,784	1,972	6.4%	10.5%	187
Contributions to the Claims and Deposits Guarantee Fund and the Bank Restructuring Fund	302	157	196	(48.1%)	24.8%	39
Depreciation and amortisation	285	273	281	(3.9%)	2.7%	7
Impairment	879	598	604	(32.0%)	0.9%	5
Provision expense, net	111	62	(15)	(44.3%)	(124.6%)	(77)
PROFIT OR LOSS	**815**	**1,416**	**2,079**	**73.8%**	**46.8%**	**663**

Source: BNB

The second most significant component of operating income was net fee and commission income, which grew at an annual rate of 15.2%. In 2022, dividend income is a significant contributor to the banks' strong performance. Under the impact of inflation, administrative expenses are up 10.5% year-on-year.

Despite the activity in lending to non-bank customers, the growth rate was slower than the growth in the deposit base - 13.5% vs. 15.4% and the loan-to-deposit ratio fell to 70.5% (2021: 71.4%). The accumulated deposit base relative to loans allows banks not to raise deposit rates.

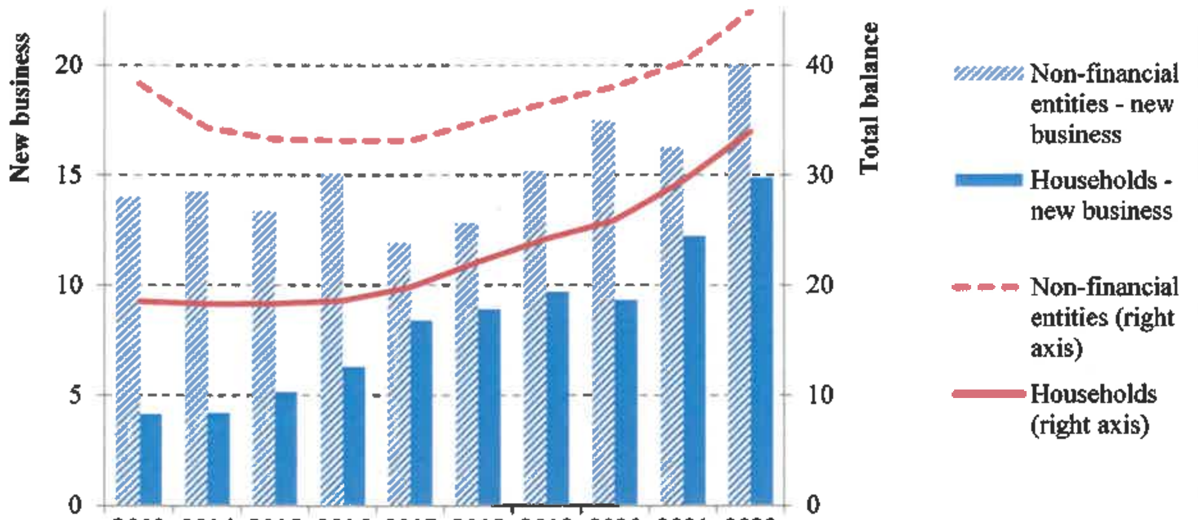
The liquidity coverage ratio declined to 235% in 2022 but remains high above the regulatory threshold. Total capital adequacy ratio of 20.88% (2021: 22.62%) is shrinking as a result of credit growth, while regulatory capital is only increased by 0.9%. In 2022, the BNB increased the countercyclical buffer from 0.5% to 1.0% given the credit market indicators, leverage, real estate market, and the general state of the economic environment. The systemic risk buffer was confirmed at 3.0%.

Balance sheet items, BGN million	**2020**	**2021**	**2022**	**Change**		
				2021	**2022**	
Total assets	124,006	135,410	155,406	9.2%	14.8%	19,996
Cash	27,114	28,487	32,428	5.1%	13.8%	3,941
Debt securities	17,640	22,014	23,607	24.8%	7.2%	1,592
Loans and advances (gross, net of CB), incl.	76,678	82,362	96,137	7.4%	16.7%	13,776
Financial institutions	7,178	6,487	10,056	(9.6%)	55.0%	3,569
Public sector	897	970	921	8.1%	(5.1%)	(49)
Corporate	*42,721*	*45,437*	*51,216*	*6.4%*	*12.7%*	*5,778*
Retail	*25,882*	*29,468*	*33,945*	*13.9%*	*15.2%*	*4,478*
Accumulated impairment	(3,578)	(3,596)	(3,471)	0.5%	(3.5%)	125
Investments in subsidiaries and associates	700	583	576	(16.7%)	(1.2%)	(7)
Tangible, intangible, and other assets	4,608	4,589	4,917	(0.4%)	7.1%	328
Attracted funds, total	105,733	115,427	134,079	9.2%	16.2%	18,652
Financial institutions	*5,062*	*6,072*	*7,882*	*19.9%*	*29.8%*	*1,810*
Public sector	*3,034*	*3,036*	*4,035*	*0.1%*	*32.9%*	*999*
Corporate	*35,001*	*38,213*	*47,880*	*9.2%*	*25.3%*	*9,668*
Retail	*62,636*	*68,107*	*74,282*	*8.7%*	*9.1%*	*6,175*
Equity	*15,352*	*16,607*	*17,281*	*8.2%*	*4.1%*	*674*

Source: BNB

During the year, the banks' assets grew by 14.8% to BGN 155,406 million. Of the total growth, 69% was in loans and advances, 20% in cash and only 8% in debt securities due to the turn in the interest rate cycle. Funds attracted grew, highlighted by the high rate of 25.3% for enterprises (non-financial and financial), while for households it was 9.1% per annum. The change in capital as a net effect of current profits and dividends distributed grew by 4.1%.

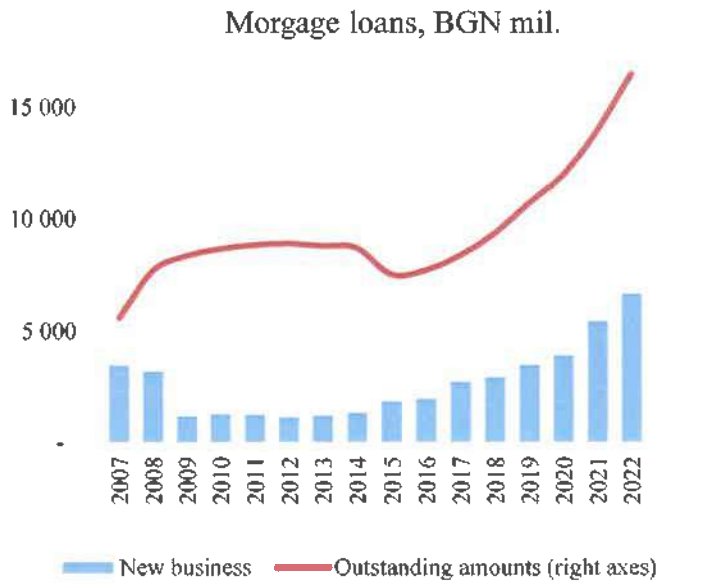
Lending dynamics (Non-financial entities and Households, BGN billion)



Source: BNB

Demand for credit in 2022 continued to grow, driven by the economic recovery and low interest rates, which relative to inflation are an important incentive for borrowers at the expense of depositors. Compared with 2021, new business lending in 2022 grew by 23.1 percent for nonfinancial businesses and 21.7 percent for households.

The volume of newly issued housing loans in the country in 2022 reached a record of BGN 6.7 billion, representing 40% of the volume of balances at the end of the year, and the net annual growth was 17.8%, or BGN 2.5 billion. Compared to the previous year, new loans were up 22%, but the acceleration slowed from 39% in 2021. The average interest rate in 2022 on new housing loans is stable in the range of 2.50% - 2.60% and declines slightly compared to 2021 (in the range of 2.60% - 2.80%). Already there are such signs of cooling - a 12% decline in the number of real estate transactions was recorded in the last quarter of 2022 compared to 2021. Housing loan demand and housing market development are interrelated and inductive.



The result of the ECB's sustained monetary expansion has been solid growth in real estate and financial asset prices, while consumer prices remained unaffected until 2021. Annual house price growth in Bulgaria, according to the NSI, almost doubled in 2022 to 15.6% in Q3 (2021Q3: 8.7%) and 18.6% in Sofia (2021Q3: 9.9%). The cumulative increase to 09.2022 at 2015 base is 74% on average for the country and 102% for Sofia. A small share of home purchases is for investment purposes - as a source of income and/or as a tool for storing the value of money, which bank deposits have not provided for a long time. The high demand for housing increases mortgage lending and limits the growth of household funds attracted by banks.

Overview of the activity on a consolidated basis

Companies and consolidation

The preparation of the Consolidated Group Report is by the full consolidation method and covers Municipal Bank AD (the parent company, the parent bank, the Bank) with its subsidiaries, together referred to as the Group. The subsidiary, Municipal Bank Asset Management AD, was incorporated in May 2008. The Parent Bank owns 100% of its capital, including the funds it manages:

- Mutual fund "Municipal Bank – Balanced" with 100% participation
- Mutual fund "Municipal Bank – Perspective" with 100% participation

General information for Municipal Bank AD – Parent company

Municipal Bank AD is a legal entity incorporated as a joint stock company under the Commercial Law with a full license as a credit institution under the Credit Institutions Act. Municipal Bank AD is a member of the Association of Banks in Bulgaria, Bulgarian Stock Exchange AD, Central Depository AD and MasterCard Incorporated. The head office is located at Sofia, 6 Vrabcha Street. The branch network is only on the territory of Bulgaria and includes 41 branches and 5 offices.

The majority shareholder in Municipal Bank AD is Novito Opportunities Fund AGmvK with a 95.5% share of the issued capital as of 31.12.2022.

Joint auditors of the bank for 2022 are Grant Thornton OOD and RSM BG OOD, elected by a decision of the General Meeting of Shareholders of Municipal Bank AD.

Key indicators on a separate basis

	2022	2021
Financial indicators		
Net interest income	17,929	5,799
Net fees and commission income	15,509	13,568
Net gains / (loss) from operations with securities at fair value through profit or loss	1,551	(389)
Net gains on derecognition of financial assets that are not at fair value through profit or loss	44	287
Net operating income	37,724	20,691
Administrative expenses	(28,874)	(27,335)
Impairment, net	(419)	950
Profit/ (Loss) for the year	5,426	(9,097)
Balance sheet indicators		
Assets	2,156,028	1,927,908
Receivables from banks and other financial institutions	108,357	82,886
Securities	424,245	362,371
Loans granted and receivables from clients	487,518	299,990
Deposits from clients	1,950,952	1,805,230
Share capital	120,077	112,229
Main rations		
Return on equity (ROE)*	4.72%	(7.80%)
Return on assets (ROA)*	0.27%	(0.41%)
Total capital adequacy	18.26%	23.83%
Leverage ratio	5.51%	5.30%
Liquidity coverage ratio	530.39%	1,057.79%
Net stable funding ration	302.17%	316.00%
Net interest margin*	0.95%	0.29%
Cost income ratio	76.51%	132.11%
Gross loans/deposits without public sector	32.43%	23.77%

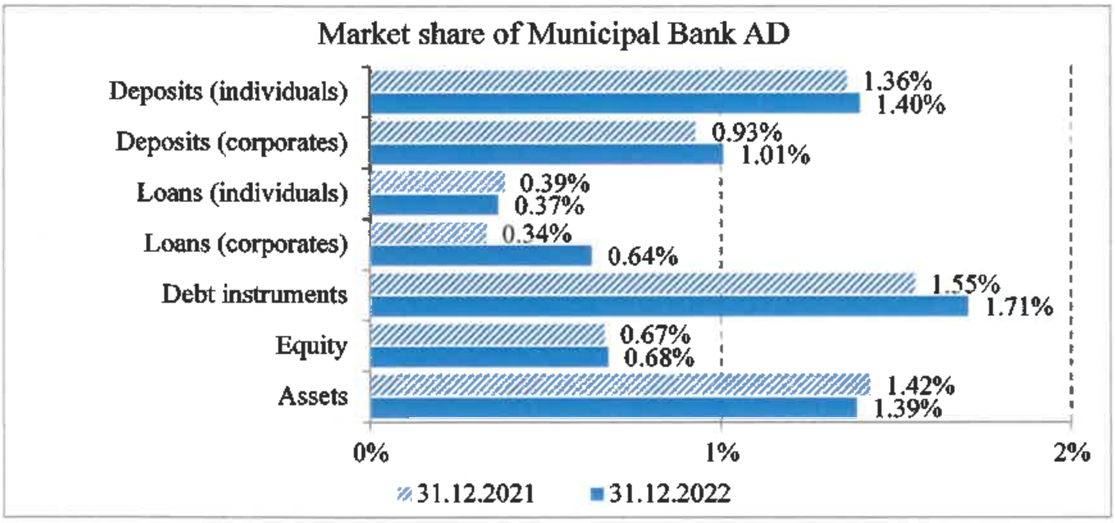
* *Based on average daily balance.*

Business model and market positions

Municipal Bank AD ranks 14th in terms of assets among 25 banks and branches of foreign banks in the country. In 2022, the Belgian KBC acquired 100% of the shares of Raiffeisenbank Bulgaria EAD, which continued its operations under the name KBC Bank Bulgaria, part of the KBC group. KBC Bank Bulgaria (6th in terms of assets) is to be merged into UBB AD (3rd in terms of assets).

In December 2022 Eurobank Ergasias Services and Holdings S.A. announced that it had reached an agreement with BNP Paribas Personal Finance SA to acquire the Bulgarian branch of BNP Paribas Paribas Personal Finance through its subsidiary Eurobank Bulgaria AD (Postbank, 4th in terms of assets). BNP Paribas Personal Finance operates only in the consumer lending segment with a market share of 5.7%, while the funds raised from households have a market share of 0.3%.

Bank consolidation in the country in recent years has resulted from deals between large European banking groups for their structures in Bulgaria. There are currently no other announced deals, but we expect the process to continue. The bank does not see consolidation as a competitive threat, moreover practice shows that consolidation frees up market niches for smaller players with greater flexibility.



Municipal Bank AD's strategy strengthens and develops market performance in lending. The bank operates under market conditions and follows an appropriate non-aggressive interest rate policy. Competition between banks in lending is strong, while for borrowed funds it is low for the time being, given the accumulated liquidity. The share of credit at the aggregate level in Bulgaria relative to deposits from households and firms at end-2022 is 70.5% (2021 - 69.4%), but there are previous periods with over 100%.

Municipal Bank AD is a universal commercial bank with specialized expertise in servicing public institutions. The bank serves some of the largest municipalities in the country, including Sofia Municipality. The bank's market share as of the end of 2022 in financial services to municipalities (Local Government sector) of funds raised is 24.4% and 12.4% in lending to municipalities. The bank has a funding model geared toward local, non-credit institution customers.

In terms of assets, Municipal Bank AD has a market share of 1.39% as of 31 December 2022 (2021: 1.42%). The market share in deposits from households and businesses increased slightly in 2022. In corporate lending we have a substantial increase to 0.64%, while in household lending the change is minimal by 0.02 percentage points.

Financial results

In 2022, the Municipal Bank AD Group significantly improved its operating profitability and profitability. The realised profit after tax was BGN 5,520 thousand compared to a loss of BGN 8,964 thousand in 2021. Since the end of 2021, the Group has been operating with a changed business model focused on lending, and servicing of funds raised from the budget has been reduced in scale given the economic environment and specific regulatory requirements for securing these funds. The change in business model has had an impact on the structure of operating income, with the share of net interest income rising to 47.4% in 2022

(2021: 28.1%) and the share of net fee and commission income being 40.9% compared to 65.4% in 2021.

Net operating income increased by 82.9% to BGN 37,939 thousand with net interest income leading the way. As a consequence of the change in the business model, lending accelerated, in parallel with an increase in other interest-bearing assets - debt securities and receivables from banks. The Group increased interest income by BGN 6,490 thousand (39.8%), reduced interest expenses by BGN 5,651 thousand (53.9%) and as a result net interest income was BGN 17,967 thousand - a threefold increase compared to 2021. The improvement in net interest income is on the back of the optimised balance sheet structure as well as the market increase in interest rates on assets since mid-year, including a shift to positive yields on interbank market instruments and the discontinuation of negative interest rate interest on excess reserves at the BNB.

Profitability and efficiency metrics improved significantly, driven by improved interest yields, fee and commission income, and the net result from transactions in financial assets at fair value through profit/loss. Administrative expenses, including staff expenses and information technology expenses, were impacted by inflationary developments and increased year-on-year by 5.9% in total. The Parent Bank's premium contribution to the Deposit Guarantee Fund, an element of administrative expenses, increased.

The administrative cost efficiency ratio (CIR) in 2022 is 76.45% (2021: 132.08%).

The Group's return on assets in 2022 is 0.27% (2021: -0.45%) and return on equity is 4.71% (2021: -7.65%).

Separate Statement of Profit or Loss, TBGN	**2022**	**2021**	**Change**	
			%	**Amount**
Net interest income	17,967	5,826	208.4%	12,141
Interest income	22,794	16,304	39.8%	6,490
Interest expense	(4,827)	(10,478)	(53.9%)	5,651
Dividend income	233	223	4.5%	10
Net fees and commissions income	15,509	13,568	14.3%	1,941
Net gains/(loss) from operations with FV through profit and loss	1,741	(353)	(593.2%)	2,094
Net gains on derecognition of financial assets that are not at fair value through profit or loss	44	287	(84.7%)	(243)
Net gains on foreign exchange revaluation	165	14	1078.6%	151
Net gains from sale of non-current assets	336	243	38.3%	93
Change in fair value of investment properties	1,509	-	-	1,509
Other operating incomes / expenses, net	435	936	(53.5%)	(501)
Net operating income	**37,939**	**20,744**	**82.9%**	**17,195**
Administrative expenses	(29,004)	(27,398)	5.9%	1,606
Depreciation and amortization	(2,854)	(3,822)	(25.3%)	(968)
Impairment of financial assets, net	(401)	1,110	(136.1%)	1,511
Provisions (Accrued) /reintegrated for the period, net	(133)	419	(131.7%)	552
Income tax expense	(27)	(17)	58.8%	10
PROFIT FOR THE YEAR	**5,520**	**(8,964)**	**(161.6%)**	**14,484**

In 2022, the Group realised a net gain on transactions in financial assets at fair value through profit or loss of BGN 1,741 thousand compared to a loss of BGN 353 thousand in the previous year. This item also includes the result from the purchase and sale of foreign currency at the request of customers. In 2022, the Group mainly applies an asset management model in debt instruments at amortized cost, where contractual cash flows of principal and interest are collected without trading. The amortised cost model protects assets from unwanted adjustments in adverse debt market dynamics.

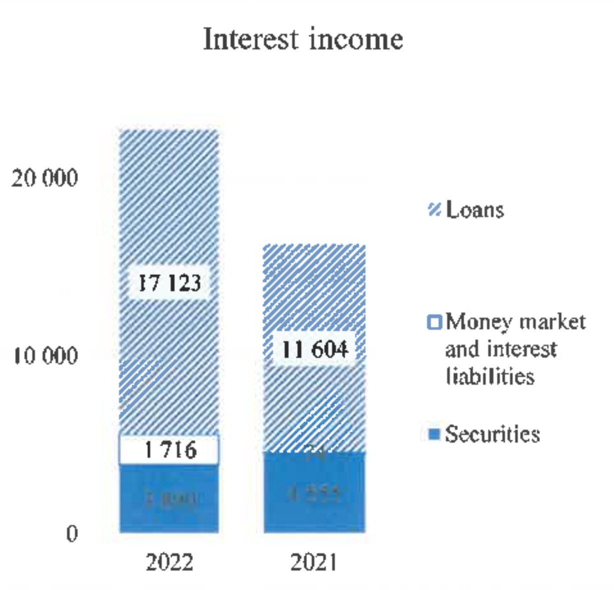
The change in the fair value of investment properties in 2022 is BGN 1,509 thousand.

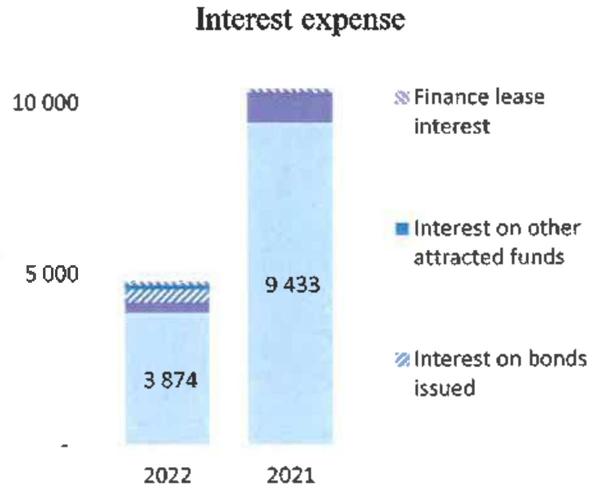
The net effect of impairment of financial assets is an accrual of BGN 401 thousand and for provisions the net accrual is BGN 133 thousand.

As of mid-2022, the ECB discontinued the long-standing stimulus policy with negative interest rates and limited the volumes of bond purchase instruments. The reversal of the interest rate cycle has had a direct impact on the yields of assets in the interbank market and debt markets (government and corporate debt), while the credit products offered by banks in Bulgaria have been on hold, especially in the retail banking segment. Competition among banks in the retail banking segment and specific pricing in most of them have prevented loan rates from being increased following the rise in the ECB base rate and the main market interest rate indices. Corporate pricing is more flexible and in the last quarter market rates on new corporate loans in Bulgaria rose by more than 0.5 p.p. for BGN loans and by 1.5 p.p. for euro loans.

The accumulated deposit base of the country's banks provides sufficient lending capacity, which keeps the offered interest rates on borrowed funds almost unchanged. In the second half of the year, there was only a rise in interest rates on new deposits with a maturity of more than 1 year, but their volume is not large so far. The average interest rate on new term deposits in the market with a maturity of up to 1 year at the end of 2022 is 0.23% for levs and 0.28% for euros, and at the end of 2021 it is 0.06% for levs and euros.

In 2022, the Municipal Bank AD Group increased its interest income from loans granted by 47.6%, driven by corporate banking - the new volume of loans to non-financial and budget enterprises. In retail banking, growth remained lower. The normalisation of interest rates enabled the Parent Bank to realise significant income (BGN 1,716 thousand) from money market instruments, which in 2021 and until mid-2022 were at negative interest rates. Interest income from securities measured at amortized cost and fair value through profit or loss amounted to BGN 3,955 thousand, down 14.5% compared to 2021.





Interest expense in 2022 is BGN 4,827 thousand compared to BGN 10,478 thousand in 2021. Negative interest on assets is the biggest burden for the Group, as shortly after the ECB decision to raise key interest rates from -0.50% to 0.00% in July 2022 there are no new assets with negative interest. The Parent Bank's cash blocked in favour of the Ministry of Finance, the excess reserves with the BNB and some of the deposits due from banks were at negative interest. The optimised volume of funds raised from the budget clients and improved liquidity management played a role in containing interest costs during the period under review. Interest expense on funds raised from customers contracted by 62.0%, with a marginal increase in market interest rates on new business in 2022, and the contraction in the Group is on maturing long term deposits from high interest households which are renewing at the current low interest rates, and no interest is offered on current accounts.

In 2022, Municipal Bank AD, through a private placement, issued bonds that meet the terms of eligible obligations[1]. The interest expense on these bonds amounts to BGN 379 thousand. Interest on other borrowed funds is BGN 132 thousand.

Net fee and commission income amounted to BGN 15,509 thousand, with a year-on-year increase of 16.2% in income and 26.2% in expenses. The economic recovery after the Covid 19 pandemic stimulated the Bank's customer activity and the financial effect for the Bank was complemented by a change in the tariff. Account service revenue declined following the elimination of the cash custody fee for corporate customers in the transition to positive interest rates.

Fees and commissions income	**2022**	**2021**	**Change**	
Servicing and maintenance of accounts	5,098	5,684	(10.3%)	(586)
Card operations	4,132	3,083	34.0%	1,049
Transfer operations	3,023	3,050	(0.9%)	(27)
Cash and arbitration operations	2,668	1,930	38.2%	738
Documentary operations	431	529	(18.5%)	(98)
Other	3,433	1,888	81.8%	1,545
Total fees and commissions income	*18,785*	*16,164*	*16.2%*	*2,621*
Fees and commissions expense				
Card operations	(1,736)	(1,290)	34.6%	(446)
Transfer operations	(1,217)	(979)	24.3%	(238)
Other	(323)	(327)	(1.2%)	4
Total fees and commissions expense	*(3,276)*	*(2,596)*	*26.2%*	*(680)*
FEES AND COMISSIONS INCOME, NET	**15,509**	**13,568**	**14.3%**	**1,941**

[1] Additional information is presented in the "Liabilities" section.

Assets

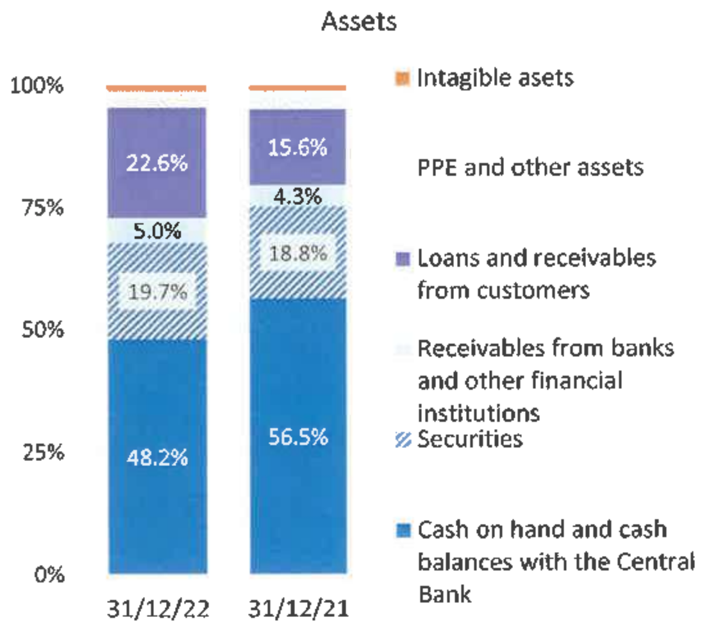
The assets of the Group as at 31.12.2022 are BGN 2,155,766 thousand. The year-on-year increase is BGN 228,131 thousand (11.8%), of which the items with a significant change are loans granted, cash, securities and receivables from banks. The balance sheet structure follows the change in the business model focusing on lending and optimizing liquidity.

The volume and proportion of cash and government securities in the Group's assets are specific given the Parent Bank's role in the financial services of municipalities. In accordance with the Public Finance Act, banks secure the full amount of funds raised from budget organisations by pledging Bulgarian government securities and/or cash with the BNB in favour of the Ministry of Finance.

The performance of the business model is illustrated in the balance sheet structure - the Group increased credit exposures by 62.5%, debt instruments measured at amortised cost by 14.9% and receivables from banks and other financial institutions by 28.2% on account of cash and growth in borrowings. The share of cash remained the largest, but decreased year-on-year from 56.5% to 48.2% in favour of interest-bearing assets.

ASSETS	31.12.22	31.12.21	Change	
Cash on hand and cash balances with the Central Bank	1,039,835	1,089,812	(4.6%)	(49,977)
Financial assets at fair value through profit or loss	12,708	3,869	228.5%	8,839
Financial assets at fair value through other comprehensive income	11,322	9,287	21.9%	2,035
Receivables from banks and other financial institutions	115,607	90,177	28.2%	25,430
Loans and receivables from customers	487,518	299,990	62.5%	187,528
Debt instruments measured at amortised cost	393,052	342,000	14.9%	51,052
Current tax assets	370	-	-	370
Other assets	17,812	17,421	2.2%	391
Assets, acquired in foreclosure	13,043	13,468	(3.2%)	(425)
Property and equipment	37,013	37,076	(0.2%)	(63)
Investment property	22,063	20,581	7.2%	1,482
Intangible assets	1,191	1,349	(11.7%)	(158)
Right-of-use assets	4,232	2,605	62.5%	1,627
TOTAL ASSETS	2,155,766	1,927,635	11.8%	228,131

The Municipal Bank Group increased its investments in securities in 2022 by BGN 61,926 thousand (17.4%), of which BGN 51,052 thousand are debt instruments at amortized cost. The Group's investment strategy is in line with macroeconomic developments and the reversal of the interest rate cycle. The share of debt instruments at amortized cost is 94.2% with total investments in securities amounting to BGN 417,082 thousand (31.12.2021: BGN 355,156 thousand). Debt securities are dominated by issues of Bulgarian government debt, some of which serve as collateral for borrowed budget funds with the Parent Bank.



Gross loans as of 31.12.2022 amounted to BGN 491,896 thousand, which increased by BGN 187,733 thousand (61.7%) during the year. In the segment of non-financial corporations the exposure doubled, in individuals the growth was 10.2% and in budgeted enterprises 8.5%. The loan-to-deposit ratio excluding budgetary rose in 2022 to 32.4% from 23.8% at end-2021.

Gross carrying amount	**31.12.22**	**31.12.21**	**Change**	**Change**
Individuals	125,576	113,983	10.2%	11,593
Mortgages	45,117	34,343	31.4%	10,774
Consumer loans	79,329	78,697	0.8%	632
Credit cards	1,130	943	19.8%	187
Companies	318,793	146,909	117.0%	171,884
Government entities	42,068	38,777	8.5%	3,291
Non-banking financial institutions	5,459	4,494	21.5%	965
TOTAL	**491,896**	**304,163**	**61.7%**	**187,733**

The share of non-performing loans in total for banks in the country is 5.17%. The quality of the loan portfolio in the Municipal Bank Group to non-bank customers is very high - as of 31.12.2022 the share of non-performing loans and advances is 1.08% (2021: 1.45%) with a carrying amount of BGN 5,353 thousand and impairment coverage of 39.96%. The accumulated impairment on loans and advances as at 31.12.2022 is BGN 4,378 thousand (2021: BGN 4,173 thousand).

The rapid recovery of the Bulgarian economy and in the country's main trading partners after the Kovid-19 pandemic created very good conditions for credit development. Demand for credit in 2022 is in a favourable environment of historically low interest rates in the first three quarters. The full impact of the ECB's key rate hikes, especially in retail banking, will not filter through to the end of 2022. In the second half of the year, Municipal Bank AD tightened conditions for borrowers in the face of expectations of a rise in the cost of local funding and a slowdown in the economy.

The Group increased its credit exposures across all industries. The breakdown by customer type and industry of corporate customers is presented in the following table. The changes follow the development of new business where loans to the Services industry predominated.

Structure by clients and sectors		**Volume**		**Share**
	31.12.22	**31.12.21**	**31.12.22**	**31.12.21**
Individuals	125,576	113,983	25.5%	37.5%
Manufacture	16,284	11,689	3.3%	3.8%
Services	165,984	59,202	33.7%	19.5%
Commerce	55,713	24,240	11.3%	8.0%
Government entities	42,068	38,777	8.6%	12.7%
Construction	56,094	32,739	11.4%	10.8%
Transport	15,702	13,762	3.2%	4.5%
Agriculture	9,016	5,277	1.8%	1.7%
Financial and insurance operations	5,459	4,494	1.1%	1.5%
TOTAL	**491,896**	**304,163**	**100%**	**100%**

The parent bank finances clients and projects with high creditworthiness, with services and trade being the leading sectors of new business lending. The share of non-performing loans to non-financial corporates as at 31.12.2022 is 0.74% and there are no non-performing exposures to other financial corporates.

The Group's total exposure to budget enterprises increased by BGN 3,291 thousand (8.5%) during the year. As at 31.12.2022 there are no non-performing loans to budget enterprises.

Demand for credit from households has been maintained - incomes are rising and meeting or approaching inflation and interest rates are unchanged. The Municipal Bank AD Group has focused more commercial efforts on the residential lending segment with an annual growth of 31.4%. The average retail banking portfolio structure for banks in the country shows a mortgage share of 54.1%, while the share is still low at 35.9% in Municipal Bank AD. The overall increase in the group's portfolio to households was BGN 11,593 thousand (10.2%) to BGN 125,576 thousand. In new business loans for 2022, the share of those in euros is less than 2%.

Liabilities

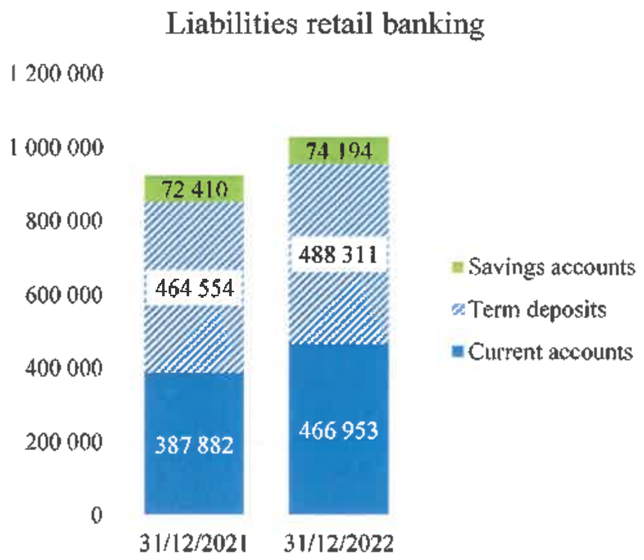
The annual growth of liabilities was 12.1% to a total volume of BGN 2,034,643 thousand, while deposits from non-bank customers was 8.1%. Deposits from non-bank customers have traditionally been the main source of funding for the Group. New items in liabilities in 2022 are loans received from banks, bond loans and loans received from other customers, the three categories being eligible liability instruments within the meaning of EU Regulation 575/2013 and the Recovery and Resolution of Credit Institutions and Investment Firms Act. Bond loans represent two issues of bonds of the Parent Bank that are not traded on a regulated market. The loans received from other customers are under products developed by the Parent Bank for individuals with a term of 3 and 4 years.

LIABILITIES	31.12.22	31.12.21		Change
Deposits from banks	-	985	-	(985)
Deposits from other customers	1,949,612	1,803,968	8.1%	145,644
Loans received from banks	24,076	-	-	24,076

LIABILITIES	31.12.22	31.12.21	Change	
Bonds issued	21,081	-	-	21,081
Loans received from customers	6,293	-	-	6,293
Lease liabilities	4,336	2,685	61.5%	1,651
Provisions	945	917	3.1%	28
Other liabilities	27,417	5,100	437.6%	22,317
Current tax liabilities	10	17	(41.2%)	(7)
Deferred tax liabilities	873	782	11.6%	91
TOTAL LIABILITIES	2,034,643	1,814,454	12.1%	220,189

The interest rates on term deposits in Bulgaria are close to zero, which does not stimulate savers, but the growth of funds attracted by citizens is maintained, with 11.3% in Municipal Bank AD. For another year, interest in home purchases is very high with low lending rates and no-income deposits, despite double-digit inflation. For this reason, housing is seen as a hedge against inflation and absorbs some of the potential deposit growth.

Of the funds raised by new business in the retail banking of Municipal Bank AD, three quarters are in current accounts and the remainder in time deposits and a small portion in savings deposits. Municipal Bank AD offers standard term deposits to individuals with terms ranging from 1 to 36 months, while some banks do not offer term deposits due to interest rates. There has been no change in the preference for the currency structure of the funds raised by households in the Parent Bank - the Bulgarian lev has a share of 74.2% (2021: 73.7%).



Deposits from other customers	31.12.22	31.12.21	Change	
RESIDENTS	*1,931,406*	*1,790,123*	*141,283*	*7.9%*
Individuals	1,019,200	915,101	104,099	11.4%
Budget	440,225	525,793	(85,568)	(16.3%)
Services	173,532	134,145	39,387	29.4%
Manufacture	60,262	63,645	(3,383)	(5.3%)
Commerce	113,337	61,499	51,838	84.3%
Transport	43,866	26,789	17,077	63.7%
Construction	64,635	50,146	14,489	28.9%
Finance (other than banks)	4,801	3,760	1,041	27.7%
Agriculture	11,548	9,245	2,303	24.9%
NON-RESTIDENTS	*18,206*	*13,845*	*4,361*	*31.5%*
Total	1,949,612	1,803,968	145,644	8.1%

The funds raised from resident non-financial and other financial corporates increased by 35.1% during the year as a result of the expansion of the Parent Bank's customer base in lending. The bulk of these funds, typically for business customers, were in current accounts. Changes in the industry structure of depositors follow to a high degree the customer profile from the Parent Bank's lending activities.

The Group's other liabilities at year-end 2022 are BGN 27,417 thousand, of which BGN 20,000 thousand are cash received from subscribed share capital increase contributions. Details of the capital increase are presented in the section "Capital, regulatory capital and capital ratios".

Equity, regulatory capital and capital ratios

There is no change in the Group's share capital in 2022. Shareholders' equity in 2022 increased by BGN 7,942 thousand as a result of the profit realised for the year the uncovered loss decreased by BGN 5,434 thousand. Revaluation reserves increased by BGN 2,353 thousand.

At an extraordinary general meeting of shareholders of Municipal Bank AD held on 15.11. 2022, it was resolved to increase the share capital of the Parent Bank from BGN 69,362,810 to BGN 89,362,810 by issuing 2,000,000 uncertificated voting shares with a nominal value of BGN 10 and a total nominal and issue value of BGN 20,000,000, subject to the condition that the newly issued shares be purchased by the shareholder Novito Opportunities Fund AGmvK (Novito Opportunities Fund AGmvK). The capital increase was entered in the commercial register on 04.01.2023 and on 25.01.2023 permission was received from the BNB for its inclusion in the Common Equity Tier 1 Capital.

EQUITY, TBGN	**31.12.22**	**31.12.21**		**Change**
Share capital	69,362	69,362	-	-
Statutory reserves	44,549	44,394	0.3%	155
Other reserves	14,955	12,602	18.7%	2,353
Uncovered loss	(7,743)	(13,177)	41.2%	5,434
TOTAL EQUITY	121,123	113,181	7.0%	7,942
TOTAL LIABILITIES AND EQUITY	2,155,766	1,927,635	11.8%	228,131

Municipal Bank AD has high quality regulatory capital, which is comprised entirely of Common Equity Tier 1 capital. The bank does not use Tier 2 capital. In 2022 regulatory capital increased by BGN 2,566 thousand and as of 31.12.2022 its amount is BGN 110,925 thousand. Risk weighted assets increased by BGN 152,912 thousand. The total capital adequacy as of 31.12.2022 is 18.26%.

Regulatory capital and ratios	**31.12.22**	**31.12.21**	**Change**
Equity	110,925	108,359	2,566
Tier I capital	110,925	108,359	2,566
Total risk exposure	607,567	454,655	152,912
Common Equity Tier 1 Capital ratio	18.26%	23.83%	(5.57%)
Total capital base	18.26%	23.83%	(5.57%)
Surplus (+) / Shortage (-) of total capital	62,320	71,987	(9,667)

Capital buffers

According to the regulatory framework, Municipal Bank AD maintains four capital buffers - Capital conservation buffer, systemic risk buffer, countercyclical buffer and additional buffer.

The Capital conservation buffer and the systemic risk buffer are applied by all banks in the country in the same amount determined by the BNB. The Capital conservation buffer of Common Equity Tier 1 in the amount of 2.5% of the risk weight exposure.

The buffer for systemic risk of Common Equity Tier 1 amounts to 3.00% of the risk weight exposures in Bulgaria and is aimed at preventing and reducing the effect of long-term non-cyclical systemic or macroprudential risks that do not fall within the scope of Regulation (EU) 575/2013.

The level of the countercyclical capital buffer is set by the BNB for all banks in each quarter and its applicable level is 0.5% in the period 01.01. - 30.09.2022 and 1.0% in the period 01.10. - 31.12.2022.

Leverage

The Bank calculates and monitors the leverage ratio pursuant to Commission Delegated Regulation (EU) 2015/62. The leverage ratio shows the ratio of tier 1 capital to the bank's total exposure under the regulation, without weighing the risk. As of 31.12.2022 the leverage ratio in Municipal Bank AD is 4.99% (2021: 5.51%) with a minimum regulatory requirement of 3.00%.

Risk management

Municipal Bank Group maintains and develops a reliable system for identifying, assessing, and managing inherent risks, based on policies, procedures, and limits, also complying with the regulatory requirements and the Group's strategy. The Group follows a moderately conservative policy at acceptable risk levels, focusing on high liquidity. The main objective is to achieve stable profit by maintaining an optimal balance sheet structure and maintaining a competitive market position in the country.

Risk activity is reported to Supervisory Board (acting as a Risk Committee) and Management Board.

Risks are identified, measured, monitored, and reported regularly in accordance with the effective rules, procedures, and guidance of the Bank, or ad hoc in case of necessity. .

The Group's main risk management objectives are:

- Compliance with applicable regulatory and legal requirements
- Conformity of the business plan to all allowed risk parameters
- Maintaining a moderate risk level, consistent with the risk strategy
- Preservation of the share capital and making it sufficient to the amount and structure of the Bank's business
- Achieving optimal diversification of sources of financing and adequacy of the invested funds according to the business model
- Maintain reliable systems and internal controls to restrict it.

The following basic techniques are used in the bank to manage and minimize credit risk:

- Diversification by applying approved limits, which are reviewed and updated periodically (including industry limits, geographical concentration limits, etc.),

- Ongoing monitoring and management of the loan portfolio, including through control over the occurrence of early warning signals, cash flow requirements and collaterals,
- Periodic preparation, analysis, and reporting of the stress test results of the bank's loan portfolio and others.

Group credit risk management is performed at the client/group and individual portfolio level. The Group manages problem exposures by identifying, analysing and taking adequate measures to resolve exposures in a timely manner.

The credit risk management and control bodies are the Impairment and Provision Committee, the Management Board and the Supervisory Board, which acts as the Risk Committee.

The objectives in market risk management are achieved through the allocation of decision-making responsibilities, an information system and the application of limits to control and reduce this type of risk.

The Parent Bank uses a Value-at-Risk (VaR) model using the Monte Carlo simulation method to assess its exposure to market risks arising from its positions in debt and equity instruments. VaR is the expected loss in value of a portfolio relative to a base confidence interval and a specified time horizon. The estimate is based on statistics derived from historical asset data, assuming that market fundamentals such as interest rates, exchange rates and security prices vary randomly and that daily fluctuations can be expressed by a standard distribution. The Parent Bank applies Value at Risk with a confidence interval of 99%/1 day and a 10 day holding period.

In addition to the assessment from the VaR analysis, the Parent Bank develops interest rate curve scenarios that assess the market risk of changes in the value of the fixed income securities portfolios.

The Group measures interest rate risk across the banking book, which includes all interest rate sensitive assets, liabilities, and off-balance sheet commitments other than those held for trading. The effect of various assumptions about adverse changes in interest rates on the Parent Bank's earnings and economic cost of capital is assessed. The assumptions are reviewed regularly to ensure their currency and adequacy. The analysis of changes in net interest income based on the interest rate risk stress tests prepared, as well as the economic cost of capital under the various assumptions, assists management in decisions regarding the implementation of the Parent Bank's business plan.

The Group maintains its liquidity profile in accordance with regulatory requirements and internal banking regulations. Prudent liquidity risk management and appropriate controls are important elements for the effective management of the Parent Bank. A key method of liquidity management is to maintain the Parent Bank's balance sheet at a size, structure and ratios that enable it to meet its obligations on time, at a reasonable cost and with minimal risk at any point in time. The Parent Bank's liquidity coverage and net stable funding ratios are solidly above regulatory thresholds.

Indicators on a separate basis	**2022**	**2021**
Liquidity coverage ratio	530%	1058%
Net stable funding ratio	302%	316%

Liquidity management includes assessment and analysis of:

- liquid assets ratio (liquid assets / all liabilities), and from June, 2021 a net stable funding ratio (NSFR) is being followed,
- the liquidity coverage ratio according to Regulation (EU) №575 / 2013,
- analysis of the change and concentration in the attracted funds,
- performing stress tests and analysis of the need to increase the liquidity buffer.

Market risk, liquidity risk and interest rate risk control and management activities are reported to the relevant internal banking bodies, including the Asset and Liability Management Committee, the Management Board and the Supervisory Board.

Operational risk management at the Parent Bank is carried out through a system developed and implemented to record operational events by type, group of activities, business lines, risk factors and by structural units, aggregate and analyse the information, and analyse the information for self-assessment of risk control by the structural units of the Parent Bank.

The dedicated internal body of the Parent Bank for operational risk management and control is the Risk Event Assessment Committee, which is headed by a Chairman - Executive Director/Managing Director and members.

The Supervisory Board, acting as the Risk Committee, approves the Risk Strategy and sets the risk management framework for the Parent Bank, reviewing and updating it periodically.

During 2022, the Municipal Bank AD Group has improved and developed the systems applied to analyse, assess and manage risks in accordance with the applicable regulatory and legal framework as well as good banking practices.

International activity and credit rating

Municipal Bank AD maintains developed correspondent relations with first-rate foreign financial institutions from Europe, North America, and Asia.

The assessment of the long-term rating for counterparty risk in local and foreign currency of Municipal Bank AD in September 2022 is B1 with a stable outlook from the rating agency Moody's.

Effects of the pandemic on the Group's activities

By Decision No 826 of 25 November 2021, the Council of Ministers extended the period of the epidemic emergency situation on the territory of the Republic of Bulgaria related to the epidemic spread of COVID-19 and the existing imminent danger to the life and health of citizens, from 1 December 2021 until 31 March 2022.

The COVID-19 pandemic in 2022 has gradually subsided and its economic consequences are being addressed. In Municipal Bank AD, as on 31.12.2022, all the loans which were deferred under the private moratorium in the previous years have expired the deferment period. The share of non-performing exposures among them is 3.6%.

Exposures in Municipal Bank AD under the Bulgarian Development Bank anti-crisis programme in relation to COVID-19 are presented in the table:

Exposures under BDB programme for individuals, 31.12.2022	Total	Performing, stage 1	Performing, stage 2	Non-performing
Gross carrying amount	11,165	9,522	615	1,643
Impairment	(695)	(36)	(21)	(659)

Exposures with a gross value of BGN 480 thousand have been submitted for public guarantee as of 31.12.2022 and the payment received from the guarantor during the year is BGN 197 thousand.

During the year under review, as a result of the Covid-19 pandemic at Group:

- no suspended activities and no suspended products
- no redundancies
- no delays and interruptions in deliveries
- no delays in investment projects

The Covid-19 pandemic did not affect the going concern principle-assumption at Municipal Bank AD.

Military conflict between the Russian Federation and Ukraine

On 24 February 2022, the Russian Federation took military action in Ukraine. In response to the Russian invasion, the United States, European Union countries and the United Kingdom have taken a number of financial sanctions against the Russian Federation.

The Group's exposures as of 31 December 2022 to the Russian Federation, Belarus and Ukraine include deposits from other customers of BGN 1,892 thousand entirely from individuals (BGN 717 thousand from Ukraine, BGN 5 thousand from Belarus and BGN 1,170 thousand from the Russian Federation) which represent 0.1% of the Group's customer deposits. Withdrawals and receipts of cash into the accounts of individuals from the Russian Federation and Belarus are controlled by the Group. Their simultaneous withdrawal or redirection would result in an immaterial reduction of customer deposits and, accordingly, the liquidity coverage ratio. The Group controls the withdrawal and inflow of cash to the accounts of individuals from the Russian Federation and Belarus.

The Group also has one consumer loan to a Russian citizen for BGN 3 thousand, and the possible insolvency of the debtor would not materially affect the Bank's financial result and capital adequacy.

The overall economic consequences of the military conflict in Ukraine cannot yet be accurately assessed, but there are serious effects on the global economy. Prices of energy, commodities and basic cereals have risen, further exacerbating inflationary pressures. If the conflict takes a negative turn or drags on for a prolonged period, the economic damage will increase and is expected to affect all sectors of the economy, both Bulgaria's and the EU's. In many countries, the crisis is causing adverse shocks to both inflation and economic activity against a backdrop of already elevated price pressures.

In relation to the above and in view of the uncertainties regarding the effect of the sanctions and restrictions imposed, the Group has reviewed activities, counterparties and economic relationships that could be at risk. Based on the analysis performed, Management has not identified any foreign currency or counterparty risk exposure in relation to these events.

As the situation is highly dynamic, the Group's management refrains from making specific and definitive assessments of the impact of the war on its future financial position and results of operations in 2023 in terms of the overall effects on the national economy, inflationary processes, energy prices, household spending and the impacts of disrupted supply chain elements, but believes that there may be a negative impact. This in turn could result in a change in the carrying values of the Group's assets, which in the consolidated financial statements have been determined subject to management making a number of judgements and assumptions and considering the most reliable information available at the date of the estimates.

The Group's management will continue to monitor potential spillover effects on all economic sectors and other countries in the region, particularly those in which the Group has exposures.

Management of the Parent Bank

The parent bank has a two-tier governance structure of a three-member Supervisory Board (SB) and a five-member Management Board (MB). There is no change in the composition of the two boards in 2022.

The members of the Supervisory Board as at 31.12.2022 are:

- Stefan Nenov – Chairman of the Supervisory Board,
- Zdravko Gargarov – Deputy Chairman of the Supervisory Board,
- Spas Dimitrov – Member of the Supervisory Board.

The members of the Management Board as of 31.12.2022 are:

- Nedelcho Nedelchev – Chairman of the Management Board and Executive Director,
- Borislav Chilikov – Member of the Management Board and Executive Director,
- Vladimir Kotlarski – Deputy Chairman of the Management Board,
- Todor Vanev – Member of the Management Board,
- Ivailo Ivanov – Member of the Management Board.

The participation, within the meaning of Article 247, Paragraph 2, Item 4 of the Commercial Act of members of the Supervisory and Management Boards in trade companies as associates with unlimited liability (general partners), owning more than 25% of another's company capital, and the participation in the management of other trade companies or cooperatives as procurators, managers, or board members is as follows:

Participated in the management of the bank as at 31 December 2022:		**Equity participation with more than 25%:**	**Participation in the management of:**
Stefan Lazarov Nenov	Chairman of the Supervisory Board	Moore Bulgaria Audit OOD	Moore Bulgaria Audit OOD
Zdravko Borisov Gargarov	Member of the Supervisory Board	-	-
Nedelcho Vasilev Nedelchev	Chairman of the MB, CEO	Medical Center Neovitro OOD Project Synergy Ltd.	- -
Borislav Yavorov Chilikov	Member of the MB, CEO	-	Management Company Municipal Bank Asset Management EAD
Vladimir Georgiev Kotlarski	Deputy Chairman of the MB	Kotlarsky Law Firm	Kotlarsky Law Firm Managing Company Municipal Bank Asset Management EAD

Participated in the management of the bank as at 31 December 2022:		**Equity participation with more than 25%:**	**Participation in the management of:**
Todor Nikolov Vanev	Member of the MB	-	Management Company Municipal Bank Asset Management EAD

The remuneration of the members of the management and supervisory bodies of Municipal Bank AD is determined in accordance with the approved "Policy for Determining the Procedure and Method for Formation of Remuneration of a Certain Category of Employees in Accordance with the Requirements of Regulation 4 of the BNB", which establishes objective principles for the formation of remuneration. The remuneration paid to the members of the Supervisory Board and the Management Board in 2022 amounted to BGN 1,057 thousand (2021: BGN 868 thousand).

During the year, the members of the two Boards did not acquire, transfer and as at 31.12.2022 did not hold any shares and bonds of the Parent Bank, and did not have any special rights to acquire shares and bonds of Municipal Bank AD (information pursuant to Article 187 "e" of the Commercial Act).

There are no contracts within the meaning of Article 240 "b" of the Commercial Act between the members of the SC and the Management Board or persons related to them, on the one hand, and the Parent Bank, on the other hand, which go beyond their ordinary business or deviate materially from market conditions.

Ecology, social responsibility and employees

The Municipal Bank Group is a socially responsible institution that consistently develops and implements sustainable business and environmental practices.

The Group informs its employees and implements measures for a green working environment in its divisions. Energy-saving appliances are implemented in the Group's offices, and waste separation and the use of recyclable toner cartridges are priorities. The Group uses equipment to automatically regulate the heat supply during non-working hours. An electronic document management system has been implemented which significantly reduces the use of printed documents. An electronic self-service portal has been implemented, an electronic information system for payslips and leave, which can be used online by any employee and further reduces paper and toner usage.

The Municipal Bank Group pursues a socially responsible policy by supporting significant social causes, social, cultural and educational initiatives. The Group continues its mission to support the development of the regions by supporting a number of municipalities throughout Bulgaria.

In the post-epidemic situation, the Group is using the experience gained over the last two years to reorganize its customer service activities and internal process management in line with the measures and requirements to protect the health of its customers and employees. Additionally, air purification devices have been installed in the Company's premises, which improves the working environment and protects our customers and employees.

In 2022, the Group implemented online projects and remote qualification forms to develop and motivate employees by increasing the operational efficiency of work processes and upgrading expertise. The parent company (Municipal Bank AD) finalised the project to integrate and migrate to a new banking information system, FlexCube, which we believe will lead to the optimisation of a number of processes and practices to build a sustainable business and reduce the company's carbon footprint.

The Group is implementing a Continuity Policy to ensure the development and long-term retention of best practice across the Company. The Remuneration Policy ensures prudent and effective governance, avoiding risks and ensuring that the Parent Bank's employees are attracted, retained and motivated to work towards the institution's objectives. The policy is linked to the requirements of BNB Regulation 4 and the European Banking Authority guidelines and meets all regulatory requirements for remuneration and its allocation.

Expected and planned development of the Municipal Bank Group in 2023

Municipal Bank AD is a universal commercial bank. The highlights of the bank's activities in 2023 will be:

- Improving operating profitability and profitability - focus on lending and optimising liquidity and investments with long-term balance sheet sustainability.
- Protect against potentially adverse effects on the debt securities portfolio under the projected macroeconomic developments over the strategic period. Amortised cost management model.
- Development of capital capacity with optimised use of capital resources and management of risk assets. Provide a comfortable capital buffer above regulatory requirements.
- Accelerated digitalization.

The Parent Bank's activities in the strategic period will focus on lending, where we plan growth in the three business segments - household, corporate and budget. The bank will rely on existing and new customers. The business objectives set for lending follow the principles of a diversified industry structure that is resilient to changes in the economic cycle. New lending will be targeted at promising industries such as:

- renewable energy sources
- healthcare
- agriculture and forestry.

In terms of risk-weighted assets, the business model controls exposure to market risk and capital requirements for it, creating conditions for the full use of capital and the realisation of adequate returns. The trading portfolio will be small in size. Municipal Bank AD's securities exposure remains primarily oriented towards Bulgarian government debt.

The procedure to increase the issued capital by BGN 20,000 thousand by the majority shareholder was launched in the fourth quarter of 2022 and successfully completed in January 2023. The Parent Bank's capital strategy includes strengthening the regulatory capital base with Tier 1 capital instruments. The equity base will grow organically by capitalizing 2022 annual earnings.

The Parent Bank's funding structure is diversified between funds raised from households and non-financial corporates. The Parent Bank has a proven successful track record of managing their sustainable growth with a predictable market price. The parent bank will pursue a non-aggressive market strategy with regard to the funds raised.

Municipal Bank AD undertakes a range of actions that address environmental, social and governance (ESG) factors. The Parent Bank will be guided in its activities and risk management by their growing societal importance and regulatory developments. Working groups within the Parent Bank from the key directorates involved in ESG governance will deliver a product and customer, risk and regulatory agenda that fully integrates these principles into operations against market opportunities.

Investment intermediary activities

The Parent Bank provides investment services on behalf of clients in compliance with the requirements of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (collectively known as MIFID II), as well as the Markets in Financial Instruments Act, Commission Regulation No 38 on the requirements for the activities of investment firms

Municipal Bank AD provides various types of investment services and activities, as well as additional services, in accordance with the Markets in Financial Instruments Act and the Parent Bank's licence, including the reception and transmission of orders, the execution of orders for the account of clients, portfolio management, the provision of investment advice, the underwriting of financial instruments, the activity as Bond Trustee, the safekeeping and administration of financial instruments for the account of clients, including depository activity (holding of financial

When providing the services and activities, the investment intermediary concludes standard contracts in compliance with the regulatory requirements for the activity, the Personal Data Act and the Money Laundering Measures Act.

Prior to the conclusion of each contract, the Parent Bank, as an investment intermediary, informs its potential clients about the General Terms and Conditions, all the specificities and financial commitments related to the service requested by the client, informing them about the risks and performing an assessment for the investment service, as well as categorising the client. The Parent Bank shall keep all records relating to the conclusion of client contracts and the execution of client orders, including all documents that ensure the identification and verification of the identification of clients as required by the AML/CFT Act. The Parent Bank shall also maintain all documents relating to the safekeeping of customers' financial instruments in a manner that ensures segregation from financial instruments owned by the Parent Bank.

Information system and financial reporting business process

The applied information systems used by the Group provide accounting and information support for the various business processes in the operations. The core system contains numerous modules and applications that automate banking activities. The system is customer-oriented as it records customer transactions and provides operationally relevant customer information. Accounting entries are predominantly automatic or automated and the information provided by the system can be aggregated at various levels. The system provides a means of parameterising accounting entries in respect of customer transactions and transactions with customers. The system provides for the formation of the Parent Bank's chart of accounts, provides means for user administration, user settings and offers a user interface for the execution of batch processing. Log files maintained by the application system for the various events of audit interest are accessible through the application interface. The system provides a means to parameterize card products and batch process card transactions, automate the Parent Bank's money market operations and securities transactions. A system for storing scanned documents, mainly credit agreements, is also used for the convenience of users.

The Parent bank uses specialised systems for the automation of its activities as an investment intermediary; for the automation of monitoring, measurement and risk management activities (on a modular basis using information from the accounting system, external sources and directly entered data); and for activities related to the international system for the exchange of information and financial messages between banks.

The Group uses application systems and modules for perishable asset and inventory accounting. In order to meet the requirements of special laws oriented towards the prevention of terrorist financing and money laundering, a specialised application has been installed and is in use at the Parent Bank. In order to meet the requirements of European Directive (EU) 2366/2015 (PSD2), Municipal Bank AD provides open interfaces enabling individual and corporate customers to securely share their data with banks and third-party providers that provide payment initiation, account information and account availability confirmation services. The data is shared through dedicated application programming interfaces (APIs) based on the Berlin Group standards and the national BISTRA standard. Human resource management activities, calculation and payment of salaries under employment, civil and management contracts are automated.

Other information and regulatory requirements

The Municipal Bank Group does not carry out research and development activities.

Changes in the organizational structure of the Parent Bank in 2022 - by decision of the Management Board, the Corporate Clients Department and the Loan Portfolio Management Department were established within the Corporate Banking Department, and the Institutional Clients Department was closed.

During the reporting period, no material transactions were entered into that were not inherent in the business of Municipal Bank AD. Further information, beyond that presented in this report, on holdings, principal investments and funding arrangements is contained in the Annual Consolidated Financial Statements. Detailed information on investments in subsidiaries of the Parent Bank is provided in the notes to the Annual Consolidated Financial Statements.

Banking transactions with related parties are also carried out in the ordinary course of the Parent Bank's business. Related party transactions during the period are disclosed in the notes to the annual consolidated financial statements.

There were no transactions during the reporting period that were outside the ordinary course of business of the Parent Bank or that deviated materially from market conditions.

During the reporting period there have been no events of unusual nature for the Parent Bank that have had significant effect on its performance, income generated, and expenses incurred.

Information on off-balance sheet transactions is presented in the Annual Consolidated Financial Statements and mainly includes trust assets. Detailed information about them can be found in the notes to the Annual Consolidated Financial Statements and the liquidity risk section. As at 31 December 2022 the total amount of the trusted assets of clients provided to the Bank for safekeeping amounts to BGN 18,377 thousand (2021: BGN 7,676 thousand).

Further information regarding the loans received and provided by Municipal Bank AD is presented in the notes to the Annual Consolidated Financial Statements.

In 2022, the Parent Bank neither acquired nor transferred own shares and as at 31 December 2022 did not hold any own shares.

In 2022. The Bank has issued two issues of bonds that are not traded on a regulated market.

Conditions of Issue 1:

- ISIN: BG2100006225;
- Volume: 10,702 non-convertible bonds;
- Par: BGN 1,000
- Type: ordinary, unsecured
- Coupon: 4.5% fixed;
- Issue date: June 2022;
- Maturity: June 2027.

Conditions of Issue 2:

- ISIN: BG2100011225;
- Volume: 10,000 non-convertible bonds;
- Par: BGN 1,000;
- Type: ordinary, unsecured
- Coupon: 4.5% fixed;
- Issue date: September 2022;
- Maturity: September 2027.

Both issues were carried out with a private placement and were not traded on a regulated market.

The Group does not publish forecasts of its results.

Municipal Bank AD is not aware of any other arrangements as a result of which changes in the relative share of shares or bonds held by current shareholders or bond holders may occur in future periods.

Information regarding lawsuits, administrative or arbitration proceedings concerning payables or receivables of Municipal Bank AD amounting to at least 10 percent of its equity is presented in the ASFS. As at 31 December 2022 and as at the date of approval of these financial statements, no material lawsuits were filed against Municipal Bank AD. The accrued provisions in court proceedings as at 31 December 2022 amount to BGN 198 thousand (31.12.2021 BGN 268 thousand).

Municipal Bank AD is not a public entity within the meaning of the Law on Public Offering of Securities, and therefore: there is no investors relation director; no shares are listed at a regulated market, the requirements of Annex 11 to Ordinance No 2 of the FSC are not applicable.

The Parent Bank's exposure to price, credit and liquidity risk and the cash flow risk is presented in detail in the annual separate financial statements (ASFS).

As at 31 December 2022, the audit firms carrying out the audit of the annual financial statements of the Bank (separate and consolidated) issued an additional report on the factual findings in relation to the reliability of the internal control systems under art. 76, para 7, item 1 of the Credit Institutions Act and Ordinance No 14, art. 5 on the content of the auditor's report for supervision purposes.

Events after the end of the reporting period

No adjusting events or significant non-adjusting events occurred between the date of the financial statements and the date of their authorization for issue, except as described below.

Increase in capital

The Extraordinary General Meeting of Shareholders held on 15.11. 2022, resolved to increase the Bank's capital from BGN 69,362,810 to BGN 89,362,810 by issuing 2,000,000 uncertificated voting shares with a nominal value of BGN 10 and a total nominal and issue value of BGN 20,000,000, subject to the condition that the newly issued shares be purchased by the shareholder Novito Opportunities Fund AGmvK. The capital increase was entered in the commercial register on 04.01.2023 and on 25.01.2023 permission was received from the BNB for its inclusion in the Common Equity Tier 1 Capital..

The Group's management declares that the accompanying Annual Consolidated Financial Statements present fairly the financial position of the Group as at 31 December 2022 and the determination of the financial result for the year is in accordance with applicable law. Appropriate accounting policies have been used and followed consistently. Appropriate judgements have been made in accordance with the going concern basis in preparing the Annual Consolidated Financial Statements. Management has consistently applied applicable accounting standards and the Annual Consolidated Financial Statements have been prepared on a going concern basis.

The Group's management endeavours to maintain an appropriate accounting system that complies with current accounting standards. The annual consolidated financial statements disclose the state of affairs of the Group as accurately as possible.

All measures have been taken to safeguard the Group's assets, prevent fraud and avoid violation of the country's laws and regulations of the BNB for the regulation of banking activities.

The attached Corporate Governance Statement and Non-Financial Statement form an integral part of the Annual Consolidated Report.

19.04.2023

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Nedelcho Nedelchev
Executive director

Borislav Chilikov
Executive director

Consolidated declaration of corporate governance

The accompanying Declaration of corporate management is presented in the form of a separate report on the grounds of art. 39 and art. 40, para 2 of the Accountancy Act, included in the Annual Consolidated Activity Report of Municipal Bank AD.

According to the provisions of art. 100 (n), para 8 of the LPOS Municipal Bank AD informs that in its capacity as non-public entity it has no legal obligation to comply with the National Corporate Governance Code (NCGC) approved by the Deputy Chairman of the FSC (by virtue of Decision No 461-CGC of 30 June 2016). The Deputy Chairman of the FSC, head of the Investment Activities Supervision Division has approved the NCGC as corporate governance code under art. 100 (n), para 7, item 1 in relation to para 8, item 1 of the LPOS) or another corporate governance code.

Corporate management framework

Notwithstanding the fact that the Municipal Bank AD Group has not declared its commitment to the principles of the National Corporate Governance Code, the Group's corporate policy is based on internationally recognised standards and principles of good corporate governance, taking into account changes in the regulatory and economic environment.

The Group's management has adopted the Organisation for Economic Co-operation and Development (OECD) principles for defining corporate governance as a set of relationships between the Parent Bank's management, its shareholders and other stakeholders.

In accordance with the requirements of the Credit Institutions Act and internationally recognised practices for improving corporate governance of banks, the Group has adopted and periodically reviews and, where necessary, updates the internal documents that relate to: the organisational structure of the Parent Bank; the procedure for determining and delegating the powers and responsibilities of administrators; the strategy and business plan of the Parent Bank; the risk management and control policy; the procedure for preparing and the scope of the management inf

In accordance with the BNB's Guidelines on Internal Governance in Banks and the Basel Committee on Banking Supervision's Guidelines on Improving Corporate Governance in Banks, the Parent Bank has organised its structure to provide the capability and means to achieve the set objectives and ensure control over their implementation.

Municipal Bank AD is a joint stock company registered under Bulgarian law with a two-tier system of management and a scope of business defined in its Articles of Association. Municipal Bank AD carries out banking activities on the basis of licence No B 16 of the Governor of the Bulgarian National Bank as a credit institution under the Credit Institutions Act.

The bodies of the Parent Bank are General Meeting of Shareholders, Supervisory Board (SB) and Management Board (MB). The powers of the three bodies, their responsibilities and interaction are regulated in writing in the Articles of Association of Municipal Bank AD, the Rules of Procedure of the Supervisory Board of Municipal Bank AD and the Rules of Procedure of the Management Board of Municipal Bank AD, the powers and duties of the Executive Directors. Municipal Bank AD does not represent a group of lending institutions and is categorised as a small, local bank without significant systemic importance. The Parent Bank carries out its core business through 41 branches and 5 offices established throughout the Republic and 14 separate structural units, i.e. Directorates, at Head Office level. Independent structures have been established to perform internal control, regulatory compliance and risk management functions. Each directorate coordinates and reports its activities to a line member of the Management Board and the Executive Director. Activities are subject to supervisory review by the Bulgarian National Bank.

Governance structure

Since the establishment of Municipal Bank AD, a two-tier management system has been adopted, consisting of a Supervisory Board and a Management Board. All members of the Management Board and the Supervisory Board meet the legal requirements for their office. The functions, duties, structure and competencies of the corporate management are in accordance with the requirements of the National Commission for Corporate Governance.

Supervisory Board

The Statute of Municipal Bank AD stipulates that the Supervisory Board of the Bank shall have three members elected and dismissed by the General Meeting of Shareholders. The members of the Supervisory Board may be re-elected without limitation.

As at 31 December 2022 the members of the Supervisory Board of Municipal Bank AD are as follows:

- Stefan Lazarov Nenov - Chairman of the Supervisory Board;
- Zdravko Borisov Gargarov - Deputy Chairman of the Supervisory Board;
- Spas Simeonov Dimitrov - Member of the Supervisory Board.

The personal and professional qualities and experience of the members of the Supervisory Board are subject to control by the Bulgarian National Bank. A member of the Supervisory Board may only be elected following preliminary approval by the Bulgarian National Bank.

The Supervisory Board members have good reputation and possess expertise, skills, diverse experience, reliability and adaptability, in accordance with the criteria and requirements of the Credit Institutions Act and Ordinance No 20 of BNB dated 24 April 2019 on the Issuance of Approvals to the Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Requirements for Performing their Duties, the Guidelines on the Assessment of the Suitability of Members of the Management Body and Key management personnel and the Guidelines on Internal Governance of the European Banking Authority, etc.

The composition of the Supervisory Board is structured in a way ensuring the independence and impartiality of the decisions and actions of its members. An argument supporting this fact is that the Supervisory Board only includes independent members, thus going beyond the requirements of the national legislation.

The members of the Supervisory Board of Municipal Bank AD perform their functions with honesty, integrity, and independence, taking sufficient time to perform their duties - meetings of the Supervisory Board are to be held once every quarter at a minimum, but the practice adopted is to hold such meetings on a monthly basis.

The General Meeting of Shareholders sets the remuneration of the members of the Supervisory Board. The remuneration of the Supervisory Board members corresponds to their activity and duties and is not dependent on the Bank's performance. The remuneration of the Supervisory Board members is fixed. They do not receive other bonus payments from the Bank.

There is no provision for the members of the Supervisory Board to be compensated for their activities with shares or options. The disclosure of the information concerning the remuneration of the Supervisory Board members is in accordance with the statutory requirements and the Bank's Statute.

Competencies and functions of the Supervisory Board

The Supervisory Board is a permanent collective body, exercising overall control over the legality and relevance of the work of the Management Board and hence the entire operations of the Bank.

The Supervisory Board of Municipal Bank AD supervises, and where necessary, advises the Management Board and oversees the overall operations of the Bank, including adoption of and supervision over the strategic goals, the corporate governance framework, and the corporate culture of the Bank.

The Supervisory Board performs the functions of the Committees for selection and selection of candidates for members of the Management Board and the Supervisory Board, for determining the remuneration policy and for risk management and control in the Bank, according to the Guidelines on Internal Management (EBA / GL / 2017/11).

The Supervisory Board has the authority to elect and dismiss the members of the Management Board and executive directors, as well as to approve the election of the Chairman and Deputy Chairman of the Management Board. The Supervisory Board selects and nominates candidates for members of the Management and Supervisory Boards of the Bank, in compliance with the requirement, in the selection and nomination of members of the Management Board and the Supervisory Board, to protect the interests of the Bank and ensure that the process of decision-making is not influenced by an individual or a group of persons to the detriment of the Bank.

The Supervisory Board develops and proposes for approval by the Management Board of the Bank a policy for increasing the number of persons of the underrepresented sex in the composition of the boards in order to achieve diversity in the governing body.

The Supervisory Board is responsible for the adoption and control of the Remuneration Policy in the Bank. The SB directly monitors, determines and / or controls the remuneration of senior staff with independent control functions, including risk management, regulatory compliance, and internal audit functions. Monitors the effective implementation of the remuneration policy, in order to attract, retain and motivate employees to work to achieve the Bank's objectives, while limiting excessive risk-taking and prudent management. Checks whether the incentives set by the remuneration system take into account the risks, capital, liquidity, as well as the probability of realization of planned revenues and their distribution over time.

In exercising supervision over the Management Board, the Supervisory Board considers the achievement of the objectives, strategy, and risks in the Bank's activities, as well as the structure and operation of the internal risk management and control systems. Monitors the risk appetite and the risk currently borne by the Bank. Supervises the implementation of the capital and liquidity management strategies, as well as the management of all risks inherent in the Bank, assesses their compliance with the approved risk strategy and, if necessary, makes recommendations to the Management Board on adjustments to the Bank's risk strategy. Approves and periodically reviews risk strategy and policies. Monitors the consistent application of the risk culture in the Bank.

Supervisory Board approval is required for Management Board decisions concerning:

1. The election and dismissal of Procurators and trade proxies of the Bank, who by power of attorney are authorised to generally represent the Bank, whereby jointly

with any of the Executive Directors they conclude any transactions under the Bank's license - Order No RD 22-0851 of 7 May 2007 of the Governor of the Bulgarian National Bank;
2. The Bank's strategy and policy;
3. The Bank's business plans;
4. The Operating rules of the Management Board;
5. The Bank's participation in other entities and the termination of such participation if the outcome of the specific transaction will be acquisition or termination of interest ensuring control of the Bank in the meaning of the CIA in the respective company or if the investment shall exceed 5% of the Bank's equity.
6. Change of the Bank's activity if this change is related to a change in the license issued by BNB;
7. Organisational changes: internal structure of the Bank, organisational and territorial structure;
8. Decisions as to the acquisition and disposal of real estate owned by the Bank and real rights thereon;
9. The rules adopted by the Management Board for the work of the specialized internal audit service and the annual plan for its activity.
10. Recovery plan setting out steps and measures the Bank may undertake to recover its financial position in case of financial difficulties;
11. As of 21 December 2017, the Supervisory Board gives preliminary approval before submission for consideration by the Management Board for the formation of exposures and change in the terms and conditions on exposures to entities under art. 45, para 1 of the CIA, when the exposure exceeds the amounts set in art. 45, para 3 of the CIA.
12. Other decisions set out in the Bank's Statute, the rules for the work of the Management Board.

No approval by the Supervisory Board is required on the decisions of the Management Board for the cases under items 5 and 8, when these holdings and/or properties are/will be acquired in exchange for claims of the Bank on loans or for enforcement on such loans and are subsequently alienated.

Management Board

The Statute of Municipal Bank AD stipulates that the Bank shall be managed and represented by five- to seven Management Board members, elected by the Supervisory Board for a term of five years.

As of 31 December 2022, the Management Board comprises of 5 members, two of them have executive functions as Executive Directors of the Bank. They have been elected by the Supervisory Board in compliance with the approval procedure of BNB. The members of the Management Board are nominated by the Supervisory Board of the Bank in accordance with the Policy for selection, continuity, and suitability assessment of the members of the management body and the persons holding key positions (the Policy). The policy aims to define the basic principles and rules for determining, monitoring and controlling the system and practice in Municipal Bank AD for selection and assessment of the suitability of candidates or current members of the Management and Supervisory Boards, and of the persons holding key positions, as well as and compliance with applicable regulations regarding their commissioning and training.

The procedure provides criteria, in accordance with the requirements of the Credit Institutions Act and Ordinance No 20 of BNB of 24 April 2019 on the Issuance of approvals to the members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and requirements for performing their duties, the Guidelines on the assessment of the suitability of members of the Management Body and key management personnel and the Guidelines on internal governance of the European banking authority, etc. As of 31 December 2022, the composition of the Management Board is as follows:

- Nedelcho Vasilev Nedelchev – Chairman of the Management Board and Executive Director
- Borislav Yavorov Chilikov – Member of the Management Board and Executive Director;
- Vladimir Georgiev Kotlarski - Deputy Chairman of the Management Board;
- Todor Nikolov Vanev – Member of the Management Board;
- Ivailo Rumenov Ivanov - Member of the Management Board.

The members of the Management are reputable professionals with proven leadership skills, which is a prerequisite for the attainment of the goals of the Bank.

The Management Board is structured in a way ensuring the efficient management of the operations in compliance with the generally accepted principles of managerial and professional competence.

The members of the Management Board of Municipal Bank AD perform their duties with honesty and integrity and in accordance with the approved strategy, policy, and risk preference of the Bank, taking sufficient time to perform their duties – MB meetings are held every week and the Management Board members are present in the building of the Head office of the Bank every day. They directly oversee and control the work of the structural units they are in charge of. The Management Board members are applying the principle "awareness of the structure" - they are aware and understand the Bank's operational structure, and while directing its development they consider the Bank's strategy and long-term plan, thus ensuring transparent and appropriate structure, which does not result in unjustified or excessive complexity. The Management Board performs its duties in accordance with the Commercial Act, Credit Institutions Act and other regulations effective in the country, the Bank's Statute, the resolutions of the General Meeting of Shareholders and the Supervisory Board, the Rules of Operations of the Management Board of Municipal Bank AD, the powers and duties of the Executive Directors and the other internal bank documents.

The Supervisory Board sets the remuneration of the members of the Management Board. The remuneration of Board members complies with their activities and responsibilities.

There is no provision for the members of the Management Board to be compensated for their activities with shares or options.

Competencies and functions of the Management Board

The Management Board of Municipal Bank AD is the body that manages the Bank in an independent and responsible way, in accordance with the set mission, goals and strategies. The Management Board functions in accordance with its business rules, approved by the Supervisory Board, whereby its key functions are to organise, management and control the Bank's operations with respect to all matters, except those within the competencies of the General Meeting of Shareholders or the Supervisory Board.

The Management Board organises the implementation of the decisions of the General Meeting and the Supervisory Board.

According to the Bank's internal regulations certain decisions of the Management Board are subject to approval by the Supervisory Board, while no such approval is required for others.

Competences of the Management Board:

1. It sets out the Bank's strategy and policy, which take into account its long-term financial interests and solvency.
2. Adopts, amends, and supplements the internal bank documents regulating the Bank's operations;
3. Makes decisions for the opening and closing of branches, financial centres, representative offices, etc.
4. Carries out selection, decides on appointment and dismissal of the persons occupying key positions.
5. Adopts the organisational and territorial structure of the Bank, approves the full-time positions chart, the tasks and functions of the Bank's units and the links and relations between them and the management bodies;
6. Makes decisions for allocation of additional tangible incentives.
7. Ensures the annual closing of accounts for the past financial year and the certification of the annual separate financial statements and the annual consolidated financial statements;
8. Reviews the findings memos and acts from inspections and audits of the Bank, prepared the Specialised Internal Control Unit and makes decisions thereon,
9. Makes decisions for the extension of:
    a. loans to the persons under art. 45 of the CIA; As at 21 December 2017, the Management Board with the preliminary approval by the Supervisory Board makes unanimous decision for the formation of an exposure and change in the terms and conditions on an exposure to entities under art. 45 of the CIA, when the exposure exceeds to amounts set in art. 45, para 3 of the CIA;
    b. credit facilities or guarantees, directly or indirectly, at the amounts set out in art. 44 of the CIA to one or economically related parties.
10. If necessary, establishes support and advisory, specialised collective bodies.
11. Makes decisions as to the acquisition of real estates, substantive rights, and other tangible assets on outstanding receivables of the Bank and expropriates the latter.
12. Summons General Meetings of the Bank's shareholders and prepared the materials concerning the agenda and ensures the implementation of the resolutions made by the General Meeting.
13. Discusses and makes decisions of the quarterly, six-monthly, nine-monthly, and annual management report of the Ban.
14. Adopts and applies rules for the organization and management of the bank, which include at least:
    a. detailed description of the management and organizational structure of the bank, including a clear distribution of functions and responsibilities between the structural units, the relationship between them and the decision-making procedure;
    b. the strategy and the plan of the bank's activity, which take into account its long-term financial interests and solvency;
    c. the risk management and control policy and structure, including determining the bank's risk appetite;
    d. the procedure for preparation and the scope of management information;
    e. appropriate and reliable accounting and financial reporting systems, including effective organization of financial and operational control;

f. an effective internal control framework that includes independent risk management, regulatory compliance, and internal audit services;
g. the policies for selection, appointment, and evaluation of the members of the management and supervisory bodies of the bank and the persons holding key positions, for introduction in the work and training of the members of the management and supervisory bodies of the bank and for the promotion of diversity;
h. policy for establishing, managing, and preventing conflicts of interest;
i. procedure for submission of signals by employees for committed violations in the bank;
j. the code of ethical conduct of administrators and employees, including high ethical and professional standards, corresponding to the specific needs and characteristics of the bank;
k. system for training, evaluation and stimulation of the key management personnel and the employees performing control functions.

The Management Board adopts internal rules and an annual plan for the activities of the "Compliance" and "Internal Banking Audit Directorates".

In accordance with the good corporate governance principles the Supervisory Board and the Management Board of Municipal Bank AD have an open dialogue policy. In addition to the regular performance reports joint meetings are also held and the Management Board informs the Supervisory Board as to any and all circumstances of material importance to the Bank, and provides timely information concerning the business strategy, the attainment of the goals, the risk limits or rules related to regulatory compliance, the internal control system, as well as the Bank's operations compliance to the regulatory requirements and the external environment. The members of the Supervisory Board have the right to have direct contacts with the Bank's management and employees.

The work of the Management Board is supported by the Asset and Liability Committee, Credit Councils, the Operational risk events Assessment Commission, all of which operate in accordance with the specific competencies, rights and obligations set out in the Bank's internal rules.

General Meeting of the Shareholders

The General Meeting of Shareholders of Municipal Bank AD is the supreme governance body of the Bank, which enables the shareholders to make decisions on fundamental issues concerning its existence and operations. In particular the General Meeting makes decisions concerning the amendment and supplementation of the Bank's Statute, capital increases and decreases, as well as transformation or termination of the Bank. The General Meeting has the powers to elect and dismiss the members of the Supervisory Board and the head of the Specialised Internal Audit Unit, to approve the annual financial statements following certification by the appointed specialised audit firm, to make decisions as to the profit distribution, the issuance of bonds, the discharge of liability of the members of the Supervisory and Management Boards, as well as concerning any other matters in accordance with the Bank's Statute and the applicable legislation.

Audit Committee

By decision of the General Meeting of Shareholders of 2016, pursuant to art. 221, item 11 of the Commercial Act, in relation to art. 40 f, para 2 of the Independent Financial Audit Act (revoked) an Audit Committee was set up at Municipal Bank AD, composed of three members.

In fulfilment of the regulatory requirements under art. 107, para 7 of the Independent Financial Audit Act, at the regular General Meeting in 2017 the status of the Audit Committee of Municipal Bank AD was approved.

As at 31 December 2022 the composition of the Audit Committee is Stanislav Ganev Bozhkov, Stefan Lazarov Nenov and Jordan Vasilev Tonchev.

The legal framework setting out the structure and functions of the audit committees is included in the Independent Financial Audit Act and Regulation (EU) 537/2014, as well as EBA Guidelines on internal governance (EBA/GL/2017/11).

The Audit Committee is a standing specialised advisory and independent body of Municipal Bank AD, which oversees the adequacy and efficiency of the processes for financial reporting, risk management and internal control, including internal audit and registered auditors in compliance with the applicable legislation and good practices. The members of the Audit Committee are elected and dismissed by the General Meeting of Shareholders at the proposal of the Chairman of the Management or Supervisory Board. The activity of the Audit Committee is regulated by the Rules for the activity of the Audit Committee of Municipal Bank AD.

The competencies of the Audit Committee include the following competences:

1. the Committee informs the Bank's Management and Supervisory Boards about the results from the statutory audit and clarifies how the statutory audit has contributed the trustworthiness of the financial reporting, and as to the role of the Audit Committee in this process;
2. oversees the financial reporting process and gives recommendations and proposals in order to ensure its efficiency;
3. oversees the efficiency of the internal control system, the risk management system and the internal audit activities related to the Bank's financial reporting
4. oversees the statutory audit of the annual financial statements, including its performance, and takes into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors with respect to the application of art. 26, para 6 of Regulation (EU) № 537/2014;
5. checks and monitors the independence of the registered auditors in accordance with the requirements in chapter six and seven of the Act, as well as art. 6 of Regulation (EU) 537/2014, including the appropriateness of services provided outside the scope of the Bank's audit in accordance with art. 5 of the same Regulation;
6. is responsible for the procedure for the selection of registered auditors and recommends their appointment;
7. notifies the Commission for Public Oversight of Statutory Auditors as well as the Bank's Management and Supervisory Board as to any approval given under art. 64, para 3 and art. 66, para 3 of the Independent Financial Audit Act within 7 days as at the date of the decision;
8. reports to the General Meeting of Shareholders once a year, together with the approval of the annual financial statements;
9. prepares and submits to the Commission for Public Oversight of Statutory Auditors annual report on its activities by 31 May.

In fulfilment of the procedure for selection of statutory auditors, specialised audit firms to perform joint independent financial audit of the separate annual financial statements and the consolidated annual financial statements of Municipal Bank for 2021, including expressing an opinion in the auditors' report in accordance with the requirements of art. 37, para 6 of the

Accountancy Act, review and expression of audit opinion as to the reliability of the internal control systems in accordance with the requirements of art. 76, para 7 and para 8 of the Credit Institutions Act, Grant Thornton OOD and RSM BG OOD have been appointed.

The annual financial statements of Municipal Bank AD are audited by an independent external auditor in accordance with the Independent Financial Audit Act and the applicable legislation. To ensure transparency and an opportunity for all interested parties to become acquainted with the Bank's results, the audited financial statements are published on its website.

Internal audit and internal control

The Parent Bank builds and improves a reliable and comprehensive framework for adequate and effective internal management and internal control framework, which includes a clear organizational structure and well-functioning independent units for internal risk management, regulatory compliance, and audit, which have the necessary powers, status, and resources, to perform their functions.

In the structure of the Parent Bank, in accordance with the requirements of the current legislation, as well as the EBA Guidelines on internal governance, the following separate structural units have been established:

- - Internal Audit Department - carries out the internal audit of the Parent Bank, making independent, objective and impartial assessments of the effectiveness of control systems, the organisation of operational activities, and compliance with established laws and regulations. The Head of Internal Audit is elected and dismissed by the General Meeting of Shareholders. The activities of the Internal Audit Department are regulated by the Rules of Procedure of the Specialised Internal Audit Department.
- - The Risk Directorate is a key player in building the risk management framework of the Parent Bank, covering all its business lines and internal units, based entirely on the economic substance of all its risk exposures. The risk management framework is built in a way that allows the institution to make fully informed decisions on risk taking. The Risk Directorate shall provide independent information, analysis and expertise on risk exposures and advice on risk proposals and decisions, in respect of existing business lines or internal structures, and inform the governing body as to whether these are consistent with the institution's risk appetite and risk-taking strategy. The risk management function shall have a duty to make recommendations for improvements to the risk management framework and remedial measures to address breaches of risk policies, procedures and limits. The Risk Department is actively involved in the development of the institution's risk strategy and should ensure that the institution has effective risk management processes in place. The Risk Directorate shall provide the governing body with all relevant risk-related information that enables it to determine the level of the institution's risk appetite. The risk management function shall assess the robustness and sustainability of the strategy in terms of risk and risk appetite
- - The Compliance Department is part of the internal control framework to ensure that risks related to the regulatory compliance of the Parent Bank's activities with the applicable regulatory framework are adequately identified, measured and managed. In the performance of its functions, the Compliance Directorate has the following main responsibilities: ensuring compliance of the Parent Bank's internal rules with the applicable legislation, internal regulations and good banking practice; analysing changes in the regulatory environment and related risks; monitoring compliance with European and international acts governing the activities of credit institutions and

investment firms; expressing opinions, recommendations, giving instructions; undertaking As part of the Compliance Directorate, there are four separate departments - Regulatory Compliance and Complaints, Prevention of Money Laundering and Terrorist Financing, Classified Information and Investment Firm Operational Supervision, each with specific control functions and responsibilities. In the Compliance Directorate, a Data Protection Officer has been appointed and performs independent functions in accordance with the requirements of the Data Protection Act.

Control functions are independent of the operational business units they monitor and control, and are organisationally independent of each other as they perform different functions.

As a public interest entity under the Independent Financial Audit Act, the Parent Bank has an Audit Committee that monitors the adequacy and effectiveness of its financial reporting, risk management and internal control processes, including internal audit and registered auditors, in compliance with applicable law and best practices. The Audit Committee reports to the General Meeting of Shareholders once a year together with the adoption of the annual financial statements. The activities of the Audit Committee are regulated by the Rules of Procedure of the Audit Committee of Municipal Bank AD.

Protection of the rights of the shareholders

The corporate governance of Municipal Bank AD protects the rights of shareholders, depositors and other customers of the Parent Bank by treating shareholders equally, including minority shareholders.

The management bodies of Municipal Bank AD shall ensure that shareholders are provided with regular and timely disclosure of information on major corporate events relating to the activities and condition of the Parent Bank in order to enable the informed exercise of shareholders' rights. The rights of individual shareholders holding shares of the same class shall not be restricted.

The convening of the General Meeting of Shareholders shall be by written invitation to the shareholders in accordance with the Articles of Association of the Parent Bank in order to encourage their participation in the General Meeting and in a manner that does not unduly burden or burden the voting. The Parent Bank shall provide shareholders with timely and sufficient information for decision-making, taking into account the scope of competence of the General Meeting. The invitation together with the written materials relating to the agenda of the General Meeting shall be published in the Commercial Register of the Registry Agency. Upon request, the materials shall be made available to each shareholder free of charge.

Disclosure of information

Transparency and timely disclosure of information is a key principle in corporate governance. The Municipal Bank AD Group maintains an information disclosure system, in accordance with the applicable regulatory requirements, which is aimed at providing timely, correct and understandable information about material events, enabling objective and informed decisions, as well as ensuring equality of information recipients and preventing insider abuse.

The Internal Rules on the Procedure for the Public Disclosure of Basic Banking Information of Municipal Bank AD set out the Parent Bank's policy for fulfilling the basic disclosure requirements by regulating the content of the basic information about the Parent

Bank to be disclosed, the procedure for ensuring public disclosure, the approach for assessing the adequacy of disclosures, their confirmation and their frequency.

The rules comply with the disclosure requirements in the provisions of the current regulatory framework (including Regulation (EC) No 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms - Basel 3; the Credit Institutions Act; the provisions of Regulation No 7 of 24. 04.2014 on the organization and management of risks in banks, Regulation No. 8 of 24.04.2014 on capital buffers of banks, as well as other regulations issued by the Bulgarian National Bank, etc.), the International Accounting Standards and the internal rules of the Parent Bank.

The rules are an expression of the policy of the Parent Bank's Management to comply with the Basel 3 requirements for public disclosure of regulatory data helping to improve market discipline, focusing both on the Pillar 1 requirements to measure credit, market and operational risk, and on other disclosures of additional information supporting early identification of risks in banks.

In making disclosures, the Group is guided by the principles of accuracy, accessibility, fairness, timeliness, completeness and regularity.

The Municipal Bank AD Group prepares this Annual Consolidated Report, subject to independent auditor review, which contains detailed information on the development and competitive position of the Group and its financial performance, the achievement of objectives and an overview of the business by business type, as well as information on the governance structure, corporate governance framework and risk management.

The Group discloses immediately and incidental (ad hoc) information on significant events relating to its business. The information is also published on the Parent Bank's website in the "News" section.

The Municipal Bank AD Group maintains a corporate website with approved content and scope of information disclosed through it. It provides information on the Group's products and services, as well as basic commercial and corporate information about the Parent Bank, including on the shareholding structure, management bodies, financial reporting and management reports, and other information required by regulatory requirements.

The scope of information disclosed by the Municipal Bank AD Group goes beyond the requirements of national legislation, in addition to publishing information about the Group in the form of presentations and interviews with senior management personnel, press releases, disclosing detailed information about the Group's products and services applicable terms and conditions and tariff and changes thereto, as well as information about events and initiatives as part of the corporate social responsibility policy.

Stakeholders

The Group applies an awareness policy to stakeholders with a bearing on its activities. These include persons who are not shareholders but have an interest in the economic development of the company, such as creditors, bondholders, customers, employees, the public and others.

From time to time, in accordance with legal norms and best practices, the Group discloses information of a non-financial nature, including on its social responsibility and its involvement in public life in the country.

The Group supports socially significant projects and initiatives.

The Group will continue to apply socially responsible practices in its activities and will continue its programme of supporting initiatives that lead to the solution of specific problems and to the improvement of people's lives and standards.

The initiatives and projects that the Group supports are not a one-off act, but evidence of commitment and involvement to the sustainable economic development of society. In its policy of being a socially responsible institution, the Municipal Bank AD Group strives for initiative and consistency.

Key features of the internal control and risk management systems in relation to the financial reporting process

The Group establishes, maintains and develops a risk management system, part of the internal management, which ensures the timely identification of risks significant for the Parent Bank, their monitoring and measurement, the implementation of control measures and risk mitigation activities, as well as regular and comprehensive reporting to the Management Board and the Supervisory Board.

The Group aims to implement good practices relating to corporate governance to ensure the effectiveness of its internal governance framework in line with its approved business and risk strategy.

In accordance with the internal rules at Municipal Bank AD, the Supervisory Board of the Parent Bank acts as the Risk Committee.

The risk management system complies with applicable regulatory and legal requirements. The Parent Bank applies internal risk management policies, procedures and methodologies that outline the overall framework for the identification, measurement, analysis, control and reporting of the various types of risks to which the Parent Bank is exposed, as well as the allocation of responsibilities and functions.

The following categories of risk are distinguished in the Parent Bank's activity:

1. Credit, incl. concentration - the probability that the Parent Bank will not collect part or all of its receivables due to a decrease in the creditworthiness of the debtor or a decrease in the value of the collateral received and, respectively, an increase in the loss, in the event of individual or sector concentration.
2. Market - the likelihood that the Parent Bank will incur losses or a reduction in capital in the event of adverse changes due to changes in the following risk factors: interest rates, foreign exchange rates, the value of portfolios of financial instruments due to price changes.
3. Liquidity - the probability that the Parent Bank will not meet its obligations in a timely manner or will incur substantial losses on the sale of its assets in order to raise quick liquid funds.
4. Interest rate risk in the banking book - is the current or future risk to income (net interest income) and capital arising from adverse movements in interest rates affecting positions in the banking book. It also includes repricing risk, yield curve risk and basis risk.
5. Operational risk - the likelihood that the Parent Bank will suffer a loss arising from inadequate or poorly functioning internal processes, people and systems, or from external events. Operational risk also includes legal risk.

Specific (non-systemic) and general (systemic) risks are also identified and measured depending on the measurement:

- specific (non-systemic) risks - are those related to individual exposures and are subject to measurement. They are covered through the inclusion of the cost of the respective instruments and through the setting aside of provisions as an inherent operating expense and may be mitigated through diversification or security margins or be reduced at the exposure level by requiring sufficient liquid collateral.
- general (systemic) risks - potential refer to a large group of exposures or to all Bank's exposures and are related to the fluctuations in the market (prices, rates, interest rates, etc.). These risks are covered by the Bank's risk reserves and may be mitigated by hedging or through diversification of different classes of assets.

The risk management policy implemented by the Bank defines the main goals and principles of risk management, stipulates the risk management framework and is in compliance with its strategic plan and product policy.

The main objectives of the Parent Bank in relation to risk management are as follows:

- Compliance with all effective regulatory and legal requirements;
- Compliance with the Bank's strategic plan;
- Protection of the share capital and making it sufficient to the amount and structure of the Bank's business;
- Achievement of optimal diversification of the financing sources and adequacy to invested funds in accordance with the business model;
- Maintenance of reliable systems and internal controls to reduce the risk.

Risk management is based on the following principles:

- Creation of adequate risk management framework, its regular review and adaptation to the changes in the business model, operations, and risk profile of the Parent Bank.
- The Parent Bank's risk management refers to and has effect on all key banking activities and transactions.
- The risk management is set out as a major professional model of operation of all Parent Bank's structural units.
- The dynamic assessment of risk factors development, based on historical data and forecasts of their future impact, in order to ensure the Bank's ability to react quickly to any external and internal changes.

The main activities for identification, measurement, and control of the main risks within the Parent Bank are performed by the Risk Management Function in close cooperation with the other directorates and bodies and provide to the Management and Supervisory Boards an overall overview of the major risks. Risk-related activities are regularly reported to the relevant internal Parent Banking bodies, which control the level of risk.

The management of the specific risks inherent in a certain activity is carried out mainly by the operational units of the Parent Bank and is controlled by the risk management unit, according to the internal rules.

The Parent Bank has organised additional independent and follow-up control in relation to the risk management of the units in charge. It is performed by the Internal Audit Directorate.

The Internal Audit Directorate exercises control through monitoring of the efficiency of the risk management and the control environment.

Disclosures in relation to Article 10 of Directive 2004/25/EC

There is no change in the share capital of the Group and the parent in 2022. The parent company's principal shareholder, Novito Opportunity Fund AGmvK, owns 6,624,316 shares representing 95.50% of the share capital of Municipal Bank AD as at 31 December 2022.

The Group has no securities issued with special control rights. The shareholdings in Municipal Bank AD have no restrictions on voting rights. In accordance with the requirements of the Parent Bank's Articles of Association, resolutions at the General Meeting are adopted by a majority of the capital represented, and resolutions in connection with Article 221, items 1, 2 and 3 of the Commercial Act require a majority of 2/3 of the capital represented.

Diversity policy concerning the administrative, management and supervisory bodies

Pursuant to the requirements of the Credit Institutions Act and BNB Regulation No. 20 on the approval of members of the Management Board (Board of Directors) and Supervisory Board of a credit institution and the requirements in relation to the performance of their functions, the Parent Bank has adopted and approved a Policy for the Promotion of Diversity within the Management Body.

The Supervisory Board, acting as the Selection Committee of the Parent Bank, adopts specific measures to meet diversity requirements for the composition of the Board of Directors and the SB (requirement for a target level of representation by gender, age, education and professional experience). The Parent Bank's Diversity Policy aims to: establish diversity aspects as a defining criterion in the development of the policy and the setting of a target level by the Parent Bank's Supervisory Board; achieve an optimal mix of personal qualities and diversity among the members of the Parent Bank's Management Board, Executive Directors and Supervisory Board members; increase the number of persons from the under-represented gender in the composition of the Management and Supervisory Boards, until the target level is reached, so that

The Diversity Policy includes at least the following aspects of diversity:

1. The availability of diverse and job-relevant knowledge and skills, education and professional experience, including in banking and financial services, strategic planning, finance, risk management, business and economics, corporate finance, human resources, lending and information technology;

2. Availability of diverse and relevant sufficient experience in a national and/or international financial institution;

3. Availability of diverse and applicable relevant qualifications to perform the functions of individual Board members and/or Executive Directors;

4. Maintaining a balanced gender ratio in the composition of the Parent Bank's Board of Management and Supervisory Board and the Parent Bank's Executive Directors so as not to materially favor either gender, subject to sufficient nominations of representatives of different genders;

5. Equal treatment and opportunities for staff of different genders;

6. Ensuring diversity of age groups in the composition of the Board of Directors, Executive Directors and Supervisory Board of the Parent Bank;

7. Applying other diverse qualitative requirements to the members of the Management Board, Executive Directors and Supervisory Board of the Parent Bank.

In making the selection of candidates for membership in the management body, the Supervisory Board shall take into account the target level set in the medium and long term, as well as the timeframe for its implementation.

The Supervisory Board shall monitor the process of achieving the target level and the deadlines for its achievement and, if necessary, make a proposal for their update; it shall monitor the various aspects of the implementation of the diversity policy and compliance with the criteria for ensuring diversity on the governing body.

As part of undertaking the annual review of this policy, the Governing Body and the Board of Trustees review the Diversity Policy.

To facilitate the selection of a sufficiently diverse group of candidates for positions on the governing body, the Parent Bank has implemented a diversity policy for staff, including aspects of career planning and measures to ensure equal treatment and opportunities for staff of different genders.

The outcome of the implementation of the Diversity Policy is to create the preconditions for quality and effective decision making by the Board and/or Executive Directors and to ensure that the decisions of the Board are not influenced by any individual or small group of individuals in a manner that is detrimental to the interests of the Parent Bank, as well as to maintain a balanced gender ratio in the composition of the Board so as not to allow a material advantage in favour of either gender.

19.04.2023

Nedelcho Nedelchev	MUNICIPAL BANK PLC 6, Vrabcha Str., 1000 Sofia, Bulgaria Tel.: (+359 2) 93 00 111 Fax: (+359 2) 986 75 72 Telex: 23 034 SOB CU BG S.W.I.F.T.: SOMBBGSF; Reuters: SMBK	Borislav Chilikov
Executive director		Executive director

Consolidated non-financial declaration

In accordance with the requirements of Directive 2014/95/EU of the European Parliament and of the Council, Section III of the Accounting Act and the principles recommended by the European Commission for the preparation of a non-financial statement, the content of the Annual Consolidated Report on the activities of the Municipal Bank Group AD for 2022 includes the required content and scope of information and analysis under Art. 1 and 2 of the Accounting Act in the Non-Financial Statement as follows:

Information on the Group's understanding of the Group's development, performance, condition and the impact of its operations, relating at a minimum to environmental, social and employee issues, respect for human rights, anti-corruption and anti-bribery. A description of the policies followed by the Group in relation to these matters, including the due diligence processes carried out; the outcome of those policies; the principal risks relating to these matters and relevant to the Group's activities, including, where applicable and proportionate, its business relationships, products or services that are likely to cause adverse impacts in these areas and how the Group manages those risks.

Information regarding the development, performance and condition of the Group is disclosed in detail in the "Review of Operations on a Consolidated Basis" section of the Annual Consolidated Report.

Ecology, social responsibility and employees

The Municipal Bank Group is a socially responsible institution that consistently develops and implements sustainable business and environmental practices.

The Group informs its employees and implements measures for a green working environment in its divisions. Energy-saving appliances are implemented in the Group's offices, and waste separation and the use of recyclable toner cartridges are priorities. The Parent Bank uses equipment to automatically regulate the heat supply during non-business hours. An electronic document management system has been implemented which significantly reduces the use of printed documents. Implemented an electronic self-service portal, an electronic information system for pay slips and leave slips that any employee can use online and further reduces paper and toner use.

The Group pursues a socially responsible policy by supporting significant social causes, social, cultural and educational initiatives. The Group continues its mission to support the development of the regions by supporting a number of municipalities throughout Bulgaria.

In the post-pandemic situation, the Group has used the experience gained over the last two years to reorganise its customer service activities and internal process management in line with the measures and requirements to protect the health of its customers and employees. Additionally, air purification devices have been installed in the Company's premises, which improves the working environment and protects our customers and employees.

In 2022, the Parent Bank implemented online projects and remote qualification forms to develop and motivate employees by increasing the operational efficiency of work processes and upgrading expertise. Municipal Bank AD finalised the project to integrate and migrate to a new banking information system, FlexCube, which we believe will lead to the optimisation of a number of processes and practices to build a sustainable business and reduce the company's carbon footprint.

The Group applies a Continuity Policy that ensures the development and long-term preservation of best practices within the Company. The Remuneration Policy at Municipal Bank AD ensures prudent and effective management, avoiding risks and ensuring that the Parent Bank's employees are attracted, retained and motivated to work towards the achievement of the institution's objectives. The policy is linked to the requirements of BNB Regulation 4 and the European Banking Authority guidelines and meets all regulatory requirements for remuneration and its allocation.

As an institution that is socially responsible to society and the environment, the Group pursues its objective of establishing its position as a supporter of green economy initiatives and sustainable development, offering customers quality and reliable financial services.

The focus of the lending policy is on green economy development projects, financing business ventures related to energy saving and renewable energy sources, energy efficiency and environmental protection projects.

The parent bank works with many educational institutions - schools and kindergartens, and nursing homes, for which it strives daily to improve and ensure maximum quality and accessibility of the financial products and services they use.

Improving public health is an ongoing priority for society, the country and globally. In this regard, the Parent Bank actively participates in and wins contracts related to providing comprehensive banking and financing services to hospitals and medical institutions by providing financial resources, providing post-terminals and ATMs at suitable and convenient locations, providing preferential and competitive pricing levels for financial products and services.

The Municipal Bank Group is pursuing its goal of establishing its position as a supporter of green economy and sustainable development initiatives. The Group supports companies in this field, and in the process of financing this type of projects, it also uses additional instruments to improve the collateral structure of credit transactions through its cooperation with the National Guarantee Fund.

The Parent Bank actively offers financing to business customers investing in the construction of photovoltaic installations to generate electricity from renewable energy sources for their own consumption and sale. Sun, water, land - these are resources we always have at our disposal and their best utilization spares the environment and ensures low costs for consumers.

It also supports municipalities in the implementation of projects related to the construction of solar parks for the production of electricity (for own consumption and sale) from renewable energy sources.

In this respect, the Parent Bank is developing a financing programme for Companies for the construction of new RES for own consumption in combination with local energy storage facilities at enterprises, intended for companies that have been approved in selection procedure BG-RRP-3.006 "Construction of new RES for own consumption in combination with local energy storage facilities at enterprises" for receiving grants under the National Recovery and Sustainability Plan and have signed a contract with the Monitoring and Reporting Structure (

We provide investment credits for the construction of new PV installations up to one MW for self-consumption in combination with local energy storage facilities (batteries);

The Group supports companies in the transport sector that invest in the purchase and use of environmentally friendly vehicles and operate in line with policies to reduce their carbon footprint.

In order to support businesses and customers towards environmental development, the Group actively supports companies (including recovery organisations) engaged in the collection, processing and recycling of ferrous and non-ferrous waste, end-of-life vehicle packaging, packaging, batteries, accumulators, etc. In this regard, the Group works with a number of customers engaged in this activity, and in addition to providing quality full banking services, supports them by issuing bank guarantees at their request, in favour of the Ministry of Environment and Water in connection with their commitments in accordance with the Waste Management Act.

In carrying out its activities, the Group adheres to principles relating to respect for human rights, the fight against corruption and bribery.

The Group's governing body has developed, adopted, adheres to and promotes high ethical and professional standards aimed at respect for human rights, non-discrimination, gender neutrality. The Group has clear and documented policies and rules on how these standards are implemented. The Supervisory Body periodically reviews their implementation and ensures their accurate and fair application.

The Group's governing body has developed, adopted, adheres to and promotes high ethical and professional standards aimed at avoiding and managing conflicts of interest, anti-corruption and anti-bribery. The policies and rules set out the principles and provide examples of acceptable and unacceptable conduct, employees are reminded that all activities of the institution should be conducted in accordance with applicable law and the corporate values of the institution. Employees are also made aware of the possible external and internal disciplinary measures, legal actions and sanctions that may be applied in case of improper and unacceptable behaviour. Employees are also provided with a guaranteed whistle-blowing opportunity in cases of suspected misconduct by another employee, including a member of senior management, and the anonymity of the employee is guaranteed.

The Group has adopted and implemented effective policies to identify, assess, manage and mitigate or prevent current and potential conflicts of interest at the institution level. Adequate measures are adopted and implemented to mitigate conflicts of interest that could adversely affect clients' interests.

Description of the business model of the Group

The section "Overview of operations on a consolidated basis", sub-section "Business model and market position" of the Consolidated Management Report provides a description of the business model applied.

Non-financial key performance indicators relevant to the Group's specific business activity

The “Ecology, social responsibility and employees” and “Management” sections, from the Annual consolidated activity report and the Declaration for Corporate Management present the key non-financial performance indicators of the Group.

Disclosures in relation to Delegated Regulation (EU) 2021/2178 regarding environmentally sustainable economic activities

The Municipal Bank Group is committed to the importance of environmental care and climate risk mitigation measures, which are embedded in the risk management of institutions. The Group implements environmentally sustainable financial activities by providing loans that are aligned with green lending objectives. The Group supports its clients in their transition to environmentally sustainable activities

Further to the Global Framework and Sustainable Development Goals of the Paris Agreement, Regulation (EU) 2020/852 of the European Parliament and of the Council establishing a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088 was adopted in June 2020. The Regulation presents a taxonomy of economic activities in terms of their environmental sustainability.

Commission Delegated Regulation (EU) 2021/2178 sets out the content and presentation of the information to be disclosed on environmentally sustainable economic activities and provides the methodology for fulfilling this disclosure obligation. From 01.01.2022 credit institutions shall disclose the information referred to in Article 10(3) and from 01.01.2024 Key Sustainability Performance Indicators - ratio of eco-compliant assets according to the technical verification criteria shall be disclosed.

As of 31.12.2022, Municipal Bank AD reviewed its customers and loan portfolio in compliance with the above disclosure requirements of the Regulation. Exposures that are eligible and ineligible under the economic activity taxonomy were identified. The Parent Bank's environmentally sustainable investments are those that meet the requirements of Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council.

Exposures as at 31.12.2022	**Share of total assets**	**Share of assets included**
Economic activities eligible for the taxonomy	0.6%	1.6%
Economic activities not eligible for the taxonomy	20.0%	52.0%
Total companies	**20.6%**	**53.6%**

The assets included represent the total assets of the Parent Bank less exposures to central governments, central banks, supranational issuers and derivatives.

Information on Municipal Bank AD's exposures to entities that are and are not required to publish a non-financial statement, for exposures to central governments, central banks and supranational issuers, derivatives and others, as a proportion of the parent bank's total assets, as follows:

Exposures as at 31.12.2022	Share of total assets
Companies required to publish non-financial information	1.1%
Companies not required to publish non-financial information	19.5%
Total companies	**20.6%**
Central government, central banks and supranational issuers	61.7%
Derivatives	-
Others	17.7%
Total assets	**100.0%**

Appendix 2 to the Annual Consolidated Activity Report for 2022

Consolidated non-financial declaration

The Group's Consolidated Annual Activity Report together with the Consolidated Non-Financial Declaration are available on the Parent Bank's website no later than 30 September of the following year at https://www.municipalbank.bg.

19.04.2023

Nedelcho Nedelchev
Executive director

Borislav Chilikov
Executive director

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GrantThornton RSM

INDEPENDENT AUDITORS' REPORT

Translation from Bulgarian

To the shareholders of
Municipal bank AD
Sofia 1000
6, Vrabcha Str.

Report on the Audit of the Individual Financial Statements

Opinion

We have audited the consolidated financial statements of Municipal Bank AD (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independent Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans and receivables from customers	
Key audit matter	**How this matter was addressed during the audit**
Loans and receivables from customers as at 31 December 2022 represent 23% of the Group's assets with a net book value of BGN 487,518 thousand consisting of a gross book value of BGN 491,896 thousand and accumulated impairment of BGN 4,378 thousand. The Group applies impairment models based on expected credit losses in accordance with the requirements of IFRS 9 Financial Instruments. The assessment of expected credit losses from impairment of loans and receivables from customers requires the Group's management to apply a significant level of judgment in applying accounting estimates in the following areas: - the classification of exposures by impairment stages and identification of	We have analyzed the compliance of the Bank's expected credit loss models with the requirements of IFRS 9 Financial Instruments. During our joint audit, our audit procedures included, but are not limited to, the following: - inquiries and obtaining an understanding of the processes, policies and criteria and models used by the Bank to classify and subsequently account for loans and advances to and receivables from customers and verifying that these criteria comply with the requirements of IFRS 9 Financial Instruments; - We have reviewed and assessed the policies and procedures developed by the Group for the models for calculating the expected credit losses on loans and receivables from customers; - We have applied test of controls related to the monitoring of the loans granted established and introduced by the Group, as well as an assessment of their operational efficiency;

<table>
<tr><th colspan="2">Impairment of loans and receivables from customers</th></tr>
<tr><th>Key audit matter</th><th>How this matter was addressed during the audit</th></tr>
<tr><td>exposures with deterioration in credit quality;
- the assumptions included in the risk parameters of the models for determining the expected credit losses, with input data obtained from internal and external sources;
- the factors involved and the expected scenarios, influenced by the wide range of potential economic consequences of the negative macroeconomic development, which may have an impact on the expected credit losses.

The models used are based on probability of default and expected loss given default. The model inputs, calculation methods and their application are subject to the judgement of the Group's management.

We have identified the determination of impairment of the Group's loans and receivables from customers as a key audit matter due to the following factors:
- the value and the moment of recognition of the impairments on the provided credits and receivables from clients;
- the high degree of uncertainty in accounting estimates related to the calculation models used to measure expected credit losses.

Notes 3, 4 and 22 to the consolidated financial statements provide disclosures about the judgements and assumptions made by the Group's management in arriving at the expected credit losses from impairment of the Group's loans and receivables from customers for 2022.</td><td>- We have reviewed and assessed the processes for classifying loans and determined necessary impairment on a collective basis, including changes to these processes related to regulatory changes;
- We have reviewed a sample of loans and receivables from the loan portfolio and performed test of details as part of substantive procedures on the classification and value of loans and receivables from customers;
- We have analysed the financial position of borrowers and examined whether there are deviations in compliance with contractual terms, taking into account the impact of macroeconomic conditions on the industries concerned, the valuation of assets provided as collateral and other factors that may affect the collectability of loans and receivables, verified on a sample basis;
- for exposures impaired on a collective basis, we applied professional judgement to analyse and evaluate the key assumptions used in the application of the expected credit loss and impairment models for originated loans and customer receivables and the impact of the macroeconomic indicators and scenarios used;
- Sampling analysis: the reliability and timeliness of the assessment of borrowers' credit quality; we considered the impact of economic conditions, the valuation of assets pledged as collateral, and other factors that may affect the collectability of loans and receivables from customers; and we assessed the impairments calculated by analysing the underlying assumptions;
- We have prepared an assessment of the adequacy of the disclosures in the individual financial statements, including disclosures of key assumptions and judgements related to the IFRS 9 requirements for classification and impairment of financial assets and the Group's exposure to credit risk.</td></tr>
</table>

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Annual Consolidated Activity Report, including the Consolidated Declaration of Corporate Governance and a Consolidated Non-Financial Declaration, prepared by Management in accordance with Bulgarian Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless explicitly stated in our report and to the extent indicated. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

As part of our 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly liable for the performance of our joint audit and the issued joint auditors' opinion in accordance with the requirements of Bulgarian Independent Financial Audit Act. Upon acceptance and performance of the joint audit engagement on which we report, we have complied with the "Guidelines on performance of joint audit" issued by Bulgarian Institute of Certified Public Accountants and Bulgarian Commission for Public Oversight of Statutory Auditors

Report on Other Legal and Regulatory Requirements
In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the consolidated financial statements and Auditor's Report Thereon", regarding the Annual Activity Report,

including the Declaration of corporate management and a non-financial declaration , we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Bulgarian Public Offering of Securities Act, applicable in Bulgaria.

Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act
Based on the procedures performed, we describe the outcome of our work:

(a) the information in the Annual Consolidated Activity Report is consistent with the consolidated financial statements for the same reporting period;
(b) the Annual Consolidated Activity Report is prepared in accordance with the applicable legal requirements;
(c) as a result of the acquired knowledge and understanding of the activities of the Group and the environment in which it operates, we have found no cases of material misrepresentation in the Annual Consolidated Activity Report;
(d) the Consolidated corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act;

the Consolidated non-financial declaration is presented and prepared in accordance with the requirements of the Accountancy Act.

Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit Act in relation to Article 10 of Regulation (EC) № 537/2014

In accordance with the requirements of Bulgarian Independent Financial Audit Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

- Grant Thornton OOD and RSM BG OOD were appointed as joint auditors of the financial statements of Municipal Bank AD for the year ended on 31 December 2022 by the general meeting of shareholders, held on 26 July 2022, for a period of one year.
- The audit of the consolidated financial statements of the Bank for the year ended on 31 December 2022 has been made for fifth consecutive year for Grant Thornton OOD and fourth consecutive year for RSM BG OOD.
- In support of our audit opinion, we have provided a description of the most significant assessed risks, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matter" in this report.
- We confirm that our joint audit opinion is consistent with the additional report to the Bank's audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Bank in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Bank in addition to the statutory audit, which have not been disclosed in the activity report or financial statements.

10 May 2023
Sofia, Bulgaria

Grant Thornton OOD
Audit firm

Zornitza Djambazka
Registered auditor, responsible for the audit

Mariy Apostolov
Managing partner

Grant Thornton OOD
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RSM BG OOD
Audit firm

Tanya Kotocheva, PhD
Registered auditor responsible for the audit

Vladislav Mihaylov
Managing partner

RSM BG OOD
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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 173 РСМ БГ ООД

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	For the year ended 31.12.2022	For the year ended 31.12.2021
Interest income	7	22,794	16,304
Interest expense	7	(4,827)	(10,478)
Net interest income		17,967	5,826
Dividend income		233	223
Fees and commissions income	8	18,785	16,164
Fees and commissions expenses	8	(3,276)	(2,596)
Net fees and commissions income		15,509	13,568
Net gain/(loss) on financial assets at fair value through profit or loss	9	1,741	(353)
Net gains on derecognition of financial assets that are not at fair value through profit or loss	10	44	287
Net gains on foreign exchange revaluation		165	14
Gains on sale of non-current assets		336	243
Change in fair value of investment property	27	1,509	-
Other operating incomes	12	1,186	1,406
Other operating expenses	13	(751)	(470)
NET OPERATING INCOME		37,939	20,744
Impairment of financial assets, net	14	(401)	1,110
(Accrued)/ reintegrated provisions for the period	15	(133)	419
Administrative expenses	16	(29,004)	(27,398)
Depreciation and amortization	26, 27, 28, 29	(2,854)	(3,822)
PROFIT/(LOSS) BEFORE TAX		5,547	(8,947)
Income tax expense	17	(27)	(17)
PROFIT/(LOSS) FOR THE YEAR		**5,520**	**(8,964)**

MUNICIPAL BANK PLC
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Nedelcho Nedelchev
Executive Director
Date:25.04.2023

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

Audited according to auditors' report dated 10 May 2023

Zornitza Djambazka
Registered auditor, responsible for the audit

Tanya Kotocheva, PhD
Registered auditor, responsible for the audit

Mariy Apostolov
Managing partner
Grant Thornton OOD, Audit firm

Vladislav Mihaylov
Managing partner
RSM BG OOD, Audit firm

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 173 РСМ БГ ООД

The notes from 1 to 44 are an integral part of these Consolidated Financial Statements.

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	For the year ended 31.12.2022	For the year ended 31.12.2021
PROFIT/(LOSS) FOR THE YEAR		5,520	(8,964)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Net change in fair value of equity instruments at fair value through other comprehensive income	*20*	1,744	316
Net change in the fair value of owner-occupied property		770	749
Revaluations of liabilities on defined benefit plans	*15*	(13)	11
Change in deferred taxes related to components of other comprehensive income, that will not be reclassified subsequently to profit or loss		(77)	(75)
Total items that will not be reclassified subsequently to profit or loss		2,424	1,001
Other comprehensive income for the year, net of tax		2,424	1,001
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**7,944**	**(7,963)**

Nedelcho Nedelchev
Executive Director
Date:25.04.2023

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

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Vladislav Mihaylov
Managing partner
RSM BG OOD, Audit firm

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All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31.12.2022	As at 31.12.2021
ASSETS			
Cash on hand and cash balances with the Central Bank	18	1,039,835	1,089,812
Financial assets at fair value through profit or loss	19	12,708	3,869
Financial assets at fair value through other comprehensive income	20	11,322	9,287
Receivables from banks and other financial institutions	21	115,607	90,177
Loans and receivables from customers	22	487,518	299,990
Debt instruments at amortised cost	23	393,052	342,000
Current tax assets		370	-
Other assets	24	17,812	17,421
Assets acquired in foreclosure	25	13,043	13,468
Property and equipment	26	37,013	37,076
Investment property	27	22,063	20,581
Intangible assets	28	1,191	1,349
Right-of-use assets	29	4,232	2,605
TOTAL ASSETS		**2,155,766**	**1,927,635**
LIABILITIES			
Deposits from banks	30	-	985
Deposits from other customers	31	1,949,612	1,803,968
Loans received from banks	32	24,076	-
Bonds issued	33	21,081	-
Loans received from customers	34	6,293	-
Lease liabilities	29.2	4,336	2,685
Provisions	15	945	917
Other liabilities	35	27,417	5,100
Current tax liabilities		10	17
Deferred tax liabilities	36.2	873	782
TOTAL LIABILITIES		**2,034,643**	**1,814,454**
EQUITY			
Share capital	37.1	69,362	69,362
Statutory reserves	37.2	44,549	44,394
Other reserves	37.3	14,955	12,602
Accumulated loss		(7,743)	(13,177)
TOTAL EQUITY		**121,123**	**113,181**
TOTAL LIABILITIES AND EQUITY		**2,155,766**	**1,927,635**

Nedelcho Nedelchev Executive Director Date:25.04.2023	Borislav Chilikov Executive Director	Marieta Vacheva Chief Accountant

Audited according to auditors' report dated 10 May 2023

Zornitza Djambazka Registered auditor, responsible for the audit	Tanya Kotocheva, PhD Registered auditor, responsible for the audit
Mariy Apostolov Managing partner Grant Thornton OOD, Audit firm	Vladislav Mihaylov Managing partner RSM BG OOD, Audit firm

The notes from 1 to 44 are an integral part of these Consolidated Financial Statements..

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserves	Other reserves	Retained earnings/ (Accumulated loss)	Total
AS AT 1 JANUARY 2021	**69,362**	**35,329**	**11,605**	**4,848**	**121,144**
Loss for the year	-	-	-	(8,964)	(8,964)
Other comprehensive income for the period, net of taxes	-	-	1,001	-	1,001
Total comprehensive loss	**-**	**-**	**1,001**	**(8,964)**	**(7,963)**
Increase in statutory reserves	-	9,065	-	(9,065)	-
Derecognised revaluation reserves of property and equipment	-	-	(4)	4	-
AS AT 31 DECEMBER 2021	**69,362**	**44,394**	**12,602**	**(13,177)**	**113,181**
Profit for the year	-	-	-	5,520	5,520
Other comprehensive income, net of tax	-	-	2,424	-	2,424
Total comprehensive income	**-**	**-**	**2,424**	**5,520**	**7,944**
Increase in statutory reserves	-	155	-	(155)	-
Derecognised revaluation reserves of property and equipment	-	-	(69)	69	-
Other movement	-	-	(2)	-	(2)
AS AT 31 DECEMBER 2022	**69,362**	**44,549**	**14,955**	**(7,743)**	**121,123**

Nedelcho Nedelchev
Executive Director
Date:25.04.2023

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

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RSM BG OOD, Audit firm

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All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended 31.12.2022	For the year ended 31.12.2021
OPERATING ACTIVITIES			
Net profit/ (loss) before tax		5,547	(8,947)
Adjustments to offset net profit with net cash flows from operating activities:			
Depreciation and amortisation	26, 27, 28, 29	2,856	3,822
Net effect of impairment of financial assets	14	401	(1,110)
Net effect of derecognition of financial assets that are not at fair value through profit or loss	10	(44)	(287)
Provisions	15	133	(419)
Net interest income	7	(17,967)	(5,826)
Dividend income		(233)	(223)
Gain/ (loss) on sale of securities	9	(4)	4
Gain on FX trading	9	(2,493)	(1,904)
Net unrealized gain on currency revaluation on securities		(311)	(360)
Net unrealized loss on securities at fair value	9	756	2,728
Change in fair value of investment property	27	(1,509)	-
		(12,868)	(12,522)
Decrease in deposits in banks		363	-
Increase in loans and receivables from customers		(185,945)	(26,212)
Increase in financial assets at fair value through profit or loss, net of reclassifications		(7,077)	(49,362)
Decrease in other assets, including assets acquired in foreclosure		51	5,619
(Decrease)/ increase in deposits from credit institutions		(985)	985
Increase/ (decrease) of deposits of customers other than credit institutions		145,682	(121,661)
Decrease in provisions		(129)	(68)
Increase in deferred taxes	36.2	74	75
Increase/ (decrease) in other liabilities		2,380	(17)
Interest received		20,357	16,400
Interest paid		(4,296)	(10,292)
Dividend received		233	223
Income tax paid		(387)	(167)
NET CASH FLOW USED IN OPERATING ACTIVITIES		**(42,547)**	**(196,999)**

Nedelcho Nedelchev
Executive Director
Date:25.04.2023

Borislav Chilikov
Executive Director

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The notes from 1 to 44 are an integral part of these Consolidated Financial Statements.

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATEAD STATEMENT OF CASH FLOWS (CONTINUATION)

	Note	For the year ended 31.12.2022	For the year ended 31.12.2021
INVESTMENT ACTIVITY			
Cash payments for acquisition of tangible assets		(915)	(309)
Cash payments for acquisition of intangible assets		(179)	-
Proceeds from sale of tangible assets		413	305
Proceeds from sale of investment property		25	9,964
Proceeds from sale of intangible assets		-	15
Cash payments for purchase of investments measured at amortized cost		(124,391)	(57,516)
Loans granted to banks		(34,000)	-
Proceeds from matured and sold financial assets carried at amortised cost		73,259	30,526
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES		**(85,788)**	**(17,015)**
FINANCING ACTIVITY			
Lease payments	40	(1,389)	(1,619)
Proceeds from increase of share capital	35	20,000	-
Proceeds from bonds issued	40	20,702	-
Loans received from banks	40	24,000	-
Loans received from other clients	40	6,237	-
NET CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES		**69,550**	**(1,619)**
Net change in the cash and cash equivalents		(58,785)	(215,633)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,179,469	1,395,102
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	39	**1,120,684**	**1,179,469**

Operating cash flows related to interest and fees and commissions	For the year ended 31.12.2022	For the year ended 31.12.2021
Interest received	20,357	16,400
Interest paid	(4,269)	(10,292)
Fees received	18,228	16,260
Fees paid	(3,276)	(2,596)

Nedelcho Nedelchev
Executive Director
Date:25.04.2023

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

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The notes from 1 to 44 are an integral part of these Consolidated Financial Statements.

1. Corporate information

Municipal Bank AD (the Bank) is a joint-stock company registered in the Republic of Bulgaria in April 1996 under UIC 121086224 and registered office at: 6, Vrabcha Str., 1000 Sofia, Bulgaria.

The Bank has a full operations licence issued by the Bulgarian National Bank (BNB), the Central Bank of the Republic of Bulgaria, to carry out all types of banking activities both locally and internationally, including attracting deposits in national and foreign currencies, granting of loans in national and foreign currencies, transactions with foreign means of payment and precious metal, transactions with securities and other transactions and banking operations permitted by the Credit Institutions Act.

As at 31 December 2022, the Bank operates through a Head Office and 46 financial centres and external offices.
As at 31 December 2022, the majority shareholder in the Bank is Novito Opportunities Fund SICAV, which owns 95.5% of the Bank's shares. The ultimate management company of the fund is CAIAC Fund Management AG.

The consolidated financial statements of the Group for the years ending 31 December 2022 and 2021 comprise the Bank and its subsidiaries (Note 2.4), together referred to as the Group. The financial year of the Group ends on 31 December. The management of the Group includes the Board of Directors of the parent company. Those charged with governance of the Parent Company are represented by the Supervisory Board.

As at 31 December 2022, the composition of the Board of Directors and Executive Directors of Municipal Bank AD is as follows:

- Members of the Management Board: Nedelcho Nedelchev, Borislav Chilikov, Vladimir Kotlarski, Todor Vanev and Ivaylo Ivanov.
- Executive Directors: Nedelcho Nedelchev and Borislav Chilikov.

2. Basis of preparation of the consolidated financial statements

2.1. Applicable standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board (IASB) and adopted by the European Union (IFRS as adopted by the EU). Investments in subsidiaries are accounted for and disclosed in accordance with IFRS 10 'Consolidated Financial Statements'. For the purposes of paragraph 1(8) of the Additional Provisions of the Accounting Act applicable in Bulgaria, the term "IFRS as adopted by the EU" means International Accounting Standards (IAS) adopted in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council.

The parent bank, Municipal Bank AD has issued audited individual financial statements on 19 April 2023.

2.2. Basis for preparation

These consolidated financial statements have been prepared under the fair value method for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and all derivative contracts. Land and buildings used in the Group's operations are presented at revalued amounts. All other assets and liabilities are stated at amortised cost or historical cost.

Macroeconomic framework

The economic environment in 2022 has been shaped by the recovery from the Covid-19 pandemic, the war in Ukraine, the sharp rise in prices and the reversal of the interest rate cycle. Due to the recovery from the Covid-19 pandemic and the war in Ukraine, oil and commodity prices have risen. The global war in Ukraine has caused further disruptions and supply constraints for commodities, food and raw materials, causing further price increases.

All amounts are presented in thousand BGN, unless otherwise stated

Inflation, with the ensuing monetary tightening and the energy crisis, underpinned the economic slowdown in the European Union in the last quarter. Price pressures intensified and widened in 2022, with inflation reaching record highs in recent decades. Key central banks have begun tightening after a very long period of loose monetary policy. The European Central Bank in July 2022 raised the deposit facility rate from -0.50% to 0% and by a further three steps to 2.00%, and for refinancing operations from 0% to 2.50%.

The Bulgarian economy slowed down after mid-2022 and by quarters the annual growth was 3.7%, 4.3%, 3.1% and 2.1%. Driven by external demand, the Bulgarian economy's recovery in H1 2022 outpaced expectations. At the end of 2022, the government debt-to-GDP ratio is 22.9% (2021: -23.4%) and the budget deficit on an accrual basis is estimated at 2.9%. The labour market in the country is stable with a low unemployment rate of 4.7%.

Bulgaria is an open economy and inflationary processes are rapidly setting in, with the annual change in HICP peaking at 15.6% in September 2022 and 14.3% as of December. The CPI, which reflects the specific Bulgarian consumer basket, for these periods is 18.7% and 16.9%, respectively. The Bulgarian government has implemented measures to help households and businesses recover from the energy shock.

Bulgaria's long-term credit rating by S&P Global Ratings is BBB with a stable outlook, affirmed in November 2022.

In 2022, the Covid-19 pandemic has gradually subsided and its economic consequences are being addressed. At Municipal Bank AD, as at 31 December 2022, all loans that had been in forbearance under the private moratorium in previous years were out of forbearance. The share of non-performing exposures among them is 3.6%. The exposures in Municipal Bank AD under the Bulgarian Development Bank's (BDB) anti-crisis programme in relation to Covid-19 are presented in the table:

Exposures under BDB programme for individuals, 31.12.2022	Performing, stage 1	Performing, stage 2	Non-performing	Total
Gross carrying amount	8,907	615	1,643	11,165
Impairment	(15)	(21)	(659)	(695)

Exposures with a gross value of BGN 480 thousand were submitted for public guarantee as at 31 December 2022 and the payment received from the guarantor during the year was BGN 197 thousand. The balance of the amount of public guarantees claimed is repayable to the Group upon fulfilment of the contractual terms of the Covid-19 program loans.

As at 31 December 2022, Group's exposure to the Russian Federation, Belarus and Ukraine includes deposits from other customers amounting to BGN 1,892 thousand, entirely from individuals (BGN 717 thousand from Ukraine, BGN 5 thousand from Belarus and BGN 1,170 thousand from the Russian Federation), which represent 0.1% of the Bank's customer deposits. Withdrawals and receipts of cash into the accounts of individuals from the Russian Federation and Belarus are controlled by the Group. Their simultaneous withdrawal or redirection would result in an immaterial reduction of customer deposits and, accordingly, the liquidity coverage ratio. The Group also controls the withdrawal and receipt of cash into the accounts of individuals from the Russian Federation and Belarus.

The Group also has one consumer loan to a Russian citizen for BGN 3 thousand, and the possible insolvency of the debtor would not materially affect the financial result and capital adequacy of the Group.

In relation to the above and in view of the uncertainties regarding the effect of the sanctions and restrictions imposed, the Group has reviewed activities, counterparties and economic relationships that could be at risk. Based on the analysis performed, Management has not identified any foreign currency or counterparty risk exposure in relation to these events.

As the situation is highly dynamic, the Group's management refrains from making specific and definitive assessments of the impact of the war on its future financial position and results of operations in 2023 in terms of the overall effect on the national economy, inflationary processes, energy prices, household spending and the impacts of disrupted supply chain elements, but considers that there may be a negative impact. This in turn could result in a change in the carrying values of the Group's assets, which in the consolidated financial statements have been determined subject to management making a number of judgements and assumptions and considering the most reliable information available at the date of the estimates.

The Group's management has made an analysis and assessment of the Group's ability to continue as a going concern based on the information available for the foreseeable future. Management expects that the Group has sufficient financial resources to continue in operational existence for the foreseeable future.

c The consolidated financial statements have been prepared under the going concern basis and taking into account the possible effects of the ongoing military conflict in Ukraine and the described macroeconomic environment.

2.3. Functional currency and presentation currency

The Bulgarian lev is the functional and presentation currency in these consolidated financial statements. All amounts are presented in thousands of levs (BGN thousand), including comparative information for 2021, unless otherwise stated.

2.4. Consolidation principles

The consolidated financial statements comprise the financial statements of the Parent Bank and its subsidiaries as at 31 December, being the date of the Group's financial year. In consolidation, the "economic entity" approach has been applied and the "proportionate share of net assets" method has been selected to measure non-controlling interests in business combinations and other forms of acquisitions of subsidiaries. The financial statements of the subsidiaries for consolidation purposes have been prepared for the same reporting period as that of the Bank and under a single accounting policy. Subsidiaries are consolidated from the date on which effective control is acquired by the Group and cease to be consolidated from the date on which control is deemed to have ceased.

In the consolidated financial statements, the accounts of the included subsidiaries have been consolidated on the basis of the full consolidation method, line by line, applying uniform accounting policies for material items. The Parent Bank's investments have been eliminated against the subsidiaries' equity interests at the acquisition date. Intra-group transactions and settlements have been fully eliminated, including unrealised intra-group profit or loss.

Third party interests in subsidiaries, other than those of shareholders of the Parent Bank, are disclosed separately in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity as 'non-controlling interests'. Non-controlling interest comprises (a) the amount of the third party shareholders' (members') interest at the date of first-time consolidation in the fair value (deemed cost) of all identifiable assets acquired, liabilities assumed and contingent liabilities assumed of each of the relevant subsidiaries, determined (on a proportionate basis) using the proportionate method, and (b) the change in the amount of those parties' interest in the equity of each of the relevant subsidiaries from their first-time consolidation to the end of the current reporting period.

The companies consolidated in the financial statements of the Group as at 31.12.2022 and 31.12.2022 are:

Name of the Company	31.12.2022	31.12.2021	Consolidation method
	(%) ownership	(%) ownership	
Municipal Bank Asset Management EAD, including the funds managed by it:	100%	100%	Full consolidation
Mutual Fund "Municipal Bank – Perspective"	100%	100%	Full consolidation
Mutual Fund "Municipal Bank – Balanced"	100%	100%	Full consolidation

2.5. Estimates, significant management judgments and uncertainties in accounting estimates in applying accounting policies

The preparation of the consolidated financial statements requires management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, income and expenses for the period and disclosure of contingent assets and liabilities. These estimates and assumptions are based on information available at the date of the consolidated financial statements and it is possible that future actual results will differ from these estimates.

In preparing the consolidated financial statements presented, management's significant judgements in applying the Group's accounting policies and the key sources of estimation uncertainty are not materially different from those disclosed in the Group's annual financial statements as at 31 December 2021 including the effect of Covid-19 and the military conflict in Ukraine, which have been considered in making all judgements.

Expectations and assumptions made are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods in which it has an impact.

Uncertainty in assumptions and estimates
Information about uncertainties in assumptions and estimates that have a significant risk of causing a material adjustment in the next financial year is contained in Note 5.

Revenues from contracts with customers
The Group is bound by multiple contracts for the maintenance and servicing of bank accounts. The fees for the services provided are set in accordance with the Parent Bank's tariff. All services provided are recognised over time. Therefore, management considers when to recognise revenue from the contract for maintenance and servicing of bank accounts and payment transactions. Further information in relation to sources of uncertainty is presented in Note 5.

Fair value of financial instruments
When the fair value of financial assets and liabilities in the consolidated statement of financial position cannot be determined on the basis of an active market, it is determined using various valuation techniques that include mathematical models. Where possible, inputs into these models are derived from market observations and, where this is not appropriate, management uses its own judgement in determining fair value. Further information in relation to sources of uncertainty is presented in the Note 5.

Debt instruments measured at amortized cost
Management's analysis and intentions are confirmed by the business model of holding debt instruments that qualify to receive payments of principal and interest only and holding the assets until collection of the contractual cash flows from the assets, which are classified as debt instruments measured at amortized cost. This decision is consistent with the Group's current liquidity and risk appetite. Further information in relation to sources of uncertainty is presented in the Note 4.

Measurement of expected credit losses
Credit losses represent the difference between all contractual cash flows due to the Group and all cash flows the Group expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Group's judgment. Estimated credit losses are discounted at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or originated financial assets with credit impairment). Further information regarding the sources of uncertainty is presented in the Note **Error! Reference source not found.**.

Periodic revaluation of real estate - land and buildings used in the Group's operations and investment properties
As at 31 December 2022, in accordance with the accounting policy adopted, the Group has carried its property used in operations at revalued amount and its investment properties at fair value as determined by licensed independent valuers. Further information is provided in the Notes 26 and 27.

Deferred tax assets
The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Bank's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a reliable forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Term of lease contracts
In determining the term for leases, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are included in the lease term only if it is reasonably certain that the lease has been extended (or not terminated).

The lease term is reassessed if the option is actually exercised (or not exercised) or the Group is obliged to exercise (or not exercise) it. The assessment of reasonable certainty is reviewed only if there is a significant event or a significant change in circumstances that affects that assessment and it is within the control of the lessee.

Determination of the appropriate discount rate to measure lease liabilities
Where the Group cannot readily determine the interest rate included in the lease, it uses its interest rate differential (IBR) to determine the value of the lease obligations. The IBR is the interest rate the Group would have to pay to borrow for a similar term and with a similar guarantee to obtain the funds required to acquire an asset of similar value and characteristics to the right-of-use asset, in a similar economic environment. IBR therefore reflects what the Group 'would have to pay', which requires estimation when observable interest rates are not available (for example, for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the term and conditions of the lease. The Group estimates IBR using available data (such as market interest rates) where available and is required to make certain Group-specific estimates.

Recognition of deferred taxes in connection with assets and liabilities arising from lease contracts
When, as a result of a lease, assets and liabilities arise that result in the initial recognition of a taxable temporary difference related to the asset and a deductible temporary difference in the lease obligation, this results in a net temporary difference in the amount of zero. Therefore, the Group does not recognize deferred taxes in connection with these lease transactions, insofar as within the useful life of the asset and the maturity of the liability, the net tax effects will be zero. However, deferred tax will be recognized when temporary differences arise in subsequent periods provided that the general conditions for recognizing tax assets and liabilities in accordance with IAS 12 are met.

2.6. Change in the business model of management and recovery of contractual cash flows of debt securities in the portfolio "Financial assets at fair value through profit or loss"

Bulgaria's accession to the Single Resolution Mechanism led to the addition and amendment of the legal framework in 2021 after the direct implementation of Regulation (EU) 806/2014 and the entry into force of amendments to the Law on the Recovery and Resolution of Credit Institutions and Investment Firms. The new rules set out Minimum Requirements for Own Funds and Eligible Liabilities (MREL), expressed as a percentage of the total risk exposure and the total exposure measure of banks.

The Governing Council of the BNB, which is a resolution body, informs Municipal Bank AD about the procedure for calculating the MREL and the binding intermediate target levels by 1 January 2022 until the full amount of the requirement is reached by 1 January 2024.

To meet these requirements in force from 1 January 2022, the Bank should take action to optimize the risk structure of assets in order to make full use of equity and its safekeeping.

Targeted measures have been identified in response to the new regulations, through which the Bank will significantly reduce the balance sheet assets exposed to market risk within the meaning of Regulation (EU) 575/2013. These balance sheet assets are debt securities in the portfolio "Financial assets at fair value through profit or loss". Analyses and simulations have shown that at this stage this can be achieved by stopping the use of the portfolio of debt securities held for trading. The protection of equity against adverse adjustments to potential net losses on transactions with financial assets at fair value through profit or loss can be achieved by discontinuing the use of the portfolio of debt securities classified as financial assets measured at fair value through profit or loss.

This requires the Group to change the business model of managing and extracting contractual cash flows for these assets. For them, it is necessary to apply a business model, the purpose of which is to keep the assets in order to collect the contractual cash flows, excluding the possibility of selling the financial assets for a purpose other than loss protection. In order to achieve stable and protected capital and risk indicators, the Bank will suspend trading in securities for speculative purposes, which will achieve the set goals.

In this regard, at the end of 2021, a debt model was applied to the debt securities of the Financial Assets at Fair Value through Profit or Loss portfolio, the purpose of which is to hold the assets in order to collect the contractual cash flows from principal and interest accrued at amortized cost. Additional information is provided in Note 19.

2.7. Comparative data

The Group presents comparative information in these consolidated financial statements for the previous year. Where necessary, comparative data is reclassified (and recalculated) to achieve comparability with changes in performance in the current year

3. Main elements of the accounting policy

The accounting policies described have been applied consistently to all periods presented in these consolidated financial statements.

3.1. Interest income and expenses

Interest income and interest expense are recognized in proportion to the time basis using the effective interest method and applying the accrual basis. Interest income and interest expenses include depreciation of any discounts, premiums, or other differences between the initial value at initial recognition of interest-bearing instruments and their value at maturity, calculated on the basis effective interest rate.

Interest income and interest expense presented in the Statement of Profit or Loss include:

- Interest from financial assets and liabilities at amortized cost calculated on the basis of the effective interest rate;
- Interest from debt instruments at fair value through other comprehensive income;
- Interest from debt instruments at fair value through profit or loss.

The Group has assets that bear negative interest. The interest paid by the Group on these assets is presented as interest expenses and disclosed in Note 7.

All amounts are presented in thousand BGN, unless otherwise stated

3.2. Fees and commissions

Income from and expenses for fees and commissions are recognized in profit or loss when the relevant service is provided. Fees and commissions, which are an integral part of the effective interest income of a financial asset or liability, are included in the calculation of the effective interest rate and are accounted for as interest income or expense.

Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15. Those fees include loan servicing fees.

Fees and commissions consist mainly of fees for payment transactions in BGN and foreign currency, fees for servicing and maintenance of bank accounts, fees for issuance of letters of credit and letters of guarantees.

In all cases, the total transaction price for a contract is allocated between the different performance obligations based on the relative standalone selling prices of the individual goods and services. The consideration received by the Bank is determined in the various tariffs of the Bank and does not contain a variable component. The price of the transaction under the contract excludes all amounts collected on behalf and for the account of third parties. Fee and commission income is recognized over time. A significant part of the income from fees and commissions is recognized after the service has been performed and the remuneration has been collected by the client.

3.3. Net gains/(losses) on currency revaluation

Transactions carried out in foreign currency are translated in BGN at the BNB official exchange rate on the transaction day. All assets and liabilities denominated in foreign currencies are remeasured daily. At the end of the year, the closing exchange rates of the BNB for the most important currencies as at the dates of the Statement of Financial Position are as follows:

Type of currency	31 December 2022	31 December 2021
USD	1.83371	1.72685
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev has been pegged to the Euro, the official currency of the European Union, at a fixed exchange rate of EUR 1 for BGN 1.95583.

Net gains or losses on changes in foreign exchange rates resulting from the revaluation of assets and liabilities denominated in a foreign currency are recognized in the Statement of Profit or Loss for the period in which they have occurred.

3.4. Net gains/(losses) on financial assets at fair value through profit or loss

Net gains/(losses) on financial assets and liabilities at fair value through profit or loss include gains and losses on sale or changes in the fair value of those assets, exchange differences resulting from the revaluation of those assets and liabilities denominated in foreign currency, as well as the net gains from foreign exchange trading. Further information is presented in Note 9.

3.5. Dividends

The income from dividends is recognized with the execution of the right to their receipt. Typically, this is the date on which the holders of shares can receive the approved dividend.

3.6. Income taxes

The income tax includes the current tax expense and the change in the deferred tax assets and liabilities. The Bank charges current taxes under Bulgarian legislation on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities under which taxes are paid (recovered).

Deferred tax is calculated using the balance-sheet liability method on all temporary differences between the carrying amount of an asset or liability for financial reporting purposes and their tax base. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction affects tax or accounting profit.

Deferred tax liabilities are reported for all temporary taxable differences, except when resulting from the initial recognition of an asset or liability in a transaction which at the time of its execution affects neither the accounting nor the taxable profit/(loss).

Deferred tax assets are reported for all deductible temporary differences to the extent of which future taxable profit is expected, against which appropriate deferred taxes may be deducted. This does not apply to differed taxes which are result from the initial recognition of an asset or liability in a transaction which at the time of its execution affects neither the accounting nor the taxable profit/(loss).

Deferred tax is calculated on the basis of the tax rates that are expected to apply for the periods when the asset is realized, or the liability is settled. The effect of any changes in tax rates on the deferred tax is reported in profit or loss, except for the cases where it relates to items of other comprehensive income

3.7. Financial assets and liabilities

3.7.1. Recognition of financial assets and liabilities

The Group initially recognizes the loans and receivables, the deposits, and the subordinated liabilities on the date on which they occur. Contracts for purchase or sale of financial assets that require settlement of transactions within the normal timescales established by the market rules, or an arrangement are recognized in the Statement of Financial Position on the settlement date.

3.7.2. Classification of financial assets and liabilities

Cash on hand and in account with the Central Bank

Cash on hand and in a current account with the BNB include the banknotes and coins on hand and the free funds of the Bank held in accounts at BNB. They are reported in the Statement of Financial Position at amortised cost.

Financial assets at fair value through profit or loss

In this position of the Statement of Financial Position, the Bank reports two subcategories: financial assets held for trading and financial assets at fair value through profit or loss that are not classified in the categories at amortised cost and financial assets at fair value through other comprehensive income. A financial asset is classified in this category if it is acquired for short-term sale or its contractual characteristics do not meet the condition of solely payments on principal and interest (SPPI).

In this category, the Group would irrevocably classify, a financial asset at its initial recognition at fair value through profit or loss if that would significantly eliminate or reduce the measurement or recognition mismatch ("accounting mismatch"). The Bank does not report liabilities at fair value and does not apply the option to select a single class of financial assets at fair value. The derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Debt instruments at amortized cost

Debt instruments that the Bank holds within a business model for the purpose of collecting contractual cash flows and where the contractual cash flows meet the SPPI criteria are presented at amortized cost. After the initial recognition, the assets are measured at amortized cost.

Reporting at amortized cost requires the application of the effective interest method. The amortized cost of a financial asset is the amount at which the financial asset was initially recognized less the principal repayments plus or minus the accumulated depreciation using the effective interest method of any difference between the initial value and the value at each maturity date and less impairment.

Financial assets at fair value through other comprehensive income
Debt instruments that the Group holds within a business model for both the collection of the contractual cash flows and the sale of the assets, and in which the contractual cash flows generate solely payments on principal and interest are presented at fair value through other comprehensive income. After the initial recognition, the asset is measured at fair value, taking into account the changes in the fair value in the revaluation reserve of securities investments (other comprehensive income). When the debt instrument is written-off, the accrued gains or losses recognized in other comprehensive income are transferred to profit or loss.

The Group has made an irrevocable choice to recognize the changes in the fair value in the investments in equity instruments in other comprehensive income rather than in profit or loss. The gains or losses from changes in the fair value are reported in other comprehensive income and will subsequently not be to profit or loss. When the equity instrument is derecognised, the accrued gains or losses in other comprehensive income are transferred directly to retained earnings.

Deposits from banks and other customers
Deposits from banks and other customers are financial liabilities that are initially recognized at cost. Subsequently, they are reported at amortized cost and any difference between the funds received and their value at maturity is recognized in profit or loss for the period of the borrowed funds using the effective interest method.

Purchased or originated credit impaired (POCI) financial assets
Purchased or originated credit impaired (POCI) financial assets are financial assets that are impaired at their initial recognition. POCI assets are measured at fair value at initial recognition and interest income is subsequently recognized on the basis of the adjusted effective interest rate. Impairment losses on those assets are recognized or released insofar as there is a subsequent change in the expected credit loss on the asset.

3.7.3. Classification of financial liabilities
In order to meet the minimum requirements for own funds and eligible liabilities pursuant to Articles 72a-72b of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on requirements for credit institutions and amending Regulation (EU) No 648/2012, in conjunction with Article 69a, par. 11 of the Act on the Recovery and Resolution of Credit Institutions and Investment Firms (CRRIIF), in 2022 the Group has significantly diversified its financial liabilities.

The financial liabilities of the Group include deposits from other customers, issued bond loans, borrowings from other banks and individuals, customers of the Group, obligations under lease agreements, trade and other financial liabilities.

Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs, unless the Company has designated a financial liability as at fair value through profit or loss.

Financial liabilities are subsequently measured at amortised cost using the effective interest method. Any interest expense recognised in profit or loss is presented in the Interest Expense line in the Statement of Profit and loss.

3.7.4. Expected credit losses of financial assets
For the purpose of applying the requirements for impairment in IFRS 9 the Bank has developed an Impairment Policy in accordance with the requirements of IFRS 9 Financial Instruments in Municipal Bank AD. For the purpose of measuring the impairment of financial instruments carried at amortized cost, the Bank has introduced a model for calculating expected credit losses (ECL). Under the adopted model, impairments for expected credit losses are

recognized on an ongoing base and are calculated at each reporting date depending on the risk parameters of the exposures.

The Bank uses a three-stage approach that reflects the credit quality of financial assets from the date of initial recognition. For financial assets classified in stage 1 (for which there is no significant increase in credit risk from the moment of initial recognition or events of default), at each reporting period the Bank recognizes the 12-month expected credit losses. Twelve-month expected credit losses are the portion of expected credit losses that results from the probability of default within the next 12 months after the reporting date.

Expected credit loss for the entire life of the financial instrument is recognized for: exposures that have a significant increase in credit risk and are classified in Stage 2, credit impaired financial assets classified in Stage 3 and purchased or originated credit impaired (POCI) assets.

In accordance with the requirements of IFRS 9, all financial assets to which the main impairment model is applied should be categorized into the 3 stages of the credit risk. To estimate the expected credit losses, depending on the distribution of exposures by Stages, the Group uses a different methodology for estimating the value of future expected cash flows on credit exposures. The Group's financial assets that fall within the scope of the expected credit loss model are allocated to the respective stage of the model when they meet the following criteria:

- Stage 1 – financial assets without indication of a significant increase in credit risk compared to the risk at initial recognition. They are characterized by low or acceptable for the Bank credit risk. The allocation of exposures to Stage 1 does not identify events that are directly related to possible future credit losses from them. The calculation of the expected credit loss is based on 12-month ECL and not for the entire life of the asset.
- Stage 2 – financial assets with a significant increase in credit risk but without observable evidence of impairment / basis for incurring losses. The transition of exposure from Stage 1 to Stage 2 is due to the identified significant increase in credit risk compared to the risk at initial recognition of the financial asset. Impairment on Stage 2 financial assets is calculated on a collective basis and is determined based on the expected credit losses for the remaining period of each financial asset in the respective portfolio. Stage 2 financial assets are exposures for which there is at least one quantitative indicator and / or a qualitative indicator showing a significant increase in credit risk.
- Stage 3 – exposures for which loss events are expected or have occurred, default has occurred, there is objective evidence of credit impairment. The expectations for recovery of the amount of the asset is based on the expectations for proceeds from the realization of the collateral accepted by the Bank, rather than on the cash flows realized from the activity of the borrower / issuer of the asset. The impairment is calculated based on the expected credit losses for the entire life (LT) of the loan. Losses are assessed on an individual basis (exposure by exposure or borrower by borrower). Stage 3 loans are those exposures for which there is at least one quantitative indicator showing that they are non-performing. Indicators for non-performing exposures are past due more than 90 days, restructuring, default status, which includes a court loan and insolvency of the borrower / issuer of the instrument, as well as accrued impairment on the exposure.

Purchased or originated credit impaired (POCI) financial assets are financial assets that are impaired at their initial recognition. The Group defines a financial asset as a POCI when there are one or more events that have a significant impact on the future cash flows of that asset (at the time of purchase or occurrence). Purchased or originated credit impaired (POCI) financial assets are not subject to allocation in stages, as these assets are credit impaired as of the date of their initial recognition by the Group and the methodology for expected credit losses for the entire life of the asset is always applied to them.

Default definition

To determine the risk of default, the Group applies a definition of default, which is in line with the definition of the European Banking Authority (EBA) for non-performing exposures. The accounting definition of default is in line with that used for credit risk management and internal reporting purposes.

A financial asset is considered to be credit impaired when one or more events have occurred that have an adverse effect on the expected future cash flows of that exposure:

- The borrower has been in financial difficulty and is unable to pay its obligations without the realization of collateral, regardless of the availability of overdue amounts and days past due;
- There is a breach of contract and the exposure is categorized as "in default";
- The Group, for economic or contractual reasons related to the deteriorating financial condition of the client, has provided discounts that it would not have made in other circumstances;
- There is a probability that the borrower will become insolvent.

Significant increase in credit risk

The Group has determined the indicator 30 days overdue as an event related to a significant increase in credit risk. For all financial instruments that are overdue between 31 and 90 days, the Group considers that there is a significant increase in credit risk and classifies them accordingly in Stage 2.

Restructuring measures

A discount given to a borrower in connection with a deteriorating financial condition, on any of its exposures more than 30 days past due but less than 90, is considered a significant increase in credit risk and the exposure is allocated to Stage 2 accordingly.

Transfer from Stage 2 to Stage 1

A financial asset that is classified in Stage 2 due to a significant increase in credit risk is reallocated to Stage 1 when it no longer meets the allocation criteria for Stage 2. A financial asset is transferred from Stage 2 to Stage 1 once the following conditions are met:

- Twenty-four months after the month in which it was restructured, there is no delay in payments on principal and / or interest for more than 30 days;
- no overdue of more than 30 days for non-negotiated and restructured exposures;
- lack of indications of deteriorating financial condition of the debtor.

Transfer from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2 when the criteria by which the loan was classified as impaired are no longer valid. The following criteria need to be met:

- The exposure is not in default;
- The debtor's financial situation has improved to the extent that he is able to repay his debts in full and without difficulties;
- Non-performing forborne exposure which meets the following criteria 1/ One year has passed since the application of the forbearance measures; 2 / During this one year from the application of the forbearance measures on the exposure there is no delay in payments - 0 days past due.

Criteria for grouping exposures based on similar risk characteristics

The Group groups its financial instruments based on similar risk characteristics, both for the purposes of assessing a significant increase in credit risk and for the calculation of collective impairments.

The general risk characteristics used for the purposes of grouping loans are as follows:

- Type of instrument (loan exposures, guarantees, letters of credits, debt instruments, etc.);

- Type of product (e.g. investment loan, working capital loan, consumer loan, credit card, mortgage loan , revolving loan, guarantees, letters of credit, etc.);
- Type of client (individuals, corporates);
- Type of collateral (real estate, cash, receivables, etc.)

Measurement of expected credit losses
Expected credit losses are defined as a probability-weighted estimate of credit losses that the Bank may incur during the period in which it is exposed to credit risk from a financial asset. Credit loss is the difference between all agreed cash flows that the Bank expects to receive (i.e. the entire cash shortage), discounted by the original effective interest rate (or the loan-adjusted effective interest rate for purchased or originated credit impaired financial assets). The Bank assess the cash flows taking into account all contractual terms of the financial instrument (e.g. early repayment options, extensions, call options, etc.) for the expected maturity of this financial instrument. The cash flows that are taken into account include cash flows from the sale of collateral or other credit enhancement that are an integral part of the contractual terms. It is assumed that the expected maturity of the financial instrument can be reliably approximated. However, in the rare cases where it is not possible to approximate the expected maturity of the financial instrument reliably, the Bank uses the remaining agreed maturity of the financial instrument.

The calculation of expected credit losses is based on the weighted average expected credit losses. The Bank considers that the measurement of impairment can be made both on an individual and collective basis. Collective measurement is more appropriate for large portfolios with similar risk characteristics.

For financial assets at amortized cost, the cumulative adjustment reduces the carrying amount of the instrument in the statement of financial position.

For debt instruments at fair value through other comprehensive income, the expected credit loss is part of the negative change in the fair value due to increased credit risk. These assets continue to be reported at fair value in the statement of financial position and the accumulated loss adjustment is reported in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the cumulative adjustment is recycled to the profit or loss for the period.

IFRS 9 requires that the Bank, for all its financial assets at amortized cost or at fair value through other comprehensive income, including financial guarantees and undrawn loan commitments, should report expected credit losses for 12 months or for the entire life of the instrument, subject to change in the credit risk, compared to the credit risk at initial recognition of the asset. Equity instruments are not in the scope of ECL calculations under IFRS 9.

3.7.5. Main risk parameters used for the calculation of the ECLs
For the purposes of calculating the expected credit losses (ECL), the Group takes the necessary actions to parameterize the impairment model, developed as a result of observed data from the current situation by quarters or other time interval, if deemed more appropriate. The calculation of the ECL is based on the following parameters:

Exposure at Default (EAD): Potential exposure at the time of default, which considers the expected changes in exposure after the reporting date, including principal and interest payments and commitment according to the expectation of future drawdown.

Credit Conversion Factor (CCF): CCF is used to calculate the amount of default exposure in relation to agreed but unused limits of borrowers on off-balance commitments. This is a modelled assumption representing the proportion of the unused amount that is expected to be utilized before a default event occurs.

Probability of Default (PD): It is the probability of default, which is affected and assessed based on the prevailing economic conditions at the reporting date. It is adjusted to take into account forecasts of future economic conditions that may increase the probability of default, over a period of time, 12 months for Stage 1 and for the entire life of the credit for Stage 2 and Stage 3 exposures.

The probability of a counterparty not complying with contract clauses related to debt repayment. For each individual portfolio of collectively assessed exposures, the Group maintains historical information on the migration of exposures from Stage 1/Stage 2 to Stage 3 ("default"). The value of 12m PD is determined on the basis of historical events of default. The applicable probability of default is calculated as a moving average over a period of at least 2 years. The Group applies basic macro neutral scenario for determination of the amount of expected credit losses in relation to credit exposures and financial commitments.

Loss Given Default (LGD): the estimate of the loss in the event of a default. It is based on the difference between the contractual cash flows due and those that the creditor expects to receive, including collateral. It is usually presented as a percentage of EAD.

Max LGL: LGD ratio estimated for uncollateralised exposures.

Cure Rate: Represents the possibility of cure an exposure in a performing status (reclassification from Stage 3 to Stage 2 or 1).

Discount rate: Used to discount the expected credit loss to the present value of expected future losses. It is calculated using the initial effective interest rate (EIR).

Discount rate: Used to discount the expected credit loss to the present value of expected future losses. It is calculated using the initial effective interest rate (EIR).

Modified financial assets

When the Group considers modifications to future cash flows of a financial asset to be substantial to cause the existing credit exposure to be derecognised, the modified asset is considered a "new" financial asset. Accordingly, the date of the material modification is considered to be the date of initial recognition of the new financial asset when the impairment requirements of the modified credit exposure apply. This usually means recognizing a 12-month credit loss until the conditions for recognizing expected credit losses for the entire life of the financial asset are met. In some circumstances, as a result of a modification that results in the derecognition of the original financial asset, there may be evidence that the new financial asset was impaired at initial recognition and therefore that asset should be recognized as an "originated credit impaired assets" (POCI).

On the other hand, the Group recognizes a modification when the contractual cash flows of a financial asset are renegotiated or modified, and the renegotiation or modification is not considered material to result in the write-off of that financial asset. In such cases, the Group recalculates the gross carrying amount of the financial asset and recognizes a gain or loss on a modification in profit or loss. In these cases, the date of initial recognition of the financial asset remains unchanged, i.e. the date of the modification does not affect the date of initial recognition for the purpose of impairment of modified financial assets.

3.7.6. Derecognition of financial assets and liabilities

A financial asset is derecognised on the date when the Group has lost its control over the contractual rights and has transferred to a significant extent the risks of ownership over the asset. This occurs when the rights are realized, their validity has expired, or they are redeemed. A financial liability is derecognised when it is settled, matured or expired.

3.7.7. Offsetting of financial assets and liabilities

Financial assets and liabilities are set-off and their net amount is presented in the Statement of Financial Position when the Group has a legally enforceable right to set-off the recognized amounts and the transactions are intended to be settled on a net basis.

3.7.8. Calculation of amortized cost of financial assets and liabilities

The amortized cost of a financial asset or liability is the amount at which the asset or liability was measured at its initial recognition less the principal repayments plus or minus the accumulated amortization of any difference between the amount at initial recognition and the amount due at maturity calculated using the effective interest method and minus any adjustment arising from ECL or impairment.

3.7.9. Fair value measurement of financial assets and liabilities

Fair value is the amount that would have been received from the sale of an asset or paid on the transfer of a liability in usual transaction between independent market participants at the date of measurement on the Group's main market or, in the absence of such a market, on the most favourable market to which the Group has access as at that date. The fair value of a liability reflects the default risk of the liabilities.

Wherever possible, Group measures the fair value of an instrument using the market prices of the active market for that instrument. Market is considered to be active if the transactions for this asset or liability are carried out with sufficient frequency and volume so as to provide continuous observable price information.

If there is no observable market price on an active market, the Group should apply valuation techniques and mainly use appropriate observable input data and minimize the use of non-observable ones. Selected valuation techniques cover all the factors that market participants would consider when assessing the transaction.

The best evidence of the fair value of a financial instrument is usually the transaction price, i.e. the fair value of the consideration transferred or received. If the Group determines that the fair value at initial recognition differs from the transaction price and there is no evidence of fair value through a stock exchange price of a similar asset or liability, nor is it based on a valuation technique that uses data from observable markets, then 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. Subsequently, this difference is recognized in profit or loss on an appropriate basis for the life of the instrument but not later than when the measurement can be fully supported by observable market data or the transaction is settled.

The fair value of an on demand deposit is not less than the amount due on demand discounted from the initial date on which the deposit may become chargeable.

The Group recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

The Group uses the following hierarchy to determine and disclose the fair value of financial instruments using the following valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for similar assets or liabilities;

Level 2: other techniques for which all the input that has a material effect on the reported fair value is subject to monitoring either directly or indirectly;

Level 3: techniques that use input information that has a material effect on the reflected fair value that is not based on market data subject to monitoring.

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices on stock exchanges or dealer markets. The Group determines the fair value of all other instruments using other valuation techniques.

Other valuation techniques include models based on present value and discounted cash flows compared to similar instruments for which observable market prices, option pricing models and other valuation models exist. Assumptions and inputs used in valuation techniques include risk-free and reference interest rates, credit spreads, and other premiums used to determine discount rates, prices of debt and equity securities, exchange rates and prices of indices of equity instruments and expected fluctuations and price correlation. The purpose of valuation techniques is to determine the fair value that reflects the price that would have been received from sell of the asset or paid for the transfer of a liability in an ordinary transaction between market participants at the measurement date.

3.7.10. Reclassification of financial assets

Reclassification of financial assets is performed if the Bank changes its business model for management of the affected financial assets. Such changes are expected to be very rare, they are determined by the Group's Management as a result of external or internal changes that are significant for the Bank's activities and obvious to external parties.

3.8. Property and equipment, intangible assets and right of use assets

Property and equipment (Tangible Fixed Assets) and intangible assets are initially measured at cost including the acquisition cost, customs duties, non-refundable taxes, and direct costs of preparing the assets for operation.
After the initial recognitions, fixed tangible and intangible assets are reported as follows:

After initial recognition, tangible and intangible fixed assets are accounted for as follows:

Land and buildings	Revaluation model
Plant and equipment	Cost model
Office equipment and computers	Cost model
Means of transport – vehicles	Cost model
Fixtures and fittings and other capital assets	Cost model
Software	Cost model
Right of use assets	Cost model

After initial recognition, fixed tangible, and intangible assets, other than land and buildings, are measured at the amount of acquisition cost less the accumulated depreciation and the accumulated impairment losses.

After initial recognition, land and buildings are measured at revalued amount that is their fair value as at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value of land and buildings is determined based on market evidence through an assessment carried out by independent licensed appraisers.

The revaluation frequency depends on the changes in the fair values of the property. If the properties are exposed to significant and frequent changes in their fair value, then annual revaluation is performed. However, if identified changes in fair values are insignificant, the revaluation is carried out every three or five years.

When the carrying amount of a property increases as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity in the item "Revaluation reserves". However, the revaluation surplus is recognized as a gain or loss when it recovers a reversal from negative revaluation on the same property previously recognized as profit or loss.

When the carrying amount of a property is reduced because of a revaluation, the decrease is recognized as profit or loss. However, the decrease is recognized in other comprehensive income to the extents of the existing credit balance in the reserve from previous revaluations in respect of that asset. The reduction recognized in other comprehensive income reduces the amount accumulated in equity in the item "Revaluation reserves".

All amounts are presented in thousand BGN, unless otherwise stated

Gains or losses on the sale of tangible fixed assets are determined as the difference between the sale price and the carrying amount of the assets and are included in the Statement of Profit or Loss.

The depreciation of fixed assets is calculated using the straight-line method, so that the depreciation of the fixed assets is within the estimated useful life. The Group applies the following annual depreciation rates for 2022 and 2021:

	2022	2021
Buildings, investment property	2%	2%
Plant and equipment	15%	15%
Office equipment and computers	20%	20%
Means of transport – vehicles	15%	15%
Fixtures and fittings and other capital assets	15%	15%
Software	10%	10%
Fixed tangible assets for which there are legal restrictions on the period of use/improvement of leased buildings	according to the duration of the legal limit for use, but not higher than 33.3%	according to the duration of the legal limit for use, but not higher than 33.3%
Right of use assets	according to the duration of the legal limit for use, but not less than 12 months	according to the duration of the legal limit for use, but not less than 12 months

The Group has no intangible assets with indefinite useful lives. In these categories of assets, the Group has not determined a residual value.

3.9. Investment property

As of the beginning of 2022, the Group decided to change the valuation model of its investment properties, starting to account for them under the fair value model.

Investment properties are initially measured at cost, which includes the purchase price and any costs that are directly related to the investment property, such as legal fees, property transfer taxes and other transaction costs.

Investment properties are revalued annually and included in the individual statement of financial position at their market values. These are determined by independent valuers with professional qualifications and significant professional experience depending on the nature and location of the investment properties, based on evidence of market conditions.

Any gain or loss on a change in fair value or on the sale of an investment property is recognised immediately in profit or loss in the line 'Change in fair value of investment properties'.

The table below shows the effect of the change in accounting policy in relation to the transition to a fair value model in accounting for investment properties:

Carrying amount as at 31.12.2021	**20,581**
Effect of change in accounting policy recognised in profit for the period	751
Carrying amount as at 01.01.2022	**21,332**

The Group considers this effect to be immaterial because it is less than 1% of the value of investment properties and does not present two comparable periods in the individual statement of financial position.

3.10. Foreclosed assets

Foreclosed assets are measured either at cost or at net realizable value, whichever is lower, in accordance with the requirements of IAS 2 Inventories.

The cost of foreclosed asset is the sum of all direct asset acquisition costs and other costs incurred in the process of bringing them to their present location and condition.

The net realizable value is the estimated selling price in the ordinary course of business less the estimated expenses required to complete the production cycle and those that are necessary to implement the sale.

Impairment of these assets is calculated in accordance with the Group's accounting policy based on the expected realisation of the assets acquired from collateral. Impairment of assets acquired from collateral is included in the consolidated income statement. The Group's management considers that the carrying amount of the assets acquired from collateral represents the best estimate of their net realisable value at the consolidated statement of financial position date. Further information is presented in the Note 25.

3.11. Provisions

The amount of provisions for issued financial guarantees, loan commitments, pending litigations and other off-balance sheet commitments is recognized as an expense and liability when the Group has current legal or constructive liabilities resulting from a past event and is therefore likely that an outflow of funds, including economic benefits, may be necessary to cover the liability and a reliable estimate of the amount of the liability can be made. Any losses resulting from the recognition of provisions for liabilities are reported in the Statement of Profit or Loss for the relevant period.

The Group recognizes provisions for loan commitments and financial guarantees arising from its operations in accordance with the requirements of IFRS 9 Financial Instruments. Provisions for these instruments are recognized on the basis of the Credit Conversion Factor (CCF), which represents the share of the commitment that is expected to be claimed.

Other provisions are recognized and measured in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group participates in a number of ongoing litigations. Based on historical experience and expert reports, the Group assesses the development of these cases as well as the probability and amount of potential financial losses.

Other provisions include retirement provisions as disclosed in Note 3.12.2.

3.12. Employee benefits

3.12.1. Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility to withdrawal, to a formal detailed plant to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

3.12.2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation for defined benefit plans is calculated by projecting the amount of future benefits that employees have earned in exchange for their services in the current and prior periods and discounting this income to determine its present value.

The Group has an obligation to pay a retirement income to those of its employees who retire in accordance with the requirements of Article 222, § 3 of the Labour Code (LC) in Bulgaria. In accordance with these provisions of the Labour Code, upon termination of the employment contract of an employee entitled to a pension, the employer shall pay the employee an indemnity equal to two months' gross salaries. In the event that the employee has accumulated service of 10 years or more, during the last 20 years of his/her service, with the Group at the date of retirement, the severance payment shall be six months' gross salary.

3.12.3. Short-term employee benefits

The liabilities for payment of short-term remunerations of employees are measured at an undiscounted basis and they are reported as an expense when the respective services are rendered. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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. The Group recognizes as an obligation the undiscounted amount of the estimated annual leave expense, expected to be paid out to employees in return of their service for current reporting period.

3.13. Leases

3.13.1. The Group as a lessee

For any new contracts, the Group considers whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available for use;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the Statement of Financial Position. The right-of-use asset, arising as a result of concluded leasing contracts, initial are measured at cost. The cost of acquisition of right-of-use asset is made up of the initial measurement of the lease liability, incl. non-refundable taxes and taxes for which the Group is not entitled to a tax credit (such as administrative fees, non-refundable VAT, etc.), lease payments made on or before the commencement date less the lease incentives received, the initial direct costs incurred by the lessee and an estimate of the costs the lessee will incur for dismantling and relocating the underlying asset, restoring the asset on which the asset is located , or the return of the underlying asset to the condition required under the terms and conditions of the lease, unless those costs are incurred in producing inventories. The liability for these costs is borne by the lessee at the inception date or, as a result of the use of the underlying asset, over a specified period, including duties, non-refundable taxes, and direct costs of preparing the assets for operation.

The Group applies the cost model by valuing the right to use at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any revaluation of the lease liability.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Depreciation requirements in IAS 16 Property, Plant and Equipment are also applied to right-of-use asset, and depreciation costs are presented on the line "Depreciation and amortization" in the Separate Statement of Profit or loss.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

To determine the incremental borrowing rate, The Group uses a benchmark interest rate, consisting of the risk-free interest rate and a mark-up reflecting the credit risk related to the specifics of the Group's activity. This interest rate reflects the average market levels for new financing of such assets and, if necessary, is further adjusted due to the specific terms of the lease agreement, incl. term, country, currency, and collateral.

Lease payments included in the measurement of the lease liability are negotiated as fixed payments (including in substance fixed), incl. non-refundable tax liabilities and taxes for which the Group is not entitled to a tax credit, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

After initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has chosen to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

In the Separate Statement of Financial Position, right-of-use assets have been included in „Right-of-use assets", and lease liabilities have been included „Lease liabilities"

3.13.2. The Group as a lessor

As a lessor the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the underlying asset.

Assets leased out under operating leases are recognized in the Company's statement of financial position and are depreciated in accordance with the depreciation policy adopted for such assets of the Group and the requirements of IAS 16 Property, Plant and Equipment. The Group generates rental income under operating lease agreements for its investment properties (see Note 12, 27). Rental income is recognized on a straight-line basis over the term of the lease.

Assets leased out under finance leases are recognized in the Group's statement of financial position as a receivable equal to the net investment in the lease. Income from the sale of assets is included in the income statement for the period. Recognition of financial income is based on a model that reflects a constant periodic rate of return on the residual net investment.

3.14. New Standards adopted as at 1 January 2022

The Group has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board and endorsed by EU, which are relevant to and effective for the Company's financial statements for the annual period beginning 1 January 2021 but do not have a significant impact on the Company's financial results or position:

- Amendments IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets effective from 1 January 2022 adopted by the EU
- Annual Improvements 2018-2020 effective from 1 January 2022 adopted by the EU.

3.15. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued, but are not effective or adopted by the EU for the financial year beginning on 1 January 2022 and have not been applied early by the Group. They are not expected to have a material impact on the Group's financial statements. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

A list of the changes in the standards is provided below:

- IFRS 17 "Insurance Contracts" effective from 1 January 2023, adopted by the EU;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies effective not earlier than 1 January 2024, adopted by the EU;
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates effective from 1 January 2023, adopted by the EU;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction effective from 1 January 2023 adopted by the EU;
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information effective from 1 January 2023 adopted by the EU;
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current effective from not earlier than 1 January 2024 not yet adopted by the EU;
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback effective not earlier than 1 January 2024 not yet adopted by the EU;
- IFRS 14 "Regulatory deferral accounts" effective from 1 January 2016, not adopted by the EU

4. Risk management

4.1. Risk framework

In its normal course of business, the Bank is exposed to the following risks:

- Credit risk;
- Market risk;
- Liquidity risk;
- Interest rate risk for banking book;
- Operational risk.

This appendix presents information on the Group's exposure to various types of risk, the policies applicable to their identification, measurement, management and monitoring. The different types of risk are managed and controlled by specialised units within the Group, in accordance with the Bank's internal risk management rules and policies. The functions of the Risk Committee are performed by the Supervisory Board. The Management Board manages the activities of the Group in accordance with its business and risk strategy. Subsidiary bodies to the Management Board are Asset and Liability Management Committee (ALCO), Credit Council for individuals and Credit Council for corporate clients, Impairment and provisions committee and Commission for assessment of risk events. The Management of the Group has approved a number of internal limits in order to control the risks and to mitigate their impact on the Bank's performance.

4.2. Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet its contractual obligations, which would result in a financial loss for the Group. The Group's main business activity is related to the generation of income from lending to customers, which emphasizes credit risk as the main risk.

Credit risk mainly arises from loans and advances to customers and other Groups (including related commitments such as loan commitments), investments in debt securities and derivatives that are reported as an asset position. For the purposes of risk management, all elements related to credit risk as counterparty default risk and concentration risk, are considered.

4.2.1. Credit risk management

Credit risk management is carried out through an internal organization, in accordance with the size, scale and complexity of the Group's activities, through established internal limit systems, control procedures and prevention mechanisms.
The credit risk management activity include:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control;
- Identifying, assessing, and measuring credit risk for each individual exposure, as well as on a portfolio level;
- Creating credit policies for preliminary and subsequent risk assessment: requirements for sufficient cash flows, providing timely repayment of credit exposures, requirements to obtain adequate collateral to mitigate credit risk, requirements to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits;
- Limiting concentrations of exposure by type of asset, counterparties, industry etc;
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities;
- Developing and maintaining risk grading to categorise exposures according to the degree of risk of default;
- Developing and maintaining processes for measuring expected credit loss including monitoring of credit risk, incorporation of forward-looking information and the method used to measure and simulate expected credit loss;
- Ensure policies and procedures are in place to appropriately maintain and validate models used to assess and measure expected credit loss;
- Creating reliable data for credit risk assessment and reporting of expected credit losses;
- Providing advice and guidance to business units in the process of credit risk management.

The internal audit function performs regular audits enduring that the established controls and procedures are adequately designed and implemented.

4.2.2. Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the Impairment loss based on lifetime rather than 12-month expected credit loss.

4.2.3. Internal credit ratings

In order to quantify and qualitatively assess the risk profile of borrowers, corporate clients of the Group, an internal credit rating system has been developed to classify customers according to the degree of risk of default. Credit risk assessments are determined using qualitative and quantitative indicators, which does not lead to a direct relationship between the client's rating and the probability of default but is used as a tool for analysing the client's financial position. The credit risk categorization framework covers ten categories which are based on a financial analysis of audited financial statements for a three-year period and are subject to ongoing confirmation and update depending on current data and information indicating the occurrence of early warning signs. The credit rating information is based on a range of data and applying credit expert assessments. The client's credit quality analysis assesses its current and projected financial outlook and the sufficiency of the projected cash flows for servicing the debt. The liquidity and the sufficiency of the collateral is considered as a factor reducing the expected credit loss in the event of default of the client. Exposures are not considered to be of low credit risk solely because of the value of the collateral.

All exposures are monitored, and the credit risk category is updated to reflect current available information. The following data is typically used to monitor the exposures:

- Credit rating information supplied by external rating agencies, if available;
- Changes in business, financial and economic conditions:
    - information obtained from periodic review of customer financial and legal status, including fulfilment of forecasts and contractual relations;
    - review of market data, changes in the economic sector in which the borrower operates etc.
    - check of the usage of funds in compliance with the purpose of lending, including review of payment records;
    - profitability ratios, financial leverage, collectability of receivables, inventory turnover and ageing analysis;
    - need for working capital;
    - amount of the drawn limit in relation to the granted limit;
- Forborne measures.

The Group accumulates information on default status of the exposures, analyses them by product type and borrower, as well as by internal / external rating depending on the assessed portfolio.

The Group uses different indicators to determine whether credit risk has increased significantly for a portfolio of assets with similar characteristics. Listed below are the indicators of the different loan portfolios with similar characteristics:

- Corporates:
    - Deterioration of the internal credit rating.
    - Deterioration in the external credit rating (if available) assigned by the major three credit rating agencies (Standard & Poor's, Moody's, and Fitch).
    - Overdue more than 30 days.
    - Modification - by granting concessions to the borrower;
    - Exposure with past due more than 30 days and restructuring measures during the probation period;
    - Included in a watch list.

- Retail
    - Overdue more than 30 days.
    - Modification - by granting concessions to the borrower;
    - Exposure past due more than 30 days and restructuring measures during the probation period;
    - Inclusion in a watch list.

A periodic review of the indicators is performed to assess whether the credit risk factors that led to the default are accurately and timely reflected in the impairment methodology.

Regardless of the above, it is assumed that the credit risk of a financial asset has increased from the initial recognition when the contractual payments are overdue more than 30 days after the maturity date, unless reasonable information is available which proves the opposite.

The issued Group guarantees are evaluated according to the methodology applicable to the specifics of the instrument, and the credit commitments on corporate loans are evaluated with similar criteria for the corporate loans. When assessing Group guarantees and credit commitments, conversion factors are used to equate the off-balance sheet exposure to a balance sheet one.

4.2.4. Measurement of ECL

The key inputs used for measuring ECL are:

- 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, and expected drawdowns on commitments.
- Credit conversion factor is used to calculate the amount of exposure at default formed by credit commitments.;
- Probability of default (PD) is an estimate of the likelihood of default, which is assessed on the basis of historical data on portfolio defaults;
- Loss given default (LGD) - is the expected loss when a default event occurs. It is based on the difference between the contractual cash flows that are due and those that the debtor expects to receive by selling the collateral;
- Cure rate - the likelihood of recovery of exposures;
- Discount rate - Used to discount credit losses in future periods to the present value of expected credit loss. The effective interest rate (EIR) at initial recognition.

Expected credit losses are calculated taking into account the risk of default during the term of the contract for exposures with increased credit risk, and for other exposures for up to 1 year.

4.2.5. Groupings based on similar risks characteristics

For the purposes of collective impairment, the financial instruments are grouped on the basis of similar risk characteristics, which are indicative of the ability of borrowers to pay all outstanding amounts in accordance with the contractual terms.

Grouping is based on the following criteria:

- Instrument type (credit cards, overdrafts; loans with a repayment schedule – investment loans, consumer loans; bonds; issued guarantees, etc.);
- Borrower type (Individuals, Corporate clients, Government);
- Collateral type (secured with real estate, unsecured, etc.);

The Group has adopted an approach for grouping the loans of eight sub-portfolio with similar characteristics.

- Corporate clients – loans with a repayment schedule, incl. investment loans;
- Corporate clients – revolving facilities;
- Corporate clients – off-balance sheet commitments, incl. guarantees and letters of credit;
- Government;
- Individuals – loans secured by residential real estate;
- Individuals – consumer loans;
- Individuals – overdrafts and credit cards;
- Debt securities.

All amounts are presented in thousand BGN, unless otherwise stated

4.2.6. Credit risk of financial institutions

The credit risk of financial institutions is determined according to the rating assigned by the international rating agencies or, in the absence of such, the internal rating determined on the basis of an analysis of the financial position of the counterparty. The table below shows the correlation between the external and the internal rating on a five-step scale from 1 (min) to 5 (max).

Official rating			Maximum eligible internal rating of corresponding bank
Moody's	Standard & Poor's	Fitch IBCA	
Aaa Aa1	AAA AA+	AAA AA+	-
Aa 2 Aa 3 A1 A2 A3	AA AA- A+ A A-	AA AA- A+ A A-	-
Baa 1 Baa 2 Baa3	BBB + BBB BBB-	BBB+ BBB BBB-	1
Ba 1 Ba 2 Ba3	BB + BB BB-	BB + BB BB-	2
B 1 B 2 B3	B+ B B-	B+ B B-	3
Caa Ca	CCC+ CCC CCC- CC	CCC CC C DDD DD	4
C	C	D	5

The assessment of the level of counterparty risk of the Group is performed on the basis of a short-term or long-term credit rating assigned to the counterparty and / or the financial instrument by Moody's, Standard & Poor's, and Fitch, which are external credit assessment institutions (ECAIs). For counterparties that do not have such a rating, the assessment of the counterparty risk is performed through a financial analysis of the financial standing of the counterparty bank according to internal "Methodology for determining the internal rating of the counterparty banks by assessing their financial standing".

The methodology is based on the criteria for assessing the independent financial stability of the counterparty bank in order to measure the probability of default assuming no external support. The internal rating is a point assessment of quantitative and qualitative indicators of the financial position of the respective bank. The macro profile of the banking system, the specific profile and financial condition of the banking financial institution, as well as various quality indicators (factors) on a consolidated basis are considered.

Official rating	As at 31.12.2022	As at 31.12.2021
AA	2,500	2,283
AA-	28,734	3,306
A+	540	8,332
A	-	9,766
A-	27,125	23,058
BBB+	22,213	7,437
BBB	277	25,611
Internal rating	-	10,384
TOTAL EXPOSURE	**81,389**	**90,177**

All amounts are presented in thousand BGN, unless otherwise stated

Changes in ratings assigned by ECAIs to counterparty banks are monitored regularly with a view to preventive and operational control and, if necessary, current limits for interbank exposures are adjusted accordingly.

The Group complies with limits approved as a percentage of its capital base (equity) according to the issuer's credit rating in order to reduce the counterparty risk and concentration risk when investing funds in various instruments issued by local or foreign financial institutions.

For the calculation of the ECL from loans and advances to banks at amortized cost, the probability of default and loss given default according to a Moody's annual report are used.

Concentration risk

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Cash balances with the central bank and receivables from banks and other financial institutions

	As at 31.12.2022	As at 31.12.2021
Concentration by sector		
Central banks	1,015,853	1,068,166
Bulgarian commercial banks	41,833	27,664
Foreign commercial banks	73,332	62,012
Foreign financial institutions	540	520
	1,131,558	**1,158,362**
Expected credit loss	(98)	(19)
TOTAL	**1,131,460**	**1,158,343**

Concentration by region	As at 31.12.2022	As at 31.12.2021
Europe	1,103,150	1,155,051
America	28,359	3,307
Asia	49	4
	1,131,558	**1,158,362**
Expected credit loss	(98)	(19)
TOTAL	**1,131,460**	**1,158,343**

Loans and receivables from customers

The breakdown by sector is presented in Note 22. All loans and receivables from customers as at 31 December 2022 and 2021 are in the Europe region.

To control the risk of concentration of loans to non-bank customers, the Bank has established internal industry and regional limits - each industry has an individual limit according to the risk appetite and strategy of the Group, as well as a limit for exposures to entities carrying out parallel banking activities up to 20% of the capital base.

All amounts are presented in thousand BGN, unless otherwise stated

Debt instruments at amortised cost

	As at 31.12.2022	As at 31.12.2021
Concentration by sector		
Government	361,409	310,349
Bulgarian companies	22,794	22,795
Financial institutions	9,009	9,009
	393,212	**342,153**
Expected credit loss	(160)	(153)
TOTAL	**393,052**	**342,000**

All investments in debt securities at amortized cost are issued from the government of Bulgaria and Bulgarian municipalities. The investments in corporate bonds at amortised value are issued by international banks and Bulgarian companies. At 31 December 2022 and 2021, the Group has no investments in high-risk countries.

The following tables present an analysis of the credit exposure of the Group by type of exposures, internal rating/sub portfolio with similar risk characteristics and „Stage", without taking into account the effect of collateral. Unless otherwise stated, financial assets are presented in the table by gross carrying amount. Loan commitments and guarantees are presented by the amount allocated.

	As at 31.12.2022				As at 31.12.2021
Cash balances with the central bank and receivables from banks and other financial institutions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Central banks	1,015,853	-	-	1,015,853	1,068,166
Banks with investment rating	93,416	-	-	93,416	90,196
Banks with non-investment rating	22,289	-	-	22,289	-
Total gross carrying amount	**1,131,558**	-	-	**1,131,558**	**1,158,362**
Loss allowance	(98)	-	-	(98)	(19)
Carrying amount	**1,131,460**	-	-	**1,131,460**	**1,158,343**

	As at 31.12.2022				As at 31.12.2021
Loans and receivables from customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Corporate customer: Standard	291,622	9,269	2,351	303,242	142,726
Corporate customer: Revolving	63,054	24	-	63,078	47,454
Individuals: Mortgages	62,118	849	843	63,810	47,395
Individuals: Standard	57,275	865	2,152	60,292	65,211
Individuals: Revolving	1,467	-	7	1,474	1,377
Total gross carrying amount	**475,536**	**11,007**	**5,353**	**491,896**	**304,163**
Loss allowance	(1,907)	(332)	(2,139)	(4,378)	(4,173)
Carrying amount	**473,629**	**10,675**	**3,214**	**487,518**	**299,990**

	As at 31.12.2022				As at 31.12.2021
Loan commitments and guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loan commitments	50,212	-	-	50,212	28,125
Financial guarantee contracts and letters of credit	29,295	449	204	29,948	38,301
Total loan commitments and guarantees	**79,507**	**449**	**204**	**80,160**	**66,426**
Provisions	**258**	**1**	**10**	**269**	**136**

All amounts are presented in thousand BGN, unless otherwise stated

Debt instruments at amortised cost	As at 31.12.2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2021 Total
Bulgarian government bonds	304,405	-	-	304,405	249,964
Bulgarian municipal bonds	57,004	-	-	57,004	60,385
Bulgarian corporate bonds	22,794	-	-	22,794	22,795
Bonds of foreign banks	9,009	-	-	9,009	9,009
Total gross carrying amount	**393,212**	-	-	**393,212**	**342,153**
Loss allowance	(160)	-	-	(160)	(153)
Carrying amount	**393,052**	-	-	**393,052**	**342,000**

Receivables from banks and other financial institutions	As at 31.12.2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2021 Total
Nostro accounts with banks	58,939	-	-	58,939	9,557
Deposits granted with banks	21,920	-	-	21,920	80,119
Loans granted to banks	34,306	-	-	34,306	-
Guarantee deposits with Mastercard Inc. and Visa	540	-	-	540	520
Total gross carrying amount	**115,705**	-	-	**115,705**	**90,196**
Loss allowance	(98)	-	-	(98)	(19)
Carrying amount	**115,607**	-	-	**115,607**	**90,177**

Financial assets at fair value through profit or loss

The maximum exposure to credit risk on investments in securities at fair value through profit or loss is their carrying amount which at 31 December 2022 is BGN 12,708 thousand (2021: BGN 3,869 thousand).

The following table summarises the impairment loss and provision for credit commitments and financial guarantees at year-end by asset type:

Loss allowance	As at 31.12.2022	As at 31.12.2021
Receivables from banks and other financial institutions	98	19
Loans and receivables from customers	4,378	4,173
Debt instruments at amortised cost	160	153
Loan commitments and financial guarantee contracts	269	136
TOTAL	**4,905**	**4,481**

The tables below analyse the movement in impairment loss in 2022 and 2021 by asset type:

Loss allowance – Loans and receivables from customers	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Loss allowance as at 1 January 2022	**2,107**	**442**	**1,624**	**4,173**
Changes in the Loss allowance				
- Transfer to stage 1	8	(256)	(9)	(257)
- Transfer to stage 2	(23)	284	(34)	227
- Transfer to stage 3	(8)	(19)	761	734
- Increases due to change in credit risk	15	-	48	63
- Decreases due to change in credit risk	(653)	(99)	(141)	(893)
- Repayments	(355)	(23)	(148)	(526)
New financial assets originated or purchased during the period	816	3	38	857
Loss allowance as at 31 December 2022	**1,907**	**332**	**2,139**	**4,378**

All amounts are presented in thousand BGN, unless otherwise stated

Loss allowance – Loans and receivables from customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2021	**2,540**	**774**	**1,931**	**5,245**
Changes in the Loss allowance				
- Transfer to stage 1	1	(36)	(11)	(46)
- Transfer to stage 2	(10)	74	(68)	(4)
- Transfer to stage 3	(3)	(31)	311	277
- Increases due to change in credit risk	70	1	5	76
- Decreases due to change in credit risk	(963)	(312)	(244)	(1,519)
- Repayments	(170)	(37)	(389)	(596)
New financial assets originated or purchased during the period	642	9	89	740
Loss allowance as at 31 December 2021	**2,107**	**442**	**1,624**	**4,173**

The other financial assets of the Group did not transfer within the stages used for calculation of expected credit losses. All debt instruments classified in the categories measured at amortized cost, fair value through profit or loss, and fair value through other comprehensive income are classified in Stage 1.

The tables below analyse the movement of the expected credit losses in 2022 and 2021 in relation to loan commitments and irrevocable financial guarantee contracts:

Loss allowance – Loan commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2022	**115**	-	-	**115**
Changes in the Loss allowance				
– Increases due to change in credit risk	7	-	-	7
– Decreases due to change in credit risk	(57)	-	-	(57)
New financial assets originated or purchased during the period	223	-	-	223
Write-offs of financial assets	(31)	-	-	(31)
Loss allowance as at 31 December 2022	**257**	-	-	**257**

Loss allowance – Loan commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2021	**531**	-	-	**531**
Changes in the Loss allowance				
– Increases due to change in credit risk	3	-	-	3
– Decreases due to change in credit risk	(476)	-	-	(476)
New financial assets originated or purchased during the period	73	-	-	73
Write-offs of financial assets	(16)	-	-	(16)
Loss allowance as at 31 December 2021	**115**	-	-	**115**

Loss allowance – Financial guarantee contracts	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2022	**2**	-	**19**	**21**
Changes in the Loss allowance				
– Increases due to change in credit risk	-	1	-	1
– Decreases due to change in credit risk	-	-	(7)	(7)
New financial assets originated or purchased	-	-	-	-
Financial assets that have been repaid	(1)	-	(2)	(3)
Loss allowance as at 31 December 2022	**1**	**1**	**10**	**12**

All amounts are presented in thousand BGN, unless otherwise stated

Loss allowance – Financial guarantee contracts	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	Total
Loss allowance as at 1 January 2021	**4**	**-**	**20**	**24**
Changes in the Loss allowance				
– Decreases due to change in credit risk	(1)	-	-	(1)
New financial assets originated or purchased	-	-	-	-
Financial assets that have been repaid	(1)	-	(1)	(2)
Loss allowance as at 31 December 2021	**2**	**-**	**19**	**21**

More information about significant changes during 2022 and 2021 in the gross carrying amount of financial assets which due to changes in the Loss allowance is presented in the tables.

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	Total
Gross carrying amount as at 1 January 2022	**290,847**	**8,905**	**4,411**	**304,163**
Changes in the gross carrying amount				
- Transfer to stage 1	1,203	(1,191)	(12)	-
- Transfer to stage 2	(3,934)	3,976	(42)	-
- Transfer to stage 3	(1,957)	(256)	2,213	-
New financial assets	267,167	2,322	326	269,815
Repaid	(77,790)	(2,749)	(1,670)	(82,209)
Write-offs	-	-	127	127
Gross carrying amount as at 31 December 2022	**475,536**	**11,007**	**5,353**	**491,896**
Loss allowance 31 December 2022	**(1,907)**	(332)	(2,139)	(4,378)
Carrying amount as at 31 December 2022	**473,629**	**10,675**	**3,214**	**487,518**

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	Total
Gross carrying amount as at 1 January 2021	**262,499**	**10,598**	**4,995**	**278,092**
Changes in the gross carrying amount				
- Transfer to stage 1	1,727	(1,714)	(13)	-
- Transfer to stage 2	(2,153)	2,536	(383)	-
- Transfer to stage 3	(551)	(312)	863	-
New financial assets	111,583	478	114	112,175
Repaid	(82,258)	(2,681)	(1,165)	(86,104)
Gross carrying amount as at 31 December 2021	**290,847**	**8,905**	**4,411**	**304,163**
Loss allowance 31 December 2021	(2,107)	(442)	(1,624)	(4,173)
Carrying amount as at 31 December 2021	**288,740**	**8,463**	**2,787**	**299,990**

Mortgage lending

Mortgage lending is targeted to a customer segment „Retail" and it is secured with mortgages of residential real estate. Requirements have been introduced for the approval of a mortgage loan within the meaning of the Consumer Real Estate Loans Act. Approval criteria are permanent employment, minimum residual income, and maximum loan-to-value ratio (LTV). LTV is calculated as the ratio of the gross amount of the loan – or the amount of loan commitments – to the value of the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices.

All amounts are presented in thousand BGN, unless otherwise stated

The tables below show the exposures from mortgage loans by ranges of LTV.

Mortgage loans

Loan to value ratio (LTV)	As at 31.12.2022	As at 31.12.2021
Less than 50%	4,627	12,891
51% - 70%	7,678	18,202
71% - 90%	38,518	14,598
91% - 100%	7,116	513
More than 100%	2,620	-
Total	**60,559**	**46,204**

Collateral held as security and other credit enhancements

Collateral and/or other credit enhancements have been accepted on credit exposures to reduce credit risk. The main types of collateral and the types of assets to which they are related, in relation to "Loans and receivables from customers" are mortgages of property rights (contractual, legal, maritime), pledges of property, rights and receivables under the Law on Special Pledges and the Law on Obligations and Contracts, pledges under the Financial Collateral Contracts Act and others.

Consumer Loan Portfolio

The Consumer Loan Portfolio consists of consumer loans, overdrafts, and credit cards on which no material collateral has been held as security.

Corporate Lending

The creditworthiness of the client, as stated in Note 4.2.3, is assessed on the basis of quantitative and qualitative factors related to the financial position. The collateral provided does not participate in customer's creditworthiness assessment. Notwithstanding the above, when extending loans, collateral is required as a secondary source of debt repayment in case of default. The value of the provided collaterals is regularly monitored, as the time since last revaluation should not exceed 12 months. In case of debtor's credit quality deterioration, the collateral revaluation may be performed more frequently.

At 31 December 2022, the net carrying amount of loans and receivables from corporate clients amounting to BGN 318,793 thousand (2021: BGN 146,909 thousand), and the value of the related collateral is amounting to BGN 1,992,568 thousand (2021: BGN 1,098,197 thousand).

4.2.7. Credit risk management in connection with Covid-19

The Group used scenarios for stress testing purposes where all exposures subject to the Noninterest Loan Guarantee Program to protect people unable to work due to the Covid-19 pandemic were classified as non-performing and defaulted exposures, respectively allocated to Stage 3. The stressed indicators are Probability of default and Realized loss given default. These indicators are used to calculate a stressed scenario of expected credit losses, based on which the effect on the Group's capital adequacy is calculated.

Credit exposures under the Program for guaranteeing interest-free loans for the protection of people deprived of the opportunity to work due to the COVID-19 pandemic up to 30 days in default are managed and monitored by the Group's branches and Retail Grouping Department. After an admitted delinquency of 31 days or more, management and monitoring is assumed by the Problem loans Directorate.

Internal and regulatory reporting of exposures subject to the Program are based on the Program for guaranteeing interest-free loans for the protection of people deprived of the opportunity to work due to the COVID-19 pandemic, prepared by the business units, coordinated with the Risk Directorate and approved by the Group's Management

All amounts are presented in thousand BGN, unless otherwise stated

Board. The reporting guidelines for these exposures are in line with the Program for guaranteeing interest-free loans for the protection of people deprived of the opportunity to work due to the COVID-19 pandemic.

A total of 3,895 loans amounting to BGN 14,835 thousand have been disbursed under this Program. As on 31.12.2022, the active exposures amount to BGN 10,471 thousand. Past due loans between 30 and 90 days amount to BGN 517 thousand and exposures past due more than 90 days amount to BGN 937 thousand, which are accounted for and provisioned in Stage 3.

As of 31.12.2022, the Program's loans that are past due and immediately callable, court cases and adjudged have a gross carrying amount of BGN 729 thousand. The amount recovered from the BBR is BGN 356 thousand for some of these loans.

	Amount	Gross carrying amount as at 31.12.2022	Impairment losses as at 31.12.2022
Total loans under the program	3,637	11,166	695
Over 30 days overdue as at 31.12.2022	162	539	22
Over 90 days overdue as at 31.12.2022	398	1,579	642
Due before maturity and court loans	201	729	271
Amount recovered from the BDB	115	356	-

Investment in securities

The Group holds investment securities at amortised cost with a carrying amount of BGN 393,052 thousand, at fair value through other comprehensive income with a carrying amount of BGN 11,322 thousand and at fair value through profit or loss with a carrying amount of BGN 19,871 thousand. Investments in securities at amortised cost as at 31 December 2022 are government, municipal and corporate bonds, investment securities at fair value through other comprehensive income are equity instruments, and the securities at fair value through profit or loss are equity instruments and corporate bond.

4.2.8. Credit risk management in connection to the military conflict in Ukraine

The Group has only one consumer loan to a Russian citizen for BGN 3 thousand and the possible default of the debtor would not have a material impact on the Group's financial result and capital adequacy and there are no other material direct exposures to Russia and Ukraine.

Based on the analyses performed, no material direct or indirect effects of the military conflict in Ukraine on the Group's credit risk have been identified.

4.3. Market risk

The Group is exposed to market risk, which is the risk of unfavourable changes in the market conditions, such as changes in interest rates, equity instrument prices or foreign currency exchange rates, that would affect the income, or the value of the financial instruments held by the Bank. Market risk management is carried out in accordance with internal bank regulations, which provide for appropriate allocation of decision-making responsibilities, information system, monitoring system, system of limits for control and mitigation of this type of risk.

4.3.1. Currency risk

The Group operates in foreign currency as well, which exposes its results to fluctuations of exchange rates. The Bank monitors its foreign currency exposure on a daily basis in compliance with the regulatory requirements of the Central Bank in order to comply with the limits applicable to net open positions in currencies and the overall net open position. Following the introduction of the Currency Board in Bulgaria, the Bulgarian lev is pegged to the Euro. The Group prepares its financial statements in Bulgarian lev, therefore the statements are influenced by movements in the exchange rates of currencies outside the Eurozone.

All amounts are presented in thousand BGN, unless otherwise stated

The table below presents the foreign exchange rates risk as at 31 December 2022, including the Bank's assets and liabilities at carrying amount broken down by currency:

	EUR	USD	BGN	Other currencies	Total
Assets					
Cash and balances with central banks	186,313	1,215	851,619	688	1,039,835
Financial assets at fair value through profit or loss	10,627	-	2,079	2	12,708
Financial assets at fair value through other comprehensive income	-	4,377	6,945	-	11,322
Receivables from banks and other financial institutions	2,447	64,888	41,077	7,195	115,607
Loans and receivables from customers	123,217	-	364,301	-	487,518
Debt instruments at amortised cost	56,616	-	336,436	-	393,052
Current tax assets	-	-	370	-	370
Other assets	939	-	16,873	-	17,812
Assets acquired in foreclosure	-	-	13,043	-	13,043
Property and equipment	-	-	37,013	-	37,013
Investment properties	-	-	22,063	-	22,063
Intangible assets	-	-	1,191	-	1,191
Right-of-use assets	-	-	4,232	-	4,232
TOTAL ASSESTS	380,159	70,480	1,697,242	7,885	2,155,766
Liabilities					
Deposits from other customers	355,455	69,842	1,516,537	7,778	1,949,612
Loans received from banks	-	-	24,076	-	24,076
Bonds issued	-	-	21,081	-	21,081
Loans received from clients	3,346	-	2,947		6,293
Lease liabilities	-	-	4,336	-	4,336
Provisions	-	-	945	-	945
Other liabilities	108	323	26,986	-	27,417
Current tax liabilities	-	-	10	-	10
Deferred tax liabilities	-	-	873	-	873
TOTAL LIABILITIES	358,909	70,165	1,597,791	7,778	2,034,643

As at 31 December 2022 the Group's exposures in foreign currency assets and liabilities other than BGN and EUR are respectively 3.63% and 3.83% of the total assets and liabilities.

All amounts are presented in thousand BGN, unless otherwise stated

The table below presents the foreign exchange rates risk as at 31 December 2021, including the Group's assets and liabilities at carrying amount broken down by currency

	EUR	USD	BGN	Other currencies	Total
Assets					
Cash and balances with central banks	121,438	1,089	966,542	743	1,089,812
Financial assets at fair value through profit or loss	946	-	2,921	2	3,869
Financial assets at fair value through other comprehensive income	-	4,123	5,164	-	9,287
Receivables from banks and other financial institutions	37,036	29,605	16,918	6,618	90,177
Loans and receivables from customers	55,776	-	244,214	-	299,990
Debt instruments at amortised cost	78,099	-	263,901	-	342,000
Other assets	447	17	16,957	-	17,421
Assets acquired in foreclosure	-	-	13,468	-	13,468
Property and equipment	-	-	37,076	-	37,076
Investment properties	-	-	20,581	-	20,581
Intangible assets	-	-	1,349	-	1,349
Right-of-use assets	-	-	2,605	-	2,605
TOTAL ASSETS	293,742	34,834	1,591,696	7,363	1,927,635
LIABILITIES					
Deposits from banks	-	-	-	985	985
Deposits from other customers	288,532	34,533	1,474,549	6,354	1,803,968
Lease liabilities	-	-	2,685	-	2,685
Provisions	-	-	917	-	917
Other liabilities	219	556	4,321	4	5,100
Current tax liabilities	-	-	17	-	17
Deferred tax liabilities	-	-	782	-	782
TOTAL LIABILITIES	288,751	35,089	1,483,271	7,343	1,814,454

As at 31 December 2021 the Group's exposures in foreign currency assets and liabilities other than BGN and EUR are respectively 2.18% and 2.33% of the total assets and liabilities.

The difference between the Bank's positions in assets and liabilities denominated in currencies other than BGN and EUR is minimal, which leads to insignificant exposure to the currency risk.

4.3.2. Interest rate risk

Interest rate risk is the risk of losses arising from uncertainty about future interest rates. The Group's operations are subject to fluctuations in interest rates to the extent that interest rate-sensitive assets (including investments) and liabilities mature or experience a reset in interest rates at different times and to varying degrees. In the case of variable rate assets and liabilities, the Group is at risk of different changes in reference interest rates (e.g. BIR, LIBOR, EURIBOR) which serve as basis for determining interest rates, although these indices are changing in high correlation. The procedures for managing the interest rate risk compare assets and liabilities in view of their sensitivity to changes in interest rates. In addition, the overall impact depends on various factors such as the extent to which prepayments or payments in arrears are made as well as the extent of variation in interest rates.

All amounts are presented in thousand BGN, unless otherwise stated

The table below shows the interest-bearing instruments of the Group presented at carrying amount, categorized by type of interest rate:

	2022			2021		
	Variable interest rate	Fixed interest rate	Total	Variable interest rate	Fixed interest rate	Total
Assets						
Financial assets at fair value through profit or loss	-	12,331	12,331	-	3,403	3,403
Receivables from banks and other financial institutions	-	115,705	115,705	9,557	80,639	90,196
Loans and receivables from customers	410,811	81,085	491,896	259,807	44,356	304,163
Debt instruments at amortised cost	47,653	345,559	393,212	44,953	297,200	342,153
Total assets	458,464	554,680	1,013,144	314,317	425,598	739,915
Liabilities						
Deposits from banks	-	-	-	985	-	985
Deposits from other customers	-	1,949,612	1,949,612	-	1,803,968	1,803,968
Loans received from banks	-	24,076	24,076	-	-	-
Bonds	-	21,081	21,081	-	-	-
Loans received from customers	-	6,293	6,293	-	-	-
Lease liabilities	4,336	-	4,336	2,685	-	2,685
Total liabilities	4,336	2,001,062	2,005,398	3,670	1,803,968	1,807,638

The change in the annual interest income of the Group at 200 bp. change in the interest rate curve is BGN 3,633 thousand (2021: BGN 849 thousand) or 3.28% (2021: 0.79%) of the capital base.
To assess the interest rate risk in the scenario change of interest rates by 200 bp. the Group reports both the effect on the annual net interest income and the change in the value of the securities at fair value in profit or loss (2022: BGN 712 thousand). The total effect on the financial result is BGN 4,342 thousand negative change, which is 3.92% of the Group's capital.

4.3.3. Price risk

To limit the price risk, a risk exposure limit for foreign corporate bonds is set as a percentage of the Group's capital base. The Group invests in foreign corporate bonds only if the bonds have a credit rating assigned by any of the following ICAIs – Standard & Poor's; Moody's; Fitch Ratings according to their rating transition scales and depending on the type of issuer (Groups, non-Grouping financial institutions or corporations), and the risk level associated with the relevant grade.

The Group adheres to an approved limit when investing in corporate equities issued by Bulgarian companies, defined as a percentage of the capital base, as well as it monitors the exposures reaching stop-loss levels/limits.

To assess its positions in debt and equities, the Group uses a Value at Risk (VaR) model using the Monte Carlo simulation method. VaR is the expected loss in the value of a portfolio within a given confidence level and a specified time horizon. VaR estimate is based on statistical data derived from historical asset data, assuming that interest rates, exchange rates and securities prices fluctuate at random, such that the daily fluctuation can be expressed by a standard distribution. The resulting Value at Risk is typically determined at a confidence level of 99%.

All amounts are presented in thousand BGN, unless otherwise stated

Value-at-Risk (VaR) for a one-day period at a confidence level of 99% by risk categories of debt and equity instruments measured at fair value is as follows:

Risk category	As at 31.12.2022	As at 31.12.2021
Interest rate risk	79	1
Price risk in equity instruments	241	203
Foreign currency risk	73	38
VAR cumulative*	**849**	**210**

* Includes diversification among risk exposures

The following table shows the dynamics during the year 2022 of Value at Risk (VaR) measure for a one-day holding period at a confidence level of 99%.

		Risk category		
	VAR cumulative*	**Interest rate risk**	**Price risk in equity instruments**	**FX risk**
Average	485	325	231.8	53.3
Minimum	190	1	186.3	35.6
Maximum	1,091	1,045	265.0	76.6

The calculations made regarding the Bank's exposure to the risk of a change in the value of its portfolio of securities at fair value under the VaR model at a confidence level of 99% for 1-day holding period and based on Monte Carlo simulation show a decrease.

At the end of the reporting period, the primary risk factor is the interest rates, which remains interest rate risk the basic sub-class market risk for that portfolio. There is a minimal increase in the risk associated with equity instruments, but this is not a significant factor in the overall set of risk factors for the portfolio. Foreign currency risk is declining while retaining insignificant levels.

Value at Risk (VaR) – basics

The Group uses a model to determine the possible changes in the market value of the securities portfolio at fair value. The VaR model under Monte Carlo method is designed to measure market risk by presenting the maximum future loss under normal market conditions that would not be exceeded with a certain level of confidence over a certain period of time (holding period). The model of the method is based on running a large number of random aggregates of market data and make a standard distribution of the asset value with that data.
The calculations under the method applied go through several major stages:

1. Determining key factors that affect the portfolio value, such as basis points (1 basis point = 0.01%), stock prices or underlying instruments (for derivatives), exchange rates, etc.

2. Generating a correlation matrix and vector of volatility for relevant market factors based on their historical values over a one-year observation period. The matrix and the vector are used to generate a large number of random scenarios for a future change in market factors.

3. The generated scenarios are used to simulate and calculate the expected change in the value of market instruments and portfolios, also taking into account the effect of diversification between assets. The scenarios generated for the relevant risk factors enable the price distribution (pricing histogram) of the expected values of the instruments (portfolios) to be formed, with the expected value of the distribution being derived from the average of the respective price series. Price series are sorted from the highest to the lowest and the appropriate confidence level is applied.

The VaR method chosen relies on historical data to provide information on volatility and correlations of individual risk factors and predicts at 99% probability the future changes on that basis, there is a statistical probability of 1% the value at risk to be overestimated or underestimated to possible unexpected market movements with large impact. VaR measures the portfolio's risk at the end of the business day.

Back-testing is performed in order to determine the reliability of the results of the assumptions for a change in the market value of the portfolio under the VaR model. The back-test is a post-factual comparison between the risk assessment through the model and the actual daily changes in portfolios values. The calculations are based on the actual change in the portfolio value (excluding changes due to fees, commissions, and accrued interest), assuming that the positions of the previous day remained unchanged. The model's inaccuracy is assumed to be a daily decrease in the value of the portfolio that exceeds the respective Value at Risk calculated for the same day. The actual results are regularly monitored in respect of the model validity.

The VaR model is an integral part of the Group's market risk management, and the levels and dynamics/trend of VaR indicators determined by the Group are monitored and analysed dynamically and reported regularly to the Management.

4.3.4. Impact of the macroeconomic environment over the prices of the financial instruments

The military conflict between Russia and Ukraine is causing high uncertainty in the economy, energy prices and the continuity of supply chains. In 2021 and 2022, an elevated level of inflation has been recorded, as well as several interest rate hikes by the European Central Bank in response.

The business picture has changed substantially in 2022, posing extremely serious challenges to many industries, until recently considered among the most profitable and sustainable.

The market situation was extremely complex and difficult to predict.

All of these circumstances also lead to a decline in the fair value of securities. It should be noted that the increased levels of base interest rates also have their impact on the improved expectation of future interest rate spreads.

4.3.5. Liquidity risk

Liquidity risk measures the ability of the Bank to meet its liabilities upon maturity, to manage the unexpected reductions or changes in funding sources, and to convert its assets into cash as quickly as possible and with minimal loss of value.

The main method of liquidity management is to maintain the Bank's assets in terms of size, structure, and ratios, in such a way that ensures at any time that the Bank is able to meet its obligations on a timely manner at a reasonable price and with minimal risk. Various models and techniques are used to measure and control liquidity risk.

The Bank maintains assets and liabilities structure which ensures compliance with the set values of the liquidity ratios and the fulfilment of the liquidity coverage requirement pursuant to Art. 412(1) of Regulation 575/2013 (Liquidity Coverage Ratio - LCR). The focus is on managing short-term liquidity for up to 30 days. The Bank calculates its liquidity coverage ratio according to the following formula:

$$\frac{\text{Liquidity buffer}}{\text{Net outgoing liquid funds for stressed period of 30 days}} = \text{Liquidity Coverage Ratio (\%)}$$

The Group maintains a liquidity coverage ratio of at least 100%.

Due to low predictability of the cash inflows/outflows of the budget entities, the Group manages the current liquidity by maintaining a set of short-term receivables from various financial institutions in different currencies (for risk diversification), by monitoring the maturities and by providing daily surplus.

The liquidity management process necessarily involves monitoring the results of regular stress tests based on different scenarios. The Group applies an internal "Methodology for conducting liquidity risk stress tests of Municipal Bank AD". The stress tests are prepared on the basis of information necessary for the formation of the LCR coefficient in the respective reporting form.

The stress scenarios take into account the occurrence of a liquidity shortage as a result of both external factors for the Group and internal ones.
1. Idiosyncratic shock (baseline and adverse) due to the deteriorated financial position, risk profile and / or reputation of the Group would lead to a loss of confidence in the stability of the Group, reduced access to markets and a significant outflow of deposits.
2. A market-wide shock due to deteriorating economic environment, a decline in asset prices and / or a lack of liquidity in the financial markets would lead to a decline in the value of the Group's marketable assets and the liquidity buffer, respectively.

A reverse stress test is also prepared, simulating an additional withdrawal of deposits with a maturity of more than 30 days, regardless of their type, in order to see at what outflow the Group would cease its activities, with a view to taking preventive measures if necessary.

The Group relies mainly on its own resources and does not have access to additional liquidity on demand such as approved and unutilized credit lines.

The tables below analyse the Group's assets, liabilities, and off-balance sheet commitments, grouped by the relevant deadlines and maturities based on the residual maturity. In these tables, the customers' demand deposits are presented in the maturity range "up to 1 month", while a significant portion of them remain in the Group for a longer time period. Term deposits are usually renewed by depositors at maturity and in practice are also held with the Group for a longer period.

All amounts are presented in thousand BGN, unless otherwise stated

31 December 2022	Up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	1,039,835	-	-	-	-	1,039,835
Financial assets at fair value through profit or loss	10,178	-	-	986	1,544	12,708
Financial assets at fair value through other comprehensive income	-	-	-	11,322	-	11,322
Receivables from banks and other financial institutions	80,854	-	-	34,213	540	115,607
Loans and receivables from customers	16,902	2,839	58,467	100,577	308,733	487,518
Debt instruments at amortised cost	-	36,724	4,298	184,405	167,625	393,052
Current tax assets	-	-	-	-	370	370
Other assets	-	-	-	-	17,812	17,812
Assets acquired in foreclosure	-	-	-	-	13,043	13,043
Property and equipment	-	-	-	-	37,013	37,013
Investment properties	-	-	-	-	22,063	22,063
Intangible assets	-	-	-	-	1,191	1,191
Right-of-use assets	-	-	-	-	4,232	4,232
Total assets	1,147,769	39,563	62,765	331,503	574,166	2,155,766
Liabilities						
Deposits from other clients	1,640,838	112,536	185,294	10,944	-	1,949,612
Deposits from banks	-	-	-	24,076	-	24,076
Bonds	-	-	-	21,081	-	21,081
Loans received from clients	-	-	-	6,293	-	6,293
Lease liabilities	100	299	796	2,978	163	4,336
Provisions	1	15	49	703	177	945
Other liabilities	27,417	-	-	-	-	27,417
Current tax liabilities	10	-	-	-	-	10
Deferred tax liabilities	-	-	-	-	873	873
Total liabilities	1,668,366	112,850	186,139	66,075	1,213	2,034,643
MATURIY MISMATCH, NET	(520,597)	(73,287)	(123,374)	265,428	572,953	121,123
ACCUMULATED	(520,597)	(593,884)	(717,258)	(451,830)	121,123	

All amounts are presented in thousand BGN, unless otherwise stated

31 December 2021	Up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	1,089,812	-	-	-	-	1,089,812
Financial assets at fair value through profit or loss	466	-	-	1,246	2,157	3,869
Financial assets at fair value through other comprehensive income	-	-	-	9,287	-	9,287
Receivables from banks and other financial institutions	83,797	5,860	-	-	520	90,177
Loans and receivables from customers	61	695	37,243	105,887	156,104	299,990
Debt instruments at amortized cost	-	52,090	9,479	145,638	134,793	342,000
Other assets	-	-	-	-	17,421	17,421
Assets acquired in foreclosure	-	-	-	-	13,468	13,468
Property and equipment	-	-	-	-	37,076	37,076
Investment properties	-	-	-	-	20,581	20,581
Intangible assets	-	-	-	-	1,349	1,349
Right-of-use assets	-	-	-	-	2,605	2,605
Total assets	1,174,136	58,645	46,722	262,058	386,074	1,927,635
Liabilities						
Deposits from banks	-	985	-	-	-	985
Deposits from other customers	1,486,024	104,928	195,309	17,707	-	1,803,968
Lease liabilities	161	483	1,449	592	-	2,685
Provisions	-	26	41	415	435	917
Other liabilities	5,100	-	-	-	-	5,100
Current tax liabilities	17	-	-	-	-	17
Deferred tax liabilities	-	-	-	-	782	782
Total liabilities	1,491,302	106,422	196,799	18,714	1,217	1,814,454
MATURIY MISMATCH, NET	(317,166)	(47,777)	(150,077)	243,344	384,857	113,181
ACCUMULATED	(317,166)	(364,943)	(515,020)	(271,676)	113,181	

Maturity structure of contingent liabilities and commitments as at 31 December 2022 and 2021 is as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2022	3,745	10,753	33,308	5,679	26,674	80,159
31 December 2021	1,242	12,664	30,036	16,193	6,292	66,427

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms and Commission Delegated Regulation (EU) 2015/61 of 10.10.2014 supplementing Regulation (EU) No 575/2013 with regard to liquidity coverage requirements, the Bank maintains liquidity coverage ratios and net stable funding ratios significantly in excess of the regulatory requirement of 100% for both ratios. At all times, the Group strives to maintain significant volumes of highly liquid assets included in the liquidity buffer and to manage its assets and liabilities according to their maturity structure and liquidity weights.

The liquidity coverage of Municipal Bank AD at 31 December 2022 is as follows:

- Liquidity buffer BGN 804,321 thousand (2021: BGN 641,327 thousand);
- Net outflow of 151,647 thousand levs (2021: 60,629 thousand levs);
- Liquidity coverage ratio 530% (2021: 1 058%);
- Net stable funding ratio 302 % (2021: 316 %).

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets consisting of cash and cash equivalents. The Group defines these assets as a “liquidity reserve”, presented in the following table:

All amounts are presented in thousand BGN, unless otherwise stated

	2022	2022	2021	2021
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash on hand	23,982	23,982	21,646	21,646
Accounts in the Central Bank	1,015,853	1,015,853	1,068,166	1,068,166
Receivables and deposits in banks	115,607	115,607	90,177	90,177
TOTAL	**1,155,442**	**1,155,442**	**1,179,989**	**1,179,989**

4.4. Financial assets pledged as collateral

As at 31 December 2022 Bulgarian government securities are pledged as collateral and amount to BGN 88,342 thousand (2021: nil).

As at 31 December 2022 the Group has blocked BGN 450,000 thousand (2021: BGN 700,000 thousand) in a special account in BNB on the grounds of Art. 152(6) of the Public Finance Act for the purpose of securing the liabilities due to budget organizations (Note 18).

The Group does not sell or pledge financial or non-financial assets held as collateral when the collateral provider is not in default.

4.5. Assets under Bank's custody

The parent Bank is registered as an investment intermediary and performs operations on behalf of its clients in accordance with the requirements of Regulation 38 of the Financial Supervision Commission (FSC). The Bank has an approved policy in relation to management of trust accounts which has been prepared on the basis of the requirements of Ordinance 38 of the FSC. As at 31 December 2022, the total amount of customers' trust assets granted to the Bank for custody amounted to BGN 18,377 thousand (31.12.2021: BGN 7,676 thousand).

4.6. Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events include legal risk. The legal risk is included in Operational Risk and is defined as:

a) risk of loss as a result of violation, incorrect application, or circumvention of provisions of laws, rules or standards by employees of the Group, arising due to their lack of knowledge or for other reasons;

b) risk of loss as a result of non-compliance with contractual obligations by the Group or its counterparties under existing contracts;

c) risk of loss as a result of actions taken by public authorities or officials.

d) risk of loss arising from changes in the current Bulgarian and/or EU legislation, which may prevent the Group from carrying out its activities normally.

Legal risk may arise in court cases, adverse court decisions or contracts that may be unenforceable and may disrupt or adversely affect the Group's operations.

The Group has developed an "Operational Risk Management Policy" and an "Operational Risk Management Rules". The Group's Operational Risk Management Policy, as part of the general framework of the Risk Management Policy, is in line with the basic requirements and recommendations of the Basel Committee on Grouping Supervision and the BNB, is reviewed regularly and updated if necessary.

All operational events are recorded and stored in the Register of Operating Event Losses - an internal Oracle based WEB system created by the Group. The system allows automatic historical archiving of all registered operational events.

The Market and Operational Risk Department of the Risk Directorate submits a quarterly report to the Management Board on the losses incurred from operational events and reports monthly to the Commission for Assessment of risk events. The analysis serves to make decisions to strengthen control actions.

The Management Board of the Group is responsible for the organization of the operational risk management system in the Group.

4.7. Compliance with capital adequacy requirements

In 2014 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment intermediaries and amending Regulation (EU) No 2021/451 came into force. This document also regulates the capital adequacy of banks. The Bank's equity for regulatory purposes consists of the following elements:

- Tier 1 capital, being the sum of basic Tier 1 capital and additional Tier 1 capital. As at 31.12.2022, the Parent Bank's Tier 1 capital is composed only of basic Tier 1 capital, comprising issued capital, premium reserves and general reserves, less the relevant deductions pursuant to Article 36 of Regulation (EU) No 575/2013.
- Tier 2 capital - as at 31.12.2022. The Bank has no instruments that meet the requirements of Regulation (EU) No 575/2013 for Tier 2 capital elements.

The Parent Bank calculates the total capital adequacy ratio as a percentage ratio between equity (regulatory capital) and risk-weighted assets for credit, market, and operational risk.

Regulation (EU) No 575/2013 of the European Parliament and of the Council establishes together with Regulation 2013/36/EU of the European Parliament and of the Council the prudential regulatory framework for credit institutions and investment intermediaries operating in the EU. The serious economic shock caused by the Covid-19 pandemic and emergency anti-epidemic measures have major consequences for the economy. Public authorities at Union and Member States have taken decisive action to help households and solvent businesses withstand the temporary slowdown in economic activity. Given that the role of credit institutions in the recovery process will be key, but at the same time they are also likely to be affected by the deteriorating economic situation, the European Central Bank and EBA have provided more clarity on the application of Regulation (EU) No 575/2013 flexibility by issuing interpretations and guidelines for the implementation of the prudential framework in the context of Covid-19.

In the process of preparing the supervisory reporting on the capital requirements, the Bank complies with the requirements of the framework CRD IV (Regulation (EU) No 575/2013 (the Regulation) and Directive 2013/36/EU (the Directive), Ordinance 7 of the BNB on the organization and management of risks in banks.

The Parent Bank maintains regulatory equity for the purposes of capital adequacy in the form of core tier 1 capital and additional tier 1 capital.
The minimum regulatory capital requirements for banks are as follows:

- Total capital adequacy ratio of 8%;
- Common Equity Tier 1 Capital ratio of 6%;

The minimum regulatory capital requirements for Municipal bank AD are as follows:

- Total capital adequacy ratio of 10,05 %;
- Common Equity Tier 1 Capital ratio of 8,05 %.

As at 31 December 2022, Municipal Bank AD reports the following capital ratios:

- Total capital adequacy ratio of 18.27%. (2021: 23.83%);
- Common Equity Tier 1 Capital ratio of 18.27%. (2021: 23.83%)

All amounts are presented in thousand BGN, unless otherwise stated

As at 31 December 2022 and 2021, the Parent Bank's equity structure is as follows:

	2022 Basel III	2021 Basel III
Tier 1 capital		
Registered and paid in capital	69,362	69,362
Decrease		
- Intangible assets	(1,191)	(1,349)
- Deferred taxes that are based on future profits	(321)	(318)
Unrealized gains on financial instruments at fair value through other comprehensive income	12,772	4,652
Other regulatory adjustments under Basel III	30,303	36,012
Total Tier 1 capital	**110,925**	**108,359**
Total capital base (own funds)	**110,925**	**108,359**

As at 31 December 2022 and 2021, pursuant to Ordinance 8 of the BNB dated 24 April 2014 concerning bank's capital buffers, Municipal Bank AD maintains the following capital buffers:

- *capital conservation buffer of Common Equity Tier 1 Capital* amounting to BGN 15,181 thousand (2021: BGN 11,366 thousand), 2.5% of the amount of the total risk-weighted exposure of the Bank amounting to BGN 607,567 thousand (2021: BGN 454,655 thousand);
- *countercyclical capital buffer* in the amount of BGN 5,890 thousand, (2021: BGN 2,182 thousand), which is 1% (2021: 0.5%) of the credit risk exposures in the Republic of Bulgaria;
- *systemic risk buffer* amounting to BGN 17,447 thousand (2021: BGN 13,640 thousand), equal to 3% of the total risk-weighted exposure;
- *capital requirements add-on under Tier II* in the amount of BGN 12,449 thousand (2021: BGN 1,137 thousand), which are 2.05% of the total risk-weighted exposure.

5. Accounting classification and fair values of financial assets and liabilities

Measurement of financial assets and liabilities

The Group's accounting policy regarding the fair value measurement is presented in Note 3.7.9.
The Group uses the following hierarchy to determine and disclose the fair value of financial instruments using the following valuation techniques:

- Level 1: quoted (unadjusted) prices on active markets for similar assets or liabilities;
- Level 2: other techniques for which all the inputs that have a material impact on the reported fair value is subject to monitoring either directly or indirectly;
- Level 3: techniques that use input information that has a material impact on the reflected fair value that is not based on a observable market data.

The fair value of financial assets and liabilities traded on active markets is based on quoted market prices in stock exchanges or dealer markets. The Group determines the fair value of all other instruments using other valuation techniques.

Other valuation techniques include models based on present value and discounted cash flows compared to similar instruments for which observable market prices, option pricing models and other valuation models exist. Assumptions and inputs used in valuation techniques include risk-free and reference interest rates, credit spreads, and other premiums used to determine discount rates, prices of debt and equity securities, exchange rates and prices of indices of equity instruments and expected fluctuations and price correlation.

All amounts are presented in thousand BGN, unless otherwise stated

The purpose of valuation techniques is to determine the fair value that reflects the price that would have been received from sell of the asset or paid for the transfer of a liability in an ordinary transaction between market participants at the measurement date.

The tables below provide an analysis of the assets measured at fair value as at 31 December 2022 and 2021 at fair value hierarchy levels that categorize the measurement of fair values. Values are based on the amounts recognized in the statement of financial position.

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets at fair value				
Financial assets measured at fair value through profit or loss	12,556	138	14	12,708
Equity instruments at fair value through other comprehensive income	-	4,377	6,945	11,322
TOTAL	12,556	4,515	6,959	24,030

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets at fair value				
Financial assets measured at fair value through profit or loss	3,582	274	13	3,869
Equity instruments at fair value through other comprehensive income	-	4,123	5,164	9,287
TOTAL	**3,582**	**4,397**	**5,177**	**13,156**

The movement between the opening and closing balance of Level 3 equity investments represents the net revaluation of these instruments, with no purchases, sales or reclassifications of such instruments made during the period.

6. Basis for consolidation

6.1. Investment in subsidiaries

The subsidiaries included in the consolidation are as follows:

Name of subsidiary	**Country of incorporation**	**Main activity**	**2022 Participation**	**2021 Participation**
Municipal Bank Asset Management EAD, including the funds managed by it:	Bulgaria	Managing Company	100.00%	100.00%
Mutual Fund "Municipal Bank – Perspective"	Bulgaria	Mutual fund	100.00%	100.00%
Mutual Fund "Municipal Bank – Balanced"	Bulgaria	Mutual fund	100.00%	100.00%

The Group has no subsidiaries with non-controlling interests.

All amounts are presented in thousand BGN, unless otherwise stated

7. Net interest income

	The year ended 31.12.2022	The year ended 31.12.2021
Interest income		
Interest income under the effective interest rate method		
Interest from loans and receivables from customers	17,123	11,604
Interest from investments measured at amortized cost	3,608	2,619
Interest receivable on lending to and deposits in banks and financial institutions	1,710	51
Negative interest rates on interest - bearing liabilities	6	23
Other interest income		
Interests from financial assets at fair value through profit or loss	347	2,007
Total interest income	**22,794**	**16,304**
Interest expenses		
Interest expenses under the effective interest rate method		
Negative interest on interest-bearing assets	(3,874)	(9,433)
Interests on deposits of customers other than credit institutions	(342)	(899)
Interest on issued bonds	(379)	-
Interest on other borrowed funds	(132)	-
Interest on financial lease	(100)	(102)
Interest on deposits from credit institutions	-	(44)
Total interest expenses	**(4,827)**	**(10,478)**
NET INTEREST INCOME	**17,967**	**5,826**

Net interest income, which the Group calculates using the effective interest method for financial assets and liabilities measured at amortised cost, for the year ending 31 December 2022 includes income of £22,447 thousand (2021: BGN 14,297 thousand) and expenses of BGN 4,827 thousand (2021: BGN 10,478 thousand).

Interest income which the Group calculates using the effective interest method for financial assets at fair value through other comprehensive income for the year ending on
31 December 2022 are accordingly £nil (2021: BGN nil).

8. Net fees and commissions income

	The year ended 31.12.2022	The year ended 31.12.2021
Fees and commissions income		
Servicing and maintenance of accounts	5,098	5,684
Card operations	4,132	3,083
Transfer operations	3,023	3,050
Cash and arbitration operations	2,668	1,930
Documentary operations	431	529
Other	3,433	1,888
Total fees and commissions income	**18,785**	**16,164**
Fees and commissions expenses		
Card operations	(1,736)	(1,290)
Transfer operations	(1,217)	(979)
Other	(323)	(327)
Total fees and commissions expenses	**(3,276)**	**(2,596)**
FEES AND COMMISSIONS INCOME, NET	**15,509**	**13,568**

All amounts are presented in thousand BGN, unless otherwise stated

9. Net profit/ (loss) on operations with financial assets at fair value through profit or loss

	Year ended 31.12.2022	Year ended 31.12.2021
Loss on revaluation of securities at fair value through profit or loss	(756)	(2,253)
Gain/(loss) from sale of securities at fair value through profit or loss	4	(4)
Gains on sale of foreign currency	2,493	1,904
TOTAL	**1,741**	**(353)**

10. Net gain on derecognition of financial assets that are not at fair value through profit or loss

During the reporting period the Group realized a gain on write-off of financial assets carried at amortized cost in the amount of BGN 44 thousand. In 2021 a gain of BGN 287 thousand was realised on the sale of Bulgarian government bonds.

The above sales are of low value and do not have a material impact on the portfolio of financial assets measured at amortised cost, they are part of the Group's strategy to adjust the maturity structure of its holdings and at the same time maximise profitability.

11. Change in fair value of investment property

From early 2022 as disclosed in Note 2.6. a change in accounting policy for subsequent valuation of investment properties, the Bank decided to change the valuation model and start accounting for its investment properties at fair value. The initial effect is BGN 751 thousand. At the end of the year the investment properties were revalued and a further positive effect of BGN 758 thousand was accounted.

12. Other operating income

	Year ended 31.12.2022	Year ended 31.12.2021
Income from rental agreements	584	**846**
Income from cash collection	188	**182**
Penalties under loan and other agreements	78	**63**
Sale of coins and precious metal items	54	**51**
Income from written-off receivables	1	**3**
Other income	281	**261**
TOTAL	**1,186**	**1,406**

13. Other operating expenses

	Year ended 31.12.2022	Year ended 31.12.2021
Expenses on investment properties	(247)	(336)
Expenses on personalization of electronic cards	(71)	(61)
Impairment of buildings, acquired for resale	(394)	-
Other expenses	(39)	(73)
TOTAL	**(751)**	**(470)**

All amounts are presented in thousand BGN, unless otherwise stated

14. Net effect of impairment of financial assets

The movement of impairment losses and uncollectbility is as follows:

	Loans and receivables form customers	Receivables from Banks and other financial institutions	Debt instrument at amortised cost	Other assets	Total
AS AT 1 JANUARY 2021	**(5,245)**	**(33)**	**(17)**	**(2,493)**	**(7,788)**
Impairment accrued for the period	(1,988)	(82)	(142)	(1)	(2,213)
Impairment reintegrated for the period	3,060	96	6	161	3,323
Net impairment	***1,072***	***14***	***(136)***	***166***	***1,110***
Loans written-off on account of impairment	-	-	-	48	48
AS AT 31 DECEMBER 2021	**(4,173)**	**(19)**	**(153)**	**(2,285)**	**(6,630)**
Impairment accrued for the period	(3,715)	(196)	(22)	(1)	(3,934)
Impairment reintegrated for the period	3,383	117	15	18	3,533
Net impairment	***(332)***	***(79)***	***(7)***	***17***	***(401)***
Loans written-off on account of impairment	127	-	-	-	127
AS AT 31 DECEMBER 20212	**(4,378)**	**(98)**	**(160)**	**(2,268)**	**(6,904)**

15. Provisions

The change in provisions during the period is as follows:

	Provisions on loan commitments	Provisions on lawsuits	Pension provisions	Total
AS AT 1 JANUARY 2021	**(555)**	**(268)**	**(552)**	**(1,375)**
Provisions accrued for the period	(243)	-	-	(243)
Provisions reintegrated for the period	662	-	28	690
Provisions reintegrated for the period through comprehensive income	-	-	*(11)*	*(11)*
Net accrued provisions on line "(Accrued)/reintegrated provisions on credit commitments"	*419*	-	-	*419*
Net accrued provisions recognized in other expense items	-	-	*39*	*39*
AS AT DECEMBER 2021	**(136)**	**(268)**	**(513)**	**(917)**
Provisions accrued for the period	(427)	(11)	(87)	(525)
Provisions reintegrated for the period	294	81	122	497
Provisions reintegrated for the period through comprehensive income	-	-	*13*	*13*
Net accrued provisions on line "(Accrued)/reintegrated provisions on credit commitments"	*(133)*	-	-	*(133)*
Net accrued provisions recognized in other expense items	-	*70*	*22*	*92*
AS AT DECEMBER 2022	(269)	(198)	(478)	(945)

15.1. Provisions on loan commitments

Provisions for loan commitments represent the expected credit losses of financial guarantees and undrawn loan commitments for 12 months or for the lifetime depending on the change in credit risk compared to their initial recognition in accordance with the requirements of IFRS 9.

All amounts are presented in thousand BGN, unless otherwise stated

15.2. Provisions on lawsuits

The provisions on lawsuits are recognized when, based on expert judgment, it is found that the Group is more likely to face these liabilities in the near future. As at 31 December 2022, the Group assessed the lawsuits filed against the Group and assessed the necessary provisions for them at the amount of BGN 198 thousand (2021: BGN 268 thousand).

15.3. Pension provisions

Pension provisions represent the present value of the Group's liabilities under defined benefit plans representing retirement benefits in accordance with the requirements of Art. 222 of the Labour Code. Actuarial gains / losses adjust the amount of the recognized liability. The key parameters in determining defined benefit plan obligations for 2022 are: discount rate - 3.08%; salary increase - 2% per year; retirement age: men 64 years and 5 months, women 61 years and 10 months for 2022 and an increase of 2 months each year until age 65 is reached for both men and women.

The results of the analysis of the deviation between the actual experience over the period and the actuarial assumptions made in the previous valuation can be presented as follows:

Parameter	***Amount***
Allocated reserve for leavers as at 31.12.2021	**80**
Retirement benefits paid	85
Shortage of reserve	(5)
Out of which due to unexpected circumstances such as:	
- early retirement	-
- persons with adjustment of gross remuneration as a result of a change of class in 2022	5
Net shortage, excluding unforeseen cases	**-**
% of allocated reserve	**0%**

The results of the sensitivity analysis of actuarial assumptions are presented in the table:

	Central scenario	**Discount rate**		**Change in the remuneration**		**% of leaving**	
Changes in the assumptions		**+100 b.p.**	**-50 b.p.**	**+1%**	**-1%**	**+2%**	**-2%**
	478	467	484	489	467	470	486
Change		**(11)**	**6**	**11**	**(11)**	**(8)**	**8**

The expectations for the change in the defined benefit plan obligation in 2023 may be presented as follows:

	Pension provisions
Pension provisions as at 31.12.2022	**478**
Including provision for potentially retired in 2023	*67*
Expected actual expense for retirements in 2023	67
Reserve released for leavers	14
Shortage of the plan	14
Increase in provision for remaining employees	96
Expected Pension Provision as at 31.12.2023	***493***

All amounts are presented in thousand BGN, unless otherwise stated

16. Administrative expenses

	Year ended 31.12.2022	Year ended 31.12.2021
Employee benefits expense	(15,493)	(14,781)
Information, communication, and technology expenses	(3,362)	(3,198)
Expenses on security and cash collection	(1,653)	(1,826)
Contribution to Bulgarian Deposit Insurance Fund	(2,436)	(1,699)
Deliveries and other hired services	(1,491)	(1,685)
Expenses on materials and supplies	(1,009)	(708)
Consultancy, auditing, and other professional services	(519)	(478)
Rentals of buildings and assets	(297)	(227)
Advertising, marketing, and communications	(67)	(33)
Other expenses	(2,677)	(2,763)
TOTAL	**(29,004)**	**(27,398)**

The number of employees of the Group as at 31 December 2022 is 522 (2021: 549).

The remuneration for services performed by the registered auditors of the Bank includes independent financial audit amounts to BGN 132 thousand (2021: BGN 124 thousand) and services for reviewing the reliability of the internal control systems under Art. 76(7), p.1 of the Credit Institutions Act amounts to BGN 21 thousand (2021: 19 thousand).

17. Income tax expense

The income tax expense is the sum of current income tax expense and deferred tax on all temporary differences calculated in accordance with the Corporate Income Tax Act at a rate of 10% for 2022 and 2021.

The taxes reported in the Separate Statement of Profit or Loss consist of the following elements:

	Year ended 31.12.2022	Year ended 31.12.2021
Current tax expense	(9)	(17)
Deferred tax income, related to the occurrence and reversal of deferred taxes	(18)	-
TOTAL INCOME TAX EXPENSES	(27)	(17)

The Group's actual taxes differ from their theoretical amount, calculated on the basis of profit before taxes, and the nominal amount of the tax rate, as follows:

	Year ended 31.12.2022	Year ended 31.12.2021
Profit/ (Loss)/ before tax	5,426	(8,947)
Tax expense based on the applicable tax rate 10 % for 2022 and 2021	(543)	-
Tax effect of income /expenses which decrease /increases the taxable profit	543	(17)
Current tax expense	(9)	(17)
Tax income on deferred tax asset, related to the occurrence and reversal	(18)	-
Adjustment for tax effect of transactions taxed at individual level	12	-
TOTAL INCOME TAX (EXPENSE)	**(27)**	**(17)**
Effective tax rate	-	-

In 2022, the Group recognized a current tax expense in connection with elements of other comprehensive income in the amount of BGN 77 thousand

All amounts are presented in thousand BGN, unless otherwise stated

18. Cash on hand and cash balances with central banks

	As at 31.12.2022	As at 31.12.2021
Cash on hand	23,982	21,646
Current accounts with the Central Bank	1,015,853	1,068,166
TOTAL	**1,039,835**	**1,089,812**

The accounts with the Central Bank include minimum non-interest bearing reserves of BGN 152,241 thousand (2021: BGN 127,308 thousand) and a reserve provision fund in relation to the guarantee mechanism of the Borika information system in the amount of BGN 9,513 thousand (2021: BGN 7,445 thousand) in accordance with Central Bank regulations. There are no restrictions imposed by the Central Bank on the use of minimum reserves. These reserves are determined based on the deposits attracted by the Group.
Since August 2018, the Group has secured the funds raised from budget enterprises and state institutions by blocking in favour of the Ministry of Finance, on the basis of Article 152, paragraph 6 of the Public Finance Act, cash in a special account opened for this purpose with the Bulgarian National Bank. As at 31 December 2022, the blocked amount was BGN 450,000 thousand (2021: BGN 700,000 thousand).

19. Financial assets at fair value through profit or loss

	As at 31.12.2022	As at 31.12.2021
Interest in mutual funds	16	15
Bulgarian corporate bonds	9,801	-
Bulgarian government securities	2,530	3,404
Shares in local entities	345	437
Foreign corporate bonds	2	2
Compensatory instruments	14	11
TOTAL	**12,708**	**3,869**

Securities are measured at fair value which is their market value.

As at 31 December 2022, the fair value hierarchy, which categorises the fair value measurement of these assets by level, is as follows: Level 1 - BGN 12,676 thousand (2021: BGN 3,841 thousand), Level 2 - BGN 16 thousand (2021: BGN 15 thousand) and Level 3 - BGN 16 thousand (2021: BGN 13 thousand).

At the end of 2021, as announced in Note 2.6 Change in the business model of management and recovery of contractual cash flows of debt securities in the portfolio "Financial assets at fair value through profit or loss", the Bank ceases to use the portfolio of debt securities at fair value through profit or loss. In this regard, at the end of 2021, a business model was applied to the debt securities of the Financial Assets at Fair Value through Profit or Loss portfolio, the purpose of which is to hold the assets in order to collect the contractual cash flows from principal and interest accrued at amortized cost.

All amounts are presented in thousand BGN, unless otherwise stated

20. Financial assets at fair value through other comprehensive income

	As at 31.12.2022	As at 31.12.2021
Shares in foreign entities	4,377	4,123
Shares in local entities	6,945	5,164
TOTAL	**11,322**	**9,287**

The financial assets measured at fair value through other comprehensive income as at 31 December 2022 represent shares in foreign companies with a value of BGN 4,377 thousand (2021: BGN 4,123 thousand) and in Bulgarian companies with a value of BGN 6,945 thousand (2021: BGN 5,164 thousand) categorised in Level 2 and Level 3 of the Fair Value Hierarchy, respectively. The revaluation of equity instruments at fair value through other comprehensive income recognised during the period amounted to BGN 1,744 thousand (2021: BGN 316 thousand).

21. Receivables from banks and other financial instruments

	As at 31.12.2022	As at 31.12.2021
Nostro accounts with banks	58,939	9,557
Deposits due from banks	21,920	80,119
Loans to banks	34,306	-
Guarantee deposits with Mastercard Inc. and Visa	540	520
	115,705	**90,196**
Expected credit losses	(98)	(19)
TOTAL	**115,607**	**90,177**

Guarantee deposits are deposits of Mastercard Inc. and Visa in connection with the Bank's payments in these systems.

As of 31 December 2022 and 2021, the residual and original maturity of all deposits due from banks is up to 3 months.

In 2022, long-term loans were granted to 3 Bulgarian banks with an original maturity of 5 years.

22. Loans and receivables from customers

22.1. Analysis by customer type

The structure of the loan portfolio by customer type is as follows:

	As at 31.12.2022			As at 31.12.2021		
	Gross carrying amount	**Impairment for uncollectibility**	**Carrying amount**	**Gross carrying amount**	**Impairment for uncollectibility**	**Carrying amount**
Individuals	125,576	(1,578)	123,998	113,983	(1,230)	112,753
Mortgages	45,117	(56)	45,061	34,343	(10)	34,333
consumer loans	79,329	(1,509)	77,820	78,697	(1,204)	77,493
credit cards	1,130	(13)	1,117	943	(16)	927
Corporates	318,793	(2,515)	316,278	146,909	(2,089)	144,820
Government entities	42,068	(265)	41,803	38,777	(839)	37,938
Non-banking financial institutions	5,459	(20)	5,439	4,494	(15)	4,479
TOTAL	**491,896**	**(4,378)**	**487,518**	**304,163**	**(4,173)**	**299,990**

In the structure of the loan portfolio by types of customers, loans to individuals are additionally indicated for the purpose of the loan.

All amounts are presented in thousand BGN, unless otherwise stated

Segment	Stage	31 December 2022 Number of transactions	Gross carrying amount in TBGN	Impairment in TBGN	Carrying amount in TBGN
Individuals	stage 1	12,548	120,860	(290)	120,570
	stage 2	251	1,714	(109)	1,605
	stage 3	532	3,002	(1,179)	1,823
	Total	**13,331**	**125,576**	**(1,578)**	**123,998**
Non-financial entities	stage 1	124	307,149	(1,332)	305,817
	stage 2	5	9,293	(223)	9,070
	stage 3	8	2,351	(960)	1,391
	Total	**137**	**318,793**	**(2,515)**	**316,278**
Financial institutions	stage 1	1	5,459	(20)	5,439
	stage 2	-	-	-	-
	stage 3	-	-	-	-
	Total	**1**	**5,459**	**(20)**	**5,439**
Budget	stage 1	26	42,068	(265)	41,803
	stage 2	-	-	-	-
	stage 3	-	-	-	-
	Total	**26**	**42,068**	**(265)**	**41,803**
Total Loan Portfolio		**13,495**	**491,896**	**(4,378)**	**487,518**

22.2. Analysis by sector

	As at 31.12.2022			As at 31.12.2021		
	Gross carrying amount	Impairment for uncollectibility	Carrying amount	Gross carrying amount	Impairment for uncollectibility	Carrying amount
Individuals	125,576	(1,578)	123,998	113,983	(1,230)	112,753
Manufacture	16,284	(292)	15,992	11,689	(205)	11,484
Services	165,984	(631)	165,353	59,202	(278)	58,924
Commerce	55,713	(1,093)	54,620	24,240	(1,179)	23,061
Government entities	42,068	(265)	41,803	38,777	(839)	37,938
Construction	56,094	(276)	55,818	32,739	(386)	32,353
Transport	15,702	(172)	15,530	13,762	(29)	13,733
Agriculture	9,016	(51)	8,965	5,277	(12)	5,265
Financial and insurance operations	5,459	(20)	5,439	4,494	(15)	4,479
TOTAL	**491,896**	**(4,378)**	**487,518**	**304,163**	**(4,173)**	**299,990**

In 2022, loans receivable written off against the allowance for bad debts amounted to BGN 127 thousand (2021: BGN nil).

The effects of Covid-19 on the credit process and credit risk management are presented in Note 4.2.7.

23. Debt instruments at amortised cost

	As at 31.12.2022	As at 31.12.2021
Bulgarian government bonds	304,405	249,964
Bulgarian municipal bonds	57,004	60,385
Foreign corporate bonds	9,009	9,009
Bulgarian corporate bonds	22,794	22,795
	393,212	**342,153**
Expected credit losses	(160)	(153)
TOTAL	**393,052**	**342,000**

Bulgarian government securities blocked as collateral for the maintenance of budget accounts as at 31 December 2022 amount to BGN 88,342 thousand (2021: BGN nil).

All amounts are presented in thousand BGN, unless otherwise stated

24. Other assets

	As at 31.12.2022	As a 31.12.2021
Properties acquired for resale	11,982	12,312
Advances paid to suppliers	2,522	1,849
Prepaid expenses	1,178	972
Other financial receivables	3,514	3,059
Current stock of precious metals	393	440
Other receivables from banks	105	169
Materials	191	146
Other assets	193	758
	20,078	**19,705**
Impairment	(2,266)	(2,284)
TOTAL	**17,812**	**17,421**

In 2020, the Groyp purchased a regularised land parcel adjacent to a property it owns, acquired in foreclosure of BGN 11,871 thousand (2021: BGN 12,105 thousand), presented in note 25. It has reviewed the property for impairment and has charged an impairment charge of BGN 234 thousand. The Bank continues to be in negotiations with a buyer who has declared an intention to purchase both properties in their entirety.
Part of the advances submitted in the amount of BGN 861 thousand represent payments for the purchase of new banking software to be commissioned in 2023.

25. Assets, acquired in foreclosure

Change in assets acquired in foreclosure is as follows:

	Real estate
As at 1 January 2021	**14,504**
Sold	(1,036)
As at 31 December 2021	**13,468**
Sold	(361)
Impairment	(64)
As at 31 December 2022	**13,043**

The Group has conducted its annual analysis of the existence of indications of impairment to the net realizable value of the assets acquired in foreclosure. Two of the assets were impaired by BGN 64 thousand.

For the purposes of the analysis of net realizable value, valuations by external independent appraiser of real estates are used by the Group. The market approach (comparing selling prices of similar assets) is used in the valuation reports. In this approach the valuation is based on a direct comparison of the property under consideration and similar to it which has been sold, the price being determined on the basis of those previous transactions. When applying this approach, it is necessary that the data on comparable properties be substantially similar, i.e. the properties have to be similar (in terms of type, size, and condition) and in the same area, also the time of the transaction and the date on which the valuation is made have to be close enough. In order to address significant differences a few specific adjustments were used in the course of the analysis, such as sales ratio, location adjustment and specific/condition factor.

As disclosed in Note 24 , the Group is in negotiations with a buyer who has declared an intention to purchase two properties- a property purchased for resale accounted for in other assets with a carrying value as of 31 December 2022 of BGN 11,871 thousand and land acquired from collateral with a carrying value as of 31 December 2022 of BGN 12,652 thousand. On review for impairment at the end of 2022, an impairment charge has been made on both properties totalling BGN 298 thousand

All amounts are presented in thousand BGN, unless otherwise stated

26. Property and equipment

	Land and buildings	Office equipment	Vehicles	Fixtures and fittings	Other tangible assets	Assets under construction	Total
Revalued/ Gross carrying amount							
1 January 2021	**19,774**	**9,501**	**1,299**	**3,272**	**4,928**	**18,790**	**57,564**
Additions	-	102	-	83	49	-	234
Disposals	(263)	(552)	(159)	(331)	(983)	-	(2,288)
Revaluation	749	-	-	-	-	-	749
Net increase / (decrease)	486	(450)	(159)	(248)	(934)	-	(1,305)
31 December 2021	**20,260**	**9,051**	**1,140**	**3,024**	**3,994**	**18,790**	**56,259**
Additions	-	139	545	31	121	-	836
Disposals	(417)	(433)	(606)	(223)	(426)	-	(2,105)
Revaluation	770	-	-	-	-	-	770
Net increase / (decrease)	353	(294)	(61)	(192)	(305)	-	(499)
31 December 2022	**20,613**	**8,757**	**1,079**	**2,832**	**3,689**	**18,790**	**55,760**
Accumulated depreciation							
1 January 2021	**3,917**	**6,761**	**1,138**	**3,174**	**4,788**	-	**19,778**
Accrued for the year	331	901	81	41	34	-	1,388
Depreciation of disposals	-	(536)	(149)	(328)	(970)	-	(1,983)
Accrued for the year, net	331	365	(68)	(287)	(936)	-	(595)
31 December 2021	**4,248**	**7,126**	**1,070**	**2,887**	**3,852**	-	**19,183**
Accrued for the year	336	784	66	40	30	-	1,256
Depreciation of disposals	(56)	(425)	(565)	(222)	(424)	-	(1,692)
Accrued for the year, net	280	359	(499)	(182)	(394)	-	(436)
31 December 2022	**4,528**	**7,485**	**571**	**2,705**	**3,458**	-	**18,747**
Carrying amount as at 31 December 2021	**16,012**	**1,925**	**70**	**137**	**142**	**18,790**	**37,076**
Carrying amount as at 31 December 2022	**16,085**	**1,272**	**508**	**127**	**231**	**18,790**	**37,013**

As at 31 December 2022, in accordance with the adopted accounting policy, the Group has made a revaluation in the amount of BGN 770 thousand of the land and buildings used in its operations (owner occupied property) (2021: BGN 749 thousand). The analysis of the fair values of the owner-occupied land and buildings by level in the hierarchy of fair values categorizes the fair value measurement in Level 3. The appraisal of the revalued value was performed by an independent external appraiser.

As at 31 December 2022 if the land and buildings used in the Group's operations were accounted for using the cost method, their carrying amount would be BGN 8,041 thousand (2021: BGN 8,275 thousand).

Assets under construction represent a property located in the city centre of Sofia and accumulated costs for design and administrative procedures for construction documents in connection with the launched process of realization of investment intentions for the construction of the Group's own headquarters building. In 2022, the Group will be building a new building for the Group. The Group has received a building permit.

As of 31 December 2022 the Group has no pledged property and equipment as collateral and no contractual commitments have been made for the acquisition of significant property and equipment.

All amounts are presented in thousand BGN, unless otherwise stated

29. Right-of-use assets and lease liabilities

29.1. Right-of-use assets

	Buildings
Gross carrying amount	
Balance at 1 January 2021	7,051
Additions	1,439
Disposals	(2,305)
Balance at 31 December 2021	**6,185**
Additions	2,940
Disposals	(1,630)
Balance at 31 December 2022	**7,495**
Depreciation and impairment	
Balance at 1 January 2021	3,390
Accrued for the year	1,482
Depreciation of disposals	(1,292)
Balance at 31 December 2021	**3,580**
Accrued for the year	1,261
Depreciation of disposals	(1,578)
Balance at 31 December 2022	**3,263**
Net carrying amount as at 31 December 2021	**2,605**
Net carrying amount as at 31 December 2022	**4,232**

29.2. Lease liabilities

	As at 31.12.2022	As at 31.12.2021
Lease liabilities – non-current portion	3,141	1,602
Lease liabilities – current portion	1,195	1,083
Total	**4,336**	**2,685**

The Group leases premises in buildings, which it uses for Group branches. Except for short-term leases and leases of low-value assets, each lease is recognised on the Statement of Financial Position as a right-of-use asset and a lease liability.

Each lease contract imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee.

Future minimum lease payments at 31 December 2022 were as follows:

	Minimum lease payments due						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Lease payments 31.12.2022							
Gross lease payments	1,323	1,126	893	725	421	173	4,661
Finance charges	(128)	(89)	(57)	(30)	(11)	(10)	(325)
Net present values	**1,195**	**1,037**	**836**	**695**	**410**	**163**	**4,336**

All amounts are presented in thousand BGN, unless otherwise stated

Future minimum lease payments at 31 December 2021 were as follows:

	Minimum lease payments due						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Lease payments 31.12.2021							
Gross lease payments	1,153	628	444	330	196	100	2,851
Finance charges	(70)	(44)	(27)	(15)	(6)	(4)	(166)
Net present values	**1,083**	**584**	**417**	**315**	**190**	**96**	**2,685**

The increase in right-of-use assets is due to new contracts signed for the Group's branch network.

29.3. Lease payments not recognised as a liabilities

The Group has elected not to recognize a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to payments not included in the measurement of the lease liability are as follows:

	Year ended 31.12.2022	Year ended 31.12.2021
Short-term leases	269	175
Leases of low value assets	41	29
	310	**204**

29.4. Operating lease – Group as a lessor

	As at 31.12.2022	As at 31.12.2021
Within 1 year	703	478
1 to 5 years	2,022	1,599
More than 5 years	176	211
TOTAL	**2,901**	**2,288**

The tables below show by remaining maturity the amount of future minimum lease receipts under operating leases.

	Minimum lease proceeds due from lessees						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Gross lease proceeds							
As at 31.12.2022	703	703	680	502	137	176	2,901
As at 31.12.2021	478	432	432	432	303	211	2,288

Revenue from operating leases is presented in Note 12. The lower rental income reported for 2022 is due to the termination of certain leases due to the sale of the properties.

30. Deposits from banks

Deposits from banks as at 31 December 2021 amounting to BGN 985 thousand represent a monthly deposit of a local credit institution in foreign currency. As at 31 December 2022, the Bank had not received any deposits from other banks.

All amounts are presented in thousand BGN, unless otherwise stated

31. Deposits from other customers

	31 December 2022			31 December 2021		
	BGN	**Foreign currency**	**Total**	**BGN**	**Foreign currency**	**Total**
RESIDENTS	1,513,988	417,418	1,931,406	1,472,934	317,189	1,790,123
Individuals	761,820	257,380	1,019,200	680,028	235,073	915,101
Budget	399,379	40,846	440,225	503,101	22,692	525,793
Services	153,641	19,891	173,532	116,621	17,524	134,145
Manufacture	50,615	9,647	60,262	43,468	20,177	63,645
Commerce	41,880	71,457	113,337	44,307	17,192	61,499
Transport	29,746	14,120	43,866	24,460	2,329	26,789
Construction	62,567	2,068	64,635	49,678	468	50,146
Finance (other than banks)	3,713	1,088	4,801	2,371	1,389	3,760
Agriculture	10,627	921	11,548	8,900	345	9,245
NON-RESIDENTS	2,549	15,657	18,206	1,615	12,230	13,845
TOTAL	**1,516,537**	**433,075**	**1,949,612**	**1,474,549**	**329,419**	**1,803,968**

The deposits of Budget entities as at 31 December 2022 and 2021 include mainly current, budget and deposit accounts of Bulgarian municipalities.

32. Loans received from banks

During 2022, the Parent Bank has obtained two long-term loans from local banks amounting to BGN 24,076 thousand, including interest amounting to BGN 76 thousand. The borrowings have a term of 5 years, maturing in 2027, at a fixed interest rate of 4.5%. The cash was provided to the Group to meet the minimum requirements for own funds and eligible liabilities pursuant to Articles 72a-72b of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on requirements for credit institutions and amending Regulation (EU) No 648/2012, in conjunction with Article 69a, par. 11 of the Act on the Recovery and Resolution of Credit Institutions and Investment Firms (Recovery and Resolution Act).

33. Bonds issued

	As at 31.12.2022	As at 31.12.2021
Principal	20,702	-
Interest liabilities	379	-
	21,081	-

In 2022. The Parent Bank has issued two issues of bonds that are not traded on a regulated market.

Conditions of Issue 1:
- ISIN: BG2100006225;
- Volume: 10,702 non-convertible bonds;
- Par: BGN 1,000
- Type: ordinary, unsecured
- Coupon: 4.5% fixed;
- Issue date: June 2022;
- Maturity: June 2027.

Conditions of Issue 2:
- ISIN: BG2100011225;
- Volume: 10,000 non-convertible bonds;
- Par: BGN 1,000
- Type: ordinary, unsecured;
- Coupon: 4.5% fixed;
- Issue date: September 2022;
- Maturity: September 2027.

All amounts are presented in thousand BGN, unless otherwise stated

The Bonds have been issued in accordance with the terms of Article 69a of the Recovery and Resolution Act and Article 72b of the Regulation on Prudential Requirements for Eligible Obligations Instruments of the Bank, respectively, and will remain so until one year before maturity.

34. Loans received from customers

In 2022 the Group received £6,237 thousand in the form of long-term loans for 3 or 4 years from individuals. The loans were obtained in BGN or EUR. Interest expense on these loans amounted to BGN 56 thousand. The cash was provided to the Group under products developed for individuals, the purpose of which is to diversify the forms of funds raised from customers in order to meet the minimum requirements for own funds and eligible liabilities pursuant to Articles 72a-72b of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on requirements for credit institutions and amending Regulation (EU) No 648/2012, in conjunction with Article 69a, par. 11 of the Act on the Recovery and Resolution of Credit Institutions and Investment Firms (Recovery and Resolution Act).

35. Other liabilities

	As at 31.12.2022	As at 31.12.2021
Financial liabilities	1,254	2,648
Share capital increase contributions	20,000	-
Cession payables	3,691	-
Deferred income	325	666
Unsettled bank transfers	317	627
Unused paid leaves and other employee compensations	392	373
Other liabilities	1,438	786
TOTAL	**27,417**	**5,100**

The remainder of the financial liabilities mainly consist of payables to service providers provided to the Group which were paid in January 2023 and 2022 respectively.
Bank transfers in execution represent liabilities for currency transfers ordered by customers on the last day of 2022 and 2021, respectively, with a transfer execution lag of up to two days. These transfers are executed on the first business day of 2023 and 2022, respectively.
As at 31 December 2022, the Parent Bank has received cash from Novito Opportunities Fund AGmvK to increase the share capital by issuing new shares worth BGN 20,000 thousand to Municipal Bank AD, which will be reflected in an increase in the share capital of the Group upon their entry in the Commercial Register.
The remainder of the financial liabilities consist mainly of payables to service providers provided to the Bank, which were paid in January 2023 and 2022, respectively.
Bank remittances in execution represent liabilities for foreign currency transfers ordered by customers on the last day of 2022 and 2021, respectively, with a remittance execution lag of up to two days. These transfers are executed on the first business day of 2023 and 2022, respectively.

36. Tax assets and liabilities

36.1. Current taxes

Current tax assets represent the net tax position in relation to income tax (corporation tax) for the year increased by the corporation tax overpaid and not yet recovered from the tax authorities in the previous year. In accordance with statutory requirements, the Group makes advance profit tax payments calculated on the basis of the previous year's taxable profit. In the event that the advance payments made at the year-end exceed the final tax payable for the year, such excess cannot be automatically offset against the corporation tax liability in the following year but must be specifically refunded by the tax administration. As at 31 December 2022, the Group's current tax assets amount to BGN 370 thousand (31.12.2021: nil).

All amounts are presented in thousand BGN, unless otherwise stated

The Group has a corporate tax liability of BGN 10 thousand (31.12.2021: BGN 17 thousand). Group companies are not entitled to a net settlement of corporate tax liabilities.

36.2. Deferred taxes

Deferred income taxes are computed on all temporary differences using the balance sheet method of determining liabilities, applying a tax rate of 10%.

Information on the types of deferred tax assets and liabilities as of December 31, 2022 and 2021 is set forth in the following tables.

Deferred income tax balances belong to the following balance sheet items:

	Assets		Liabilities		Net (assets)/liabilities	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Property and equipment	(210)	(190)	944	873	734	683
Provisions	(37)	(37)		-	(37)	(37)
Actuarial gains and losses	(51)	(55)		-	(51)	(55)
Other liabilities	(23)	(36)		-	(23)	(36)
Financial assets	-	-	250	227	250	227
Net deferred tax (assets)/ liabilities	**(321)**	**(318)**	**1,194**	**1,100**	**873**	**782**

The movement of temporary tax differences in 2021 is formed from:

	Balance	Recognized during the year		Balance
	31.12.2020	**In profit and loss**	**In other comprehensive income**	**31.12.2021**
Property and equipment	683	(22)	77	738
Provisions	(37)	-	-	(37)
Actuarial gains and losses	(55)	4	-	(51)
Other liabilities	(36)	13	-	(23)
Financial assets	227	23	-	250
Other changes	-	-	(4)	(4)
Net deferred tax (assets)/ liabilities	**782**	**18**	**73**	**873**

The movement in temporary tax differences in 2021 arises from:

	Balance	Recognized during the year		Balance
	01.01.2021	**In profit and loss**	**In other comprehensive income**	**31.12.2021**
Property and equipment	608	-	75	683
Provisions	(37)	-	-	(37)
Actuarial gains and losses	(55)	-	-	(55)
Other liabilities	(36)	-	-	(36)
Financial assets	227	-	-	227
Net deferred tax (assets)/ liabilities	**707**	**-**	**75**	**782**

37. Equity and reserves

37.1. Share capital

As at 31 December 2022, the share capital of the Parent Bank amounted to BGN 69,362 thousand and consisted of 6,936,281 registered dematerialised voting shares with a par value of BGN 10 each. As at 31 December 2022, Novito Opportunistic Fund AGmvK has a 95.5% (31.12.2021: 95.5%) interest in the share capital of the Bank.

In 2022 and 2021 the Bank did not distribute any dividends.

All amounts are presented in thousand BGN, unless otherwise stated

37.2. Statutory reserves

The Group establishes a Reserve Fund pursuant to a resolution of the General Meeting on the basis of Article 246(2)(4) of the Companies Act from the appropriated profit after tax, the value of which as at 31 December 2022 is BGN 44,549 thousand (2021: BGN 44,394 thousand).

37.3. Other reserves

The revaluation reserves include:

- Revaluation reserve of real estate includes the revaluation on owner occupier real estate in relation with the revaluation model adopted by the Bank under IAS 16 Property, Plant and Equipment (Note 26), net of tax;
- Revaluation reserve of securities which consists of revaluations as a result of changes in their fair values, net of tax; and
- Actuarial gains or losses, net of taxes, related to the Bank's liabilities under defined benefit plans in accordance with IAS 19 "Employee Benefits"

	As at 31.12.2022	As at 31.12.2021
Revaluation reserve of owner occupied property	8,584	7,962
Revaluation reserve of securities	6,396	4,652
Actuarial losses	(25)	(12)
Total	**14,955**	**12,602**

38. Related parties

The Group's related parties include its owners and key management personnel as the Group has no associates or joint ventures and no other companies under common control.

As at 31 December 2022, Municipal Bank AD is in a related party relationship with its key management personnel and with Novito Opportunities Fund AGmvK, which is a major shareholder holding 95.50% of the registered capital of the Parent Bank.

In the normal course of business, banking transactions are conducted with related parties. These transactions are carried out at negotiated prices which do not differ from market prices. There are no overdue receivables from related parties.

Transactions and outstanding balances with related parties at 31 December are as follows:

38.1. Related party balances

2022	Key management personnel	Major shareholder	Total
Loans and receivables	1	-	1
Deposits	1,127	-	1,127
Undrawn commitments and issued guarantees	33	-	33

2021	Key management personnel	Major shareholder	Total
Loans and receivables	29	-	29
Deposits	576	-	576
Undrawn commitments and issued guarantees	25	-	25

All amounts are presented in thousand BGN, unless otherwise stated

38.2. Related party transactions

In 2022 and 2021, there is no income or expense recorded in profit or loss as a result of related party transactions

The short term income of the Group's key management personnel for the year ending 31 December 2022 was BGN 1,057 thousand (2021: BGN 868 thousand).

39. Cash and cash equivalents

Cash and cash equivalents for the purposes of the Cash Flow Statement consist of the following balances:

	As at 31.12.2022	As at 31.12.2021
Cash on hand	23,982	21,646
Balances with the Central Bank	1,015,853	1,068,166
Nostro accounts in banks	58,939	9,557
Deposits with banks	21,920	80,119
Expected credit losses	(10)	(19)
TOTAL	**1,120,684**	**1,179,469**

Cash and cash equivalents, as used in the consolidated statement of cash flows, include cash on hand, unrestricted balances with the Central Bank, and nostro accounts, deposits with banks and amounts due from banks under agreements with a repurchase provision with an original maturity of 3 months or less. The Group recognises as cash and cash equivalents funds representing minimum statutory reserve and collateral reserve fund as disclosed in note 18. Banks are free to use these funds on payment of interest in accordance with Regulation 21 of the BNB on the minimum reserve requirements that banks maintain with the BNB.

40. Reconciliation of liabilities arising from financing activities

	Loans received from banks	Bonds issued	Loans received from customers	Lease liabilities	Share equity contributions	Total
1 January 2022	-	-	-	2,685	-	2,685
Cash flows						
Payments	-	-	-	(1,389)	-	(1,389)
Proceeds	24,000	20,702	6,237	-	20,000	70,939
Non-monetary changes						
Interest accrued	76	379	56	100	-	611
Asset additions	-	-	-	2,940	-	2,940
31 December 2022	24,076	21,081	6,293	4,336	20,000	75,786

41. Non-cash transactions

During the periods presented, the Group entered into the following investment and financing transactions where no cash or cash equivalents were used and which are not reflected in the consolidated statement of cash flows:

- The Group has acquired right-of-use assets amounting to BGN 2,940 thousand (2021: BGN 1,439 thousand).

42. Contingencies and irrevocable commitments

The Group's contingent and irrevocable commitments consist of issued guarantees, trade letters of credit and undrawn committed credit facilities.

As at 31 December 2022, the Group had issued guarantees to customers in favour of third parties amounting to BGN 29,948 thousand (2021: BGN 38,301 thousand), respectively, which are secured by deposits, tangible fixed assets and other assets. These contingent liabilities carry credit risk.

The undrawn commitments under committed loans and overdrafts at 31 December 2022 amount to BGN 50,212 thousand (2021: BGN 28,125 thousand).

As at 31 December 2022 and 2021, the Group has not entered into any forward transactions.

43. Events after the end of the reporting period

No adjusting events or significant non-adjusting events have occurred between the date of the consolidated financial statements and the date of their authorization for issue, except as described below.

On 15.11.2022 the General Meeting of Shareholders resolves to increase the Bank's registered capital by 2,000,000 ordinary, registered, uncertificated, voting shares with a par value of BGN 10. The main shareholder Novito Opportunities Fund AGmvK shall transfer the funds for the purchase in December 2022. On 4 January 2023, an increase in the share capital of Municipal Bank AD was entered in the Commercial Register. On 25 January 2023, the BNB authorised the new shares to be included in the core Tier 1 capital.

44. Approval of the consolidated financial statements

The consolidated financial statements as at 31 December 2022 (including comparative information) were approved for issue to the Supervisory Board by the Management Board on 25.04.2023.