MUNICIPAL BANK AD

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

31 December 2023

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.

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
Stanislav Bozhkov – 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

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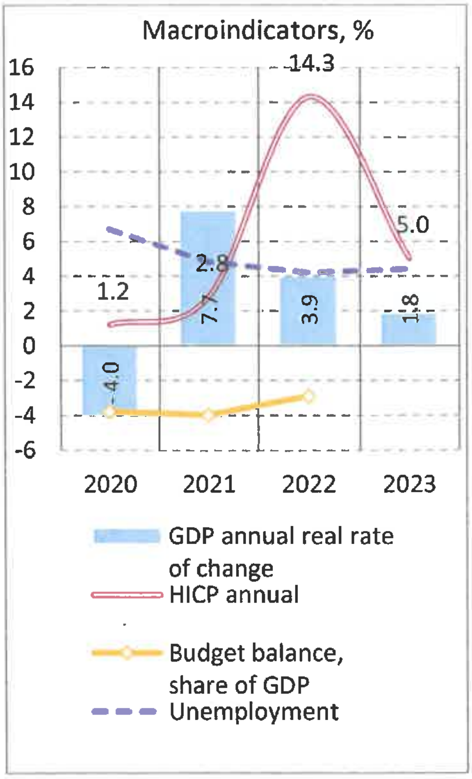
Economic environment

The economic environment has undergone significant changes in recent years. The global economy has been impacted by two major crises – the Covid-19 pandemic and the war in Ukraine. Military conflicts in the Middle East periodically intensify, contributing to economic instability and unpredictability. The long-standing policy of negative interest rates was terminated in mid-2022 in response to high inflation, and the increase in the ECB's key interest rates continued into 2023.

The real economy and financial system are undergoing transformation, with global trade and economic activity weakening following the rapid recovery from the pandemic. Inflation in the European Union (EU) rapidly declined, reaching 3.4% on an annual basis at the end of 2023, and 2.9% in the Eurozone (compared to 10.4% and 9.2% for 2022). Meanwhile, EU GDP has seen zero growth over the last two quarters compared to the previous quarter, with several countries, including Germany, experiencing annual contractions. Inflationary pressures have eased with the implementation of restrictive monetary policies and stabilization of energy and commodity markets. ECB interest rates remained unchanged following the September 2023 increase of 0.25 percentage points. Businesses and analysts expect a near-term decrease in interest rates given the easing inflation and the likelihood of the economy entering a recession. There are still not enough signals to suggest that a change is possible in the first half of the year.



The economic performance across EU countries varies significantly. Southern European nations are benefiting from a tourism boom, which has a noticeable positive impact, and they are less affected by declines in industrial production and gas prices. In contrast, Germany is heavily impacted by rising energy costs due to sanctions against Russia and the slower growth of the Chinese economy, compared to the previous year, one of its key trading partners.

In Bulgaria, the economy began to slow down from mid-2022, but the growth in 2023 remains positive and exceeds the forecasted 0.4% According to preliminary data from the National Statistical Institute, the real increase in GDP on an annual basis is 1.8% (compared to 3.9% for 2022). Deteriorating prospects for our main trading partners in the EU have weakened external demand in recent months. Domestic demand is driven by investment activity and private consumption amid rising incomes.

A slowdown in annual inflation (HICP) to 3.1% is forecasted by the end of 2024, although short-term inflationary factors such as strong domestic market demand, low propensity to save, and rising labour costs prevail. Globally, food and energy prices are trending downward, which will alleviate price pressures in Bulgaria.

Unemployment in Bulgaria has been at a low level over the past three years, with the number of employed individuals remaining almost unchanged and high demand for labour. The tight labour market leads to continuously rising average wages in support of consumption, but growth rates will decrease in the coming years. Labor remuneration and prices in Bulgaria follow a long-term trend towards reaching average levels in the EU.

The country's long-term credit rating from S&P Global Ratings is BBB, affirmed in November 2023. The outlook has been changed to positive due to the actions taken towards joining the Eurozone.

Banks in Bulgaria

Banks are operating under favourable conditions with increased interest margins and a good economic performance. In 2023, economic growth slowed down after the rapid recovery from the Covid pandemic in previous years, but income and profits of firms are improving, and inflation is subsiding. Under these conditions, demand for loans remained high, especially in the household segment, where interest rates did not rise. The share of non-performing loans (excluding exposures to banks) decreased to 4.0% at the end of 2023 (2022: 5.2%), and provisioning expenses contracted by 29.2%.

Banks' profits grew solidly for the third consecutive year - by 64.4% in 2023, and profitability and efficiency metrics significantly improved. Return on equity reached 18.3% (2022: 12.3%), and the cost-to-income ratio (CIR) is 31.8% compared to 37.4% in 2022.

Statement of comprehensive income, BGN million, selected items	*2021*	*2022*	*2023*	*Change*		
				2022	*2023*	
Total operating income, net	4,452	5,278	6,916	18.6%	31.0%	1,638
Net interest income	2,757	3,227	4,846	17.0%	50.2%	1,619
Fees and commissions income, net	1,241	1,430	1,474	15.2%	3.1%	45
Dividend income	114	280	182	144.4%	(35.0%)	(98)
From derecognition of FA not at fair value	43	10	37	(76.9%)	268.7%	27
Net gains from FA and hedging	207	250	(5)	20.7%	(101.9%)	(255)
Net foreign exchange gains	20	(7)	300	(136.2%)	(4,261.5%)	307
From derecognition of non-financial assets.	4	5	14	15.4%	215.9%	10
Other operating income, net	65	82	64	25.8%	(22.0%)	(18)
Administrative expenses	1,784	1,972	2,200	10.5%	11.5%	228
Contributions to the Claims and Deposits Guarantee Fund and the Bank Restructuring Fund	157	196	206	24.8%	5.4%	11
Depreciation and amortisation	273	281	300	2.7%	6.7%	19
Impairment	598	604	427	0.9%	(29.2%)	(177)
Provision expense, net	62	(15)	17	(124.6%)	(210.8%)	32
PROFIT OR LOSS	1,416	2,079	3,417	46.8%	64.4%	1,338

Source: BNB

The driving force behind the improved efficiency is the net interest income, which increased by 50.2%. In 2022, the ECB discontinued its stimulative interest rate policy with negative key interest rates, and the rate hikes continued in 2023. In Bulgaria, the interest rate dynamics partially transferred up to the point, with interbank markets, yields on government securities, and corporate loan rates reacting to the global interest rate hike, while household loan rates and deposit rates remained largely unchanged. Bank interest income in 2023 increased by 61.9% compared to 2022, primarily from revenues from loans to non-financial enterprises and exposures to credit institutions. Interest expenses increased significantly by 155.0% in percentage terms, but in volume, they were only 28% of the growth in interest income. Over half of the interest expenses incurred in 2023 were attributable to deposits from credit institutions.

The net fee and commission income, the second most significant component of banks' operating income, experienced a decline in its share from 27.1% to 21.3% in 2023. The annual growth was 3.1%, incomparable to that of net interest income. Administrative expenses increased by 11.5% compared to the previous year under the influence of inflation.

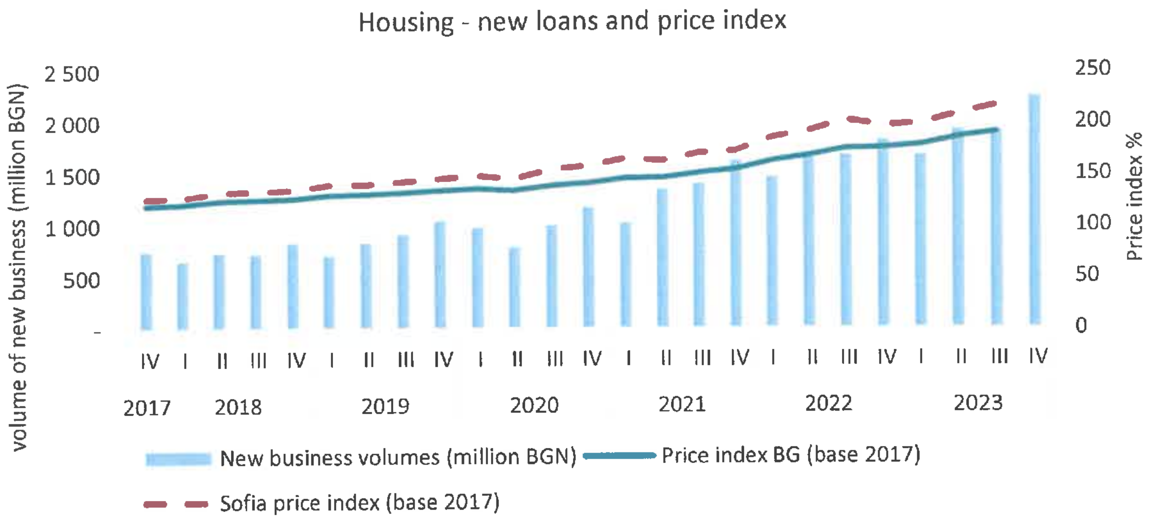
The continued high activity in lending to non-bank clients in 2023 only led to a higher growth volume of loans compared to deposits. The loans-to-deposits ratio increased from 68.2% to 71.2%, but the accumulated deposit base still allows banks not to significantly raise deposit rates.

The liquidity coverage ratio remained well above the regulatory threshold in 2023 - 248% (2022: 235%). The total capital adequacy at the end of 2023 was 21.65% (2022: 20.88%) as a result of the pre-emptive growth of the capital base compared to the risk exposure. Banks accumulated regulatory capital, including doubling of second-tier capital during the year. In 2023, the applicable level of the countercyclical buffer increased from 1.5% to 2.0%, considering indicators for the credit market, indebtedness, real estate market, as well as the overall state of the economic environment. The systemic risk buffer was confirmed at 3.0%.

Balance sheet items, BGN million	*2021*	*2022*	*2023*	*Change*		
				2022	*2023*	
Total assets	135,410	155,406	172,075	14.8%	10.7%	16,669
Cash	28,487	32,428	36,267	13.8%	11.8%	3,839
Debt securities	22,014	23,607	25,960	7.2%	10.0%	2,354
Loans and advances (gross, net of CB), incl.	82,362	96,137	106,295	16.7%	10.6%	10,157
Financial institutions	6,487	10,056	8,900	55.0%	(11.5%)	(1,155)
Public sector	970	921	1,049	(5.1%)	13.9%	128
Corporate	45,437	51,216	56,873	12.7%	11.0%	5,657
Retail	29,468	33,945	39,473	15.2%	16.3%	5,528
Accumulated impairment	(3,596)	(3,471)	(3,127)	(3.5%)	(9.9%)	344
Investments in subsidiaries and associates	583	576	531	(1.2%)	(7.8%)	(45)
Tangible, intangible, and other assets	4,589	4,917	5,058	7.1%	2.9%	141
Attracted funds, total	115,427	134,079	147,307	16.2%	9.9%	13,227
Financial institutions	6,072	7,882	10,539	29.8%	33.7%	2,657
Public sector	3,036	4,035	3,782	32.9%	(6.3%)	(253)
Corporate	38,213	47,880	50,372	25.3%	5.2%	2,491
Retail	68,107	74,282	82,614	9.1%	11.2%	8,332
Equity	16,607	17,281	20,019	4.1%	15.8%	2,738

Soource:BNB

During the year, the banks' assets grew by 10.7% to BGN 172,075 million. Among the current assets, the leading share is held by loans and advances, supplemented by cash and cash equivalents and debt securities. The funds attracted with the highest annual growth rate of 11.2% are from households, with the growth rate accelerating compared to 2022 (9.1%). The change in capital as a net effect of current profits and dividends distributed grew by 15.8%.



Household lending continued to rise for another year, with a growth rate of 16.3% in 2023, surpassing the results for 2022 (15.2%), driven by the specific retention of low interest rates in Bulgaria, income growth, high employment, and positive sentiment towards the property market amid high inflation. By types of loans, the increase in 2023 was 19.9% for mortgages and 11.8% for consumer loans (compared to 2022 vs. 2021: mortgages 16.1%, consumer loans 12.8%). Interest in housing loans increased over the past year.

Tightening monetary policy by the ECB and the parallel measures by the BNB - increased level of the countercyclical buffer and mandatory minimum reserves - has not yet been reflected in Bulgaria in housing lending and mortgage interest rates. For the last quarter of 2023, there was a record volume of new housing loans - 2.25 billion BGN, and a total of 7.8 billion BGN for the year (2022: 6.7 billion BGN), with interest rates unchanged. In 2022, the new volume of mortgage loans was 24% higher compared to the previous year, and in 2023 it was 16% higher, while the growth in volumes in 2023 is higher, indicating more moderate competition for refinancing and smaller volumes of early repaid loans.

Signs of cooling in the property market are observed in both the number of transactions and the pace of change in housing prices. In the third quarter of 2023, compared to the previous year at the national level, prices rose by 9.2%, and by 7.0% for Sofia. This contrasts with the increase of 13.4% and 14.0% respectively recorded in the last quarter of 2022. While the number of housing sales began to decline from mid-2022 compared to the previous year, a decrease in prices has not yet been registered, unlike in many EU countries.

Overview of the activity on a separate basis

General information

The preparation of the Group's Consolidated Activity Report is based on the full consolidation method and includes Municipal Bank AD (the Parent Company, the Parent Bank, the Bank) with its subsidiaries, collectively referred to as the Group. The subsidiary Management Company "Municipal Bank Asset Management" EAD was registered in May 2008. The Bank holds 100% of its capital, including the funds managed by it:

- 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 Commerce Act 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 31.12.2023.

Joint auditors of the bank for 2023 are Grant Thornton OOD and RSM BG OOD, elected by a decision of the General Meeting of Shareholders of Municipal Bank AD.

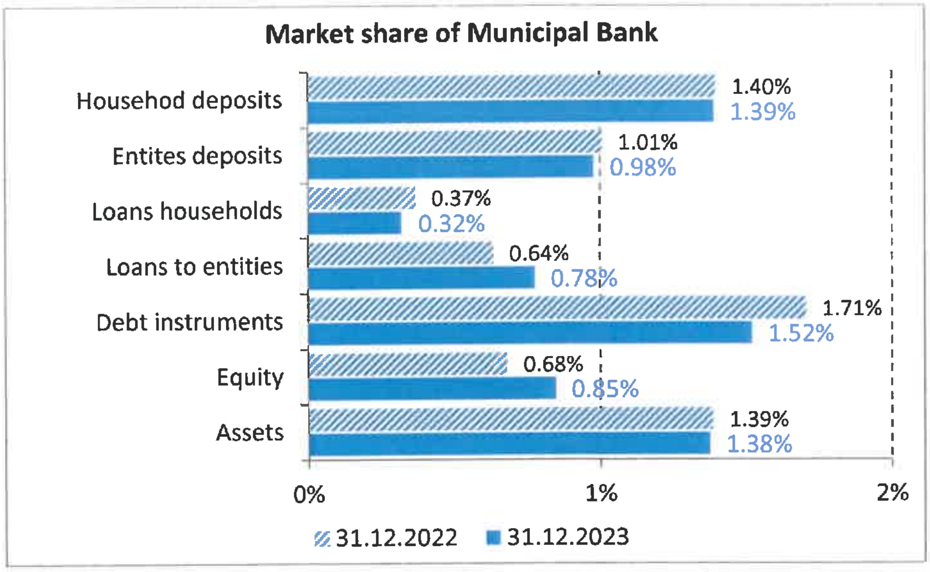
Business model and market position

Municipal Bank AD is a universal commercial bank that has been intensively involved in financial servicing of the public sector since its inception, particularly with municipalities. Financial servicing of municipalities is a distinct segment in the bank's business model - the bank serves some of the largest municipalities in the country, including the Sofia Municipality. The requirements of the Public Finance Act are applied to ensure the funds attracted from budgetary organizations. Municipal Bank AD ranks 14th in terms of assets among 23 banks and branches of foreign banks in the country. In the State Management segment, the Bank ranks second in terms of the size of serviced deposits and seventh in terms of the size of loans provided.

The Bank is undergoing a transformation of its business model in several directions aimed at increasing efficiency, improving resilience to potential adverse changes in the macro environment, and deepening digitization. The strategy of Municipal Bank AD aims to develop its market presence in lending, considering its relatively lower current position.

In 2023, KBC Bank Bulgaria (formerly Raiffeisenbank Bulgaria) merged into United Bulgarian Bank AD, and Eurobank Bulgaria AD (Postbank) acquired the Bulgarian branch of BNP Paribas Personal Finance. At the end of 2023, United Bulgarian Bank AD became the largest bank in the country in terms of assets, while Postbank ranked fourth. The top five banks by size manage 77% of the banking assets in Bulgaria. Bank consolidation in Bulgaria is mainly driven by deals between large European banking groups for their structures in Bulgaria. Currently, there are no announced deals, but the process may continue.

As of December 31, 2023, Municipal Bank AD has a market share of 1.38% in terms of assets (2022: 1.39%). The share in corporate lending continued to increase in 2023 from 0.64% to 0.78%, while there was a decrease of 0.05 percentage points in household lending. Market shares in household and corporate deposits at the end of 2023 are 1.39% and 0.98%, respectively.



Municipal Bank AD does not have significant exposure to clients from the Russian Federation, Belarus, and Ukraine, and is not exposed to direct risks from the military conflict between Russia and Ukraine. There are no exposures to clients from these countries in the bank's assets. The amount of deposits received from clients from these countries is less than 0.1% of the deposit base.

Key indicators on separate basis

	2023	2022
Financial indicators		
Net interest income	52,959	17,929
Net fees and commission income	14,562	15,509
Net gains / (loss) from operations with securities	3,929	1,551
Net operating income	72,310	37,724
Administrative expenses	(34,777)	(28,874)
Impairment, net	(3,938)	(419)
Profit/ (Loss) for the year	27,305	5,426
Balance sheet indicators		
Assets	2,368,048	2,156,028
Receivables from banks and other financial institutions	169,549	108,357
Securities	417,662	424,245
Loans granted and receivables from clients	577,260	487,518
Deposits from clients	35,321	24,076
Share capital	169,734	120,077
Main rations		
Return on equity (ROE)*	17.71%	4.72%
Return on assets (ROA)*	1.22%	0.27%
Total capital adequacy	20.45%	18.26%
Leverage ratio	6.27%	4.99%
Liquidity coverage ratio	827.78%	530.39%
Net stable funding ration	289.14%	302.17%
Net interest margin*	2.49%	0.95%
Cost income ratio	48.09%	76.54%
Gross loans/deposits without public sector	35.90%	32.56%

* Based on average daily balance.
**Including personnel costs and contributions to the Deposit Insurance Fund.

Financial results

Group of Municipal Bank AD is following a strategy to improve operational income and profitability, resulting in nearly doubling its net operating income for 2023 compared to 2022. The annual profit after taxes is 27,305 thousand BGN (2022: 5,426 thousand BGN), with net interest income making a significant contribution to the high results under the changed business model. The balance sheet transformation, through increased activity in deposits provided to banks and lending, illustrates the change. The share of net interest income in operating income for 2023 increased to 73.2% compared to 47.5% for the previous year. Net operating income increased by 91.7% to BGN 72,310 thousand as a result of the increase in net interest income due to structural changes in the balance sheet and a favourable interest rate environment. The main interest-earning assets of the Bank (loans, deposits in banks, and debt securities) increased based on average daily balances in 2023, and the interest rates on them rose, except for retail banking loans. The interest income from debt securities, money market, and corporate loans in the country grew for most of the year in sync with the decisions of the

ECB. From October 2023, the first signals and attitudes towards an impending reversal of the restrictive monetary policy of the ECB emerged, leading to a reversal of the upward trend in market interest rate indices. The optimized balance sheet structure of the Group resulted in interest income increasing by 147.1% in 2023. In addition to the new volume of interest-earning assets - loans and deposits in banks, an important factor for the achieved profitability was the normalization and increase in interest rates in the money market, which were negative until mid-2022. The interest rate cycle set by the ECB has so far not affected household loans in the country (consumer and mortgage loans) due to their pricing specifics and the slow reflection in deposit rates amid high bank liquidity.

Consolidated Statement of Profit or Loss, TBGN	*31.12.23*	*31.12.22*	*Change*	
Interest income, accounted under effective interest method	55,383	22,441	146.8%	32,942
Other interest income	829	353	134.8%	476
Interest expense	(3,195)	(4,827)	(33.8%	1,632
Net interest income	**53,017**	**17,967**	**195.1%**	**35,050**
Dividends	215	233	(7.7%)	(18)
Fees and commissions income	18,389	18,785	(2.1%	(396)
Fees and commissions expenses	(3,827)	(3,276)	16.8%	(551)
Net income from fees and commissions	**14,562**	**15,509**	**(6.1%)**	**(947)**
Net gains from operations with FV through profit and loss	4,081	1,741	134.4%	2,340
Net gains on derecognition of financial assets that are not at fair value through profit or loss	-	44	(100.0%)	(44)
Net gains on foreign exchange revaluation	538	165	226.1%	373
Gains from sale of non-current assets	126	336	(62.5%)	(210)
Change in fair value of investment properties	(682)	1,509	(145.2%)	(2,191)
Other operating income	1,156	1 186	(2.5%)	(30)
Other operating expenses	(493)	(751)	(34.4%)	258
NET OPERATING INCOME	**72,520**	**37,939**	**91.1%**	**34,581**
Impairment of financial assets	(3,938)	(401)	882.0%	(3,537)
Reversed/ (Accrued)provisions for the period	95	(133)	(171.4%)	228
Administrative expenses	(34,932)	(29,004)	20.4%	(5,928)
Depreciation and amortization	(2,957)	(2,854)	3.6%	(103)
PROFIT BEFORE TAX	30,788	5,547	455.0%	25,241
Income tax expense	(3,435)	(27)	12,622.2%	(3,408)
PROFIT FOR THE YEAR	**27,353**	**5,520**	**395.5%**	**21,833**

Interest income	*31.12.23*	*31.12.22*	*Change*	
Interest from loans and receivables from customers	31,633	17,123	84.7%	14,510
Interest from investments measured at amortized cost	5,753	3,608	59.5%	2,145
Interest on receivables from provided resources and deposits in banks and financial institutions	17,997	1,710	952.5%	16,287
Interest from financial assets measured at fair value through profit or loss	829	347	138.9%	482
Negative interest on interest-bearing liabilities	-	6	(100.0%)	(6)
Total interest income	56,212	22,794	146.6%	33,418

The Group of Municipal Bank AD has a solid capacity for accumulating a deposit base, despite the near-zero interest rates on term deposits. Market interest rates on deposits began to rise for products with terms longer than 1 year, with the expectation that this trend will also affect shorter maturities. The Group's interest expenses in 2023 decreased by 33.8% due to the elimination of assets with negative interest rates (including on excess reserves at the Bulgarian National Bank). The main component in the structure of interest expenses is the interest on attracted funds (loans from banks, issued bonds, and other attracted funds), which are instruments of the Bank's eligible liabilities in meeting the Minimum Requirements for Own Funds and Eligible Liabilities.

Interest expenses under effective interest method, TBGN	*31.12.23*	*31.12.22*	*Change*	
Negative interest on interest-bearing assets	-	(3,874)	(100.0%)	3,874
Interest on loans received from banks	(1,385)	-	100%	(1,385)
Interest on agreements with repurchase clauses	(250)	-	100%	(250)
Interest on deposits, other than credit institutions	(236)	(342)	(31.0%)	106
Interest on issued bonds	(932)	(379)	145.9%	(553)
Interest on other attracted funds	(231)	(132)	75.0%	(99)
Interest on leasing agreements	(161)	(100)	61.0%	(61)
Total interest expenses	**(3,195)**	**(4,827)**	**(33.8%)**	**1,632**

In 2023, total interest expenses amounted to BGN 3,195 thousand, of which BGN 236 thousand were attributed to customer deposits, marking a decrease of 25.1% compared to 2022, primarily due to the maturity of long-term deposits with higher interest rates. Based on average daily balances, term deposits from clients increased by 8.4% in the reporting year compared to the previous year, while demand deposits increased by 6.4%. Loans obtained from banks have fixed interest rates.

The interest coupon on issued bonds is fixed. The change in the amount of interest expenses follows from the initial dates of issuance, i.e., less than a full year in 2022.

The Group achieved a higher interest margin in 2023, leading to a substantial improvement in profitability and efficiency indicators - the ratio of expenses to net operating income decreased to 48.02% from 76.4%.

The net profits from financial asset operations, classified as fair value through profit and loss, exhibited a substantial increase during the reporting year. This surge was driven by gains of BGN 3,820 thousand from currency trading and a positive result of BGN 261 thousand from the revaluation of financial instruments, compared to the loss of BGN 756 thousand recorded in 2022.

Net fee and commission income decreased by 6.1% despite increased expenses and decreased revenues. The reduction in revenues compared to the previous year is mainly due to the discontinuation of the fee for cash management for corporate clients following the end of negative interest rates. Additionally, there was a decrease in the volume of cash transactions due to the rapid development of technologies in payment services and the change in consumer habits.

Fees and commissions income, TBGN .	*31.12.23*	*31.12.22*	*Change*	
Servicing and maintenance of accounts	4,771	5,098	(6.4%)	(327)
Card operations	4,146	4,132	0.3%	14
Transfer operations	2,703	3,023	(10.6%)	(320)
Cash and arbitration operations	2,256	2,668	(15.4%)	(412)
Documentary operations	532	431	23.4%	101
Other	3,981	3,433	16.0%	548
Total fees and commissions income	**18,389**	**18,785**	**(2.1%)**	**(396)**
Fees and commissions expense				
Card operations	(1,988)	(1,736)	(14.5%)	(252)
Transfer operations	(1,466)	(1,217)	20.5%	(249)
Other	(373)	(323)	15.5%	(50)
Total fees and commissions expense	**(3,827)**	**(3,276)**	**16.8%**	**(551)**
Fees and commissions income, net	**14,562**	**15,509**	**(6.1%)**	**(947)**

The fair value of the bank's investment properties decreased by BGN 682 thousand in 2023(2022: profit BGN 1,509 thousand).

Net effect from the impairment of financial assets is an accrual of BGN 3,938 thousand (2022: accrual BGN 401 thousand), while there is a net reversal of provisions amounting to BGN 95 thousand.

The sustained high inflation has impacted administrative expenses, which increased by 20.4% in 2023. The rise in personnel expenses is 18.5%, considering the state of the labour market and inflationary adjustments. The Group has also introduced and further developed a new information system, which is associated with some of the expenses for external services and other professional services.

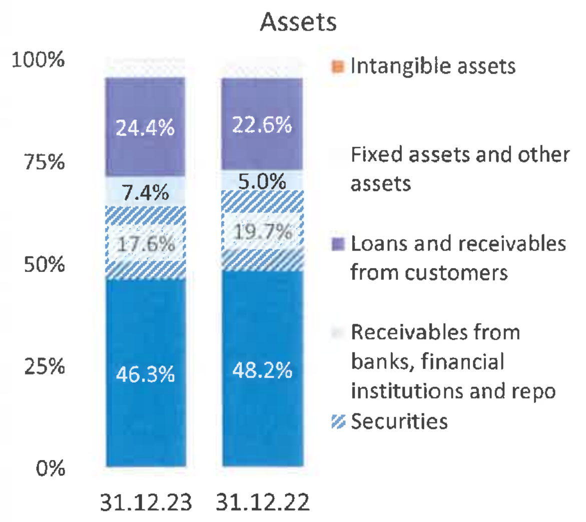
Administrative expenses, TBGN	*31.12.23*	*31.12.22*	*Change*	
Employee benefits	(18,362)	(15,493)	18.5%	(2,869)
Information, communication and technological expenses	(3,281)	(3,362)	(2.4%)	81
Security and debt collection costs	(1,709)	(1,653)	3.4%	(56)
Contribution to FSC	(2,733)	(2,436)	12.2%	(297)
Procurement and other external services	(2,341)	(1,491)	57.0%	(850)
Consumables and materials expenses	(905)	(1,009)	(10.3%)	104
Consultancy, auditing and other professional services	(1,214)	(519)	133.9%	(695)
Rentals of buildings and assets	(156)	(297)	(47.5%)	141
Advertising, marketing and communications	(277)	(67)	313.4%	(210)
Other expenses	(3,954)	(2,677)	47.7%	(1,277)
TOTAL	**(34,932)**	**(29,004)**	**20.4%**	**(5,928)**

Assets

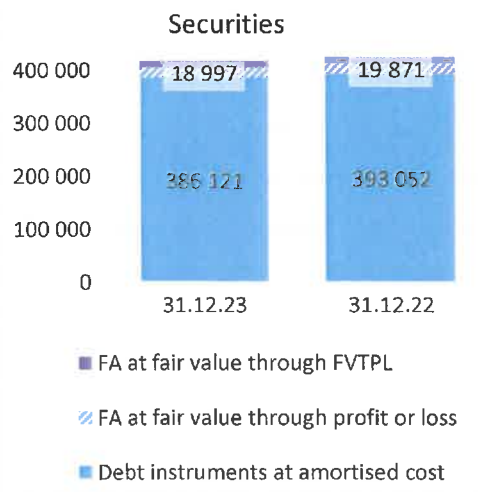
As of December 31, 2023, the assets of Group amount to BGN 2,367,777 thousand. On an annual basis, the increase is BGN 212,011 thousand (9.8%), with significant changes observed in provided loans, cash and cash equivalents, securities, and receivables from banks. The balance sheet structure reflects the changes in the business model with a focus on lending and liquidity optimization.

ASSETS, TBGN	*31.12.23*	*31.12.22*	*Change*	
Cash on hand and cash balances with the Central Bank	1,097,396	1,039,835	5.5%	57,561
Financial assets, measured at fair value through profit or loss	11,864	12 ,708	(6.6%)	(844)
Financial assets, measured at fair value through other comprehensive income	12,544	11,322	10.8%	1,222
Receivables from banks and other financial institutions	176,759	115,607	52.9%	61,152
Receivables from agreements for repurchase	5 006	-	100%	5,006
Loans and receivables from customers	577,260	487,518	18.4%	89,742
Debt instruments, measured at fair value	386,121	393,052	(1.8%)	(6,931)
Current tax assets	-	370	(100.0%	(370)
Other assets	16,808	17,812	(5.6%)	(1,004)
Assets acquired in foreclosure	13,509	13,043	3.6%	466
Property and equipment	40,703	37,013	10.0%	3,690
Investment property	21,381	22,063	(3.1%)	(682)
Intangible assets	3,810	1,191	219.9%	2,619
Right-of-use assets	4,616	4,232	9.1%	384
TOTAL ASSETS	**2,367,777**	**2,155,766**	**9.8%**	**212,011**

The volume and share of cash and government securities in assets is a specific feature of the Bank, given its role in the financial servicing of municipalities. According to the Public Finance Act, the banks secure in full the funds raised from budget organisations by blocking Bulgarian government securities and/or cash at the BNB in favour of the Ministry of Finance.



With the change in the business model and the optimization of liquidity, the share of cash gradually decreases in favour of an increase in lending and receivables from banks. The share of cash remains dominant in the assets and at the end of 2023 is 46.3% (2022: 48.2%), followed by lending with a share of 24.4%. Receivables from banks and repo deals, based on average daily balances in 2023, have a high share and are the second most significant source of interest income. Short-term deposits are provided in the money market domestically and abroad, where the yield during the year was higher compared to mortgage lending to households under the current specific interest rate conditions in the Bulgarian market. Compared to the end of the previous year, receivables from banks and other financial institutions increased by 52.9%.



Investments in securities saw a negligible change, decreasing by 1.6%, with a total volume of BGN 410,529 thousand at the end of the year. The bank's investment strategy is aligned with macroeconomic developments and the interest rate cycle. The share of debt instruments at amortized cost is 94.1%. Bulgarian government bonds predominate among the debt securities, some of which are used to secure budgetary funds in favour of the Ministry of Finance. Interest income from debt securities ranks third in significance for the bank, following the credit portfolio and receivables from banks.

Gross loans as at 31.12.2023 amounted to BGN 585,296 thousand, which increased by 19.0% during the year. During the reporting period, the focus was on corporate lending (for non-financial and financial enterprises) and household mortgage lending in line with the Bank's strategy. The achieved growth in these two categories is 34.3% and 18.5%, respectively. Consumer loans decreased in 2023, largely due to the repayment of loans from the BNB COVID program portfolio. The Bank's main clients in the category of budgetary enterprises are municipalities, which in 2023 were constrained in taking on long-term debts due to the local elections. The Bank's exposure to budgetary enterprises decreased by BGN 20,580 thousand.

Carrying amount	*31.12.2023*	*31.12.2022*	*Change*	*Change*
Individuals	128,241	125,576	2,665	2.1%
mortgage loans	53,450	45,117	8,333	18.5%
consumer loans	73,997	79,329	(5,332)	(6.7%)
credit cards	794	1,130	(336)	(29.7%)
Companies	408,478	318,793	89,685	28.1%
Government entities	21,488	42,068	(20,580)	(48.9%)
NBFI	27,089	5,459	21,630	396.2%
TOTAL	585,296	491,896	93,400	19.0%

Municipal Bank AD is building a high-quality loan portfolio - at the end of 2023, the share of non-performing exposures to non-bank clients is 2.1%, compared to an average of 4.0% for banks in the country. The share of non-performing loans to non-financial enterprises as of 31.12.2023 is 2.2%, while there are no non-performing exposures to other financial enterprises and state management. The share of non-performing exposures to households at the end of 2023 is 2.7%. The accumulated impairment on loans and advances as of 31.12.2023 is BGN 8,036 thousand (2022: BGN 4,378 thousand).

Demand for loans from businesses at the national level remains high, but compared to 2022, it has slightly weakened due to increased interest rates and slower economic development. Municipal Bank AD also updated its interest rate conditions for corporate clients in sync with the market. The Bank increased its credit exposures in all sectors except Construction, given the economic conditions. Leading positions in new lending during the year are held by the Services, Transport, and Financial and Insurance Activities sectors. The financed projects have high creditworthiness.

Carrying amount	*31.12.2023*	*31.12.2022*	*Change*	*Change*
Individuals	128,241	125,576	2,665	2.1%
Manufacture	39,078	16,284	22,794	140.0%
Services	200,934	165,984	34,950	21.1%
Commerce	65,351	55,713	9,638	17.3%
Government entities	21,488	42,068	(20,580)	(48.9%)
Construction	46,582	56,094	(9,512)	(17.0%)
Transport	46,180	15,702	30,478	194.1%
Agriculture	10,353	9,016	1,337	14.8%
Financial and insurance operations	27,089	5,459	21,630	396.2%
TOTAL	**585,296**	**491,896**	**93,400**	**19.0%**

At the macro level, household income growth compensated for inflation in 2023, while interest rates on loans remained unchanged in the Bulgarian market. These conditions create a good stimulus for credit demand. The Bank's commercial efforts in retail banking in 2023 were focused on mortgage lending, where we achieved an annual growth rate of 18.5%. The average structure of the household portfolio in the country's banks consists of a share of mortgage loans of 55.8%, while Municipal Bank AD is in a catching-up position with a share of 41.7% (2022: 35.9%). In new business loans for 2022, the share of those in euros is 5.5%.

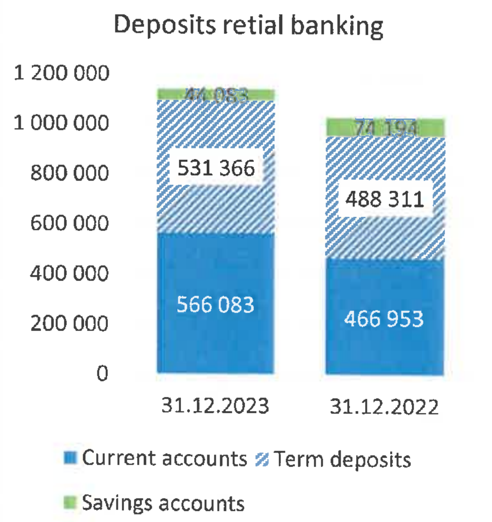
Liabilities

The annual growth of liabilities was 8.0% to a total volume of BGN 2,196,949 thousand, while deposits from non-bank customers was 8.7%. Deposits from non-bank customers have traditionally been the main source of funding for the Group. The loans received from banks, bond loans, and loans received from other clients represent instruments of the Bank's acceptable liabilities (the parent company) 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, issued in 2022. In 2023, the balance value of loans received from banks increased by BGN 11,245 thousand.

Interest rates on term deposits for households began to rise from the last months of 2022 and continued throughout 2023, but the offers so far are only from a few smaller banks, with some larger banks still not offering term deposits. Municipal Bank AD introduced new products at the end of 2023 with terms of 12, 24, and 36 months in response to customer preferences and interest rate dynamics. The total growth in funds attracted from households is 10.9%, and typically for a low-interest environment, the new funds in larger volumes are from transaction accounts.

LIABILITIES	*31.12.23*	*31.12.22*	Change	
Deposits from other customers	2,118,808	1,949,612	8.7%	169,196
Deposits from banks	35,321	24,076	46.7%	11,245
Loans received from banks	21,081	21,081	0.0%	-
Bonds issued	8,796	6,293	39.8%	2,503
Loans received from customers	4,772	4,336	10.1%	436
Lease liabilities	844	945	(10.7%)	(101)
Provisions	5,924	27,417	(78.4%)	(21,493)
Other liabilities	441	10	4,310.0%	431
Current tax liabilities	962	873	10.2%	89
TOTAL LIABILITIES	**2,196,949**	**2,034,643**	**8.0%**	**162,306**

Municipal Bank AD offers deposits for individuals with terms ranging from 1 to 36 months in Bulgarian Leva and four main foreign currencies - Euro, US Dollars, Swiss Francs, and British Pounds. In the currency structure of funds attracted from households, the Bulgarian Lev dominates with a share of 77.0% (2022: 74.2%).



For residents, funds attracted from non-financial and other financial corporations at the end of the reporting period increased by 7.7% compared to the end of 2022. Government funds increased by 11.2%, and funds from individuals increased by 11.1%. The growth in volume is most significant among individuals. Deposits attracted from non-residents doubled and reached BGN 37,982 thousand, representing 1.8% of the deposit base.

Deposits from other customers	*31.12.23*	*31.12.22*	*Change*	
RESIDENTS	2,080,826	1,931,406	7.7%	149,420
Individuals	1,131,867	1,019,200	11.1%	112,667
Budget	489,742	440,225	11.2%	49,517
Services	140,276	173,532	(19.2%)	(33,256)
Manufacture	68,279	60,262	13.3%	8,017
Commerce	118,702	113,337	4.7%	5,365
Transport	61,321	43,866	39.8%	17,455
Construction	57,900	64,635	(10.4%)	(6,735)
Finance (other than banks)	5,560	4,801	15.8%	759
Agriculture	7,179	11,548	(37.8%)	(4,369)
NON-RESTIDENTS	37,982	18,206	108.6%	19,776
Total	**2,118,808**	**1,949,612**	**8.7%**	**169,196**

The Group's other liabilities at year-end 2023 are BGN 5,924 thousand (2022: 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".

Capital, regulatory capital and capital ratios

The extraordinary general meeting of shareholders of the Bank (the parent company Municipal Bank AD), held on November 15, 2022, decided to increase the Bank's capital from BGN 69,362,810 to BGN 89,362,810 by issuing 2,000,000 non-par value shares with voting rights and a nominal value of 10 BGN each. The total nominal and issuance value of BGN 20,000,000, provided that the newly issued shares are purchased by the shareholder "Novito Opportunities Fund" AGmvK. The capital increase was registered in the Commercial register on January 4, 2023, and on January 25, 2023, permission was obtained from the BNB for its inclusion in the Tier 1 capital.

In 2023, the Group's equity increased by 49,705 thousand BGN as a result of the realized annual profit, the increase in the Bank's share capital by 20,000 thousand BGN, and the growth of other reserves (real estate and securities revaluation reserves) by 1,982 thousand BGN.

EQUITY, TBGN	*31.12.23*	*31.12.22*	**Change**	
Share capital	89,362	69,362	28.8%	20,000
Statutory reserves	44,632	44,549	0.2%	83
Other reserves	16,937	14,955	13.3%	1,982
Uncovered loss	19,897	(7,743)	(357.0%)	27,640
TOTAL EQUITY	**170,828**	**121,123**	**41.0%**	**49,705**

Municipal Bank AD is required to apply the requirements of Regulation (EU) 575/2013 on an individual basis. The regulatory capital of Municipal Bank AD is entirely composed of Tier 1 capital, and the Bank does not utilize Tier 2 capital. In 2023, the regulatory capital increased by 37,902 thousand BGN, reaching a total of 148,827 thousand BGN as of December 31, 2023. Risk-weighted assets increased by 120,253 thousand BGN. The majority shareholder follows a consistent strategy to strengthen and develop the capital base. The instruments of the strategy include increasing share capital and capitalizing on realized profits. The ratios of total capital adequacy and Tier 1 capital adequacy as of December 31, 2023, are 20.45%.

Regulatory capital and ratios	*31.12.2023*	*31.12.2022*	*Change*	*Change*
Equity	148,827	110,925	37,902	34.2%
Tier I capital	148,827	110,925	37,902	34.2%
Tier II capital	-	-	-	-
Total risk exposure	727,820	607,567	120,253	19.8%
Common Equity Tier 1 Capital ratio	20.45%	18.26%	2.19%	
Total capital base	20.45%	18.26%	2.19%	

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 1.5% in the period 01.01. - 30.09.2023 and 2.0% in the period 01.10. - 31.12.2023.

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 31.12.2023 the leverage ratio in Municipal Bank AD is 6.27% (2022: 4.99%) 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 regularly identified, measured, monitored, and reported in accordance with the Bank's effective rules, procedures, and guidance, or as needed on an ad hoc basis.

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.

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	2023
Liquidity coverage ratio	530%	828%
Net stable funding ratio	302%	289%

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.

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 2023 is B1 with a stable outlook from the rating agency Moody's.

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 2023. 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 Supervisory Board of Municipal Bank AD, through Resolution 10/01.06.2023, relieved Todor Vanev of his position as a member of the Management Board and elected Stanislav Bozhkov as a member of the Management Board of the Bank. The change in the composition of the Management Board was registered on June 8, 2023, in the Commercial Register and Register of Non-Profit Legal Entities. The members of the Management Board as of 31.12.2023 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,
- Stanislav Bozhkov – Member of the Management Board,
- Ivailo Ivanov – Member of the Management Board.

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 2023 amounted to BGN 1,866 thousand (2022: BGN 1,057 thousand).

During the year, the members of the two Boards did not acquire, transfer and as at 31.12.2023 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 Commerce Act).

There are no contracts within the meaning of Article 240 "b" of the Commerce 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. The participation, within the meaning of Article

247, Paragraph 2, Item 4 of the Commerce 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 2023:		**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
Nedelcho Vasilev Nedelchev	Chairman of the MB, CEO	Medical Center Neovitro OOD	Bianor Holding AD
		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
Stanislav Ganev Bozhkov	Member of the MB	Larior Ltd.	Managing Company Municipal Bank Asset Management EAD

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.

The Group conducts 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 2024

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 consistent with the requirement of a low risk profile for credit and concentration risk. Over half of the new lending will be directed towards financing renewable energy sources, healthcare, agriculture, and forestry. The sectoral structure aims for resilience to changes in the economic cycle.

In addition to lending, interest income will increase through optimized liquidity management by placing more funds in bank deposits and investments in debt securities, utilizing excess reserves and funds blocked in favour of the Bulgarian National Bank.

The amortized cost management model for debt securities is leading for the bank and will be maintained. In an unstable interest rate environment, the applied model isolates the portfolio from adverse market dynamics. The business model limits exposure to market risk and the capital requirements for it, allowing for full capital utilization and achieving adequate profitability. The trading portfolio will not be of significant volume. For debt securities, the bank remains primarily focused on Bulgarian government debt, supplemented by a portfolio of short-term prime debt issuances from Eurozone countries.

The Tier 1 capital will grow organically through the capitalization of planned annual profits over the strategic period, and no dividend distribution is planned. The Bank, if necessary, will issue bonds, which are instruments of additional Tier 1 capital. A three-year program for issuing perpetual unsecured bonds has been approved. Their issuance is planned in several tranches depending on market conditions and the capital needs of the bank, with the first tranche planned for 2024.

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. The details of financing are presented in the sections on Corporate Banking and Retail Banking.

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.

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 instruments and client funds in a depository institution), provision of loans for financial instrument transactions, consultancy services to companies regarding capital structure, industrial strategy, and related matters, as well as consultancy and services related to mergers and acquisitions of enterprises and others.

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. There were no changes in the organizational structure of the Group in 2023.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 2023 the total amount of the trusted assets of clients provided to the Bank for safekeeping amounts to BGN 18,297 thousand (2022: BGN 18,377 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 2023, the Parent Bank neither acquired nor transferred own shares and as at 31 December 2023 did not hold any own shares. In 2023, the Bank did not issue any bonds. 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 2023 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 2023 amount to BGN 196 thousand (31.12.2022 BGN 198 thousand).

Municipal Bank AD is not a public entity within the meaning of the Public Offering of Securities Act, 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 2023, 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.

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The Group's management declares that the accompanying Annual Consolidated Financial Statements present fairly the financial position of the Group as at 31 December 2023 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.

14.05.2024

Nedelcho Nedelchev
Executive director

Borislav Chilikov
Executive director

Общинска БАНКА АД гр. София - ЦУ

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 information; the organization of operational control, including the rules and procedures for approval, execution, and reporting of operations; internal rules and procedures for monitoring risk and the effectiveness of control systems and reporting identified weaknesses in the organization and activities of structural units; systems for preventing money laundering and others.

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 2023 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 2023, 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.

The Supervisory Board of Municipal Bank AD, through Resolution 10/01.06.2023, relieved Todor Nikolov Vanev from his position as a member of the Bank's Management Board and elected Stanislav Ganev Bozhkov as a member of the Management Board. The change in the composition of the Management Board of Municipal Bank AD was registered on June 8, 2023, in the Commercial Register and Register of Non-Profit Legal Entities. As of 31 December 2023, 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;
- Stanislav Ganev Bozhkov – 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 Commerce 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 Commerce 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 2023 the composition of the Audit Committee is Katerina Krasimirova Shopova, 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.

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.

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

The extraordinary general meeting of shareholders of Municipal Bank AD (the parent company), held on November 15, 2022, decided to increase the bank's capital from BGN 69,362,810 to BGN 89,362,810 by issuing 2,000,000 non-par value shares with voting rights and a nominal value of 10 BGN each, with a total nominal and issuance value of BGN 20,000,000, provided that the newly issued shares are purchased by the shareholder "Novito Opportunities Fund" AGmvK. The capital increase was registered in the Commercial register on January 4, 2023, and on January 25, 2023, permission was obtained from the BNB for its inclusion in the Tier 1 capital.

The parent company's principal shareholder, Novito Opportunity Fund AGmvK, owns 8,624,316 shares representing 96.51% of the share capital of Municipal Bank AD as at 31 December 2023.

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 Commerce 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 so that there is no significant advantage to either gender, subject to sufficient applications from the different genders, with a specific target range and indicative timeframe for achieving it; applying a balanced approach to achieving diversity in compositions, as well as in relation to the criteria for occupying the respective position; creating opportunities for quality and effective decision-making by board members and ensuring guarantees that decisions of the governing body are not influenced by any individual or small group of individuals in a manner that prejudices the interests of the Bank.

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 favour 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.

14.05.2024

Nedelcho Nedelchev
Executive director

Borislav Chilikov
Executive director

ОБЩИНСКА БАНКА АД гр. София - ЦУ

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 Accountancy 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 2023 includes the required content and scope of information and analysis under Art. 1 and 2 of the Accountancy 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.

The Parent Bank conducts 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.

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.

The Bank is actively involved in improving the urban environment in various municipalities in the country by providing financing and other services to specialized companies taking care of garbage collection, storage and composting of municipal waste. With the support provided, sustainable development is being implemented to promote separate waste collection, which in the long term reduces the accumulation of waste in landfills and its dispersion in nature, conserves resources, protects nature and helps to solve climate problems. In carrying out its activities, Municipal Bank AD adheres to principles related 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.
The ratio of environmentally friendly assets represents the share of environmentally friendly assets compared to the total value of assets, as presented in Annex V and VI of the Regulation.
The summarized requirements for environmentally friendly assets are as follows:

- They must meet the conditions for financing economic activities eligible for taxonomy by enterprises, and for loans to households contributing to the respective environmental objectives.
- Exposures to enterprises that are not required to disclose non-financial information under Article 19a or 29a of Directive 2013/34/EU regarding annual financial statements, consolidated financial statements, and related reports of certain types of enterprises, are excluded from the numerator of the key performance indicators for financial enterprises (Article 7).

The Group conducted a review of its clients and assets as of December 31 2023, in compliance with the requirements set forth in the Regulation for disclosure by financial institutions, including the rules defined in Articles 7 and 8. The exposures of the Group were examined to determine whether they are eligible or ineligible according to the taxonomy for economic activities for environmental sustainability requirements as outlined in Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, as well as regarding the obligation of the enterprises to which the Bank has exposure to disclose non-financial information. Based on the review conducted with the available data on exposures and considering the regulated disclosure deadlines for enterprises, it was determined that as of December 31, 2023, there were no assets within the Group of Municipal Bank AD that meet all the criteria for eco-compatibility as defined in the cited regulations.

In conclusion, the disclosed environmentally friendly assets of the Group as of December 31, 2023, amounted to zero.

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.

14.05.2024

Nedelcho Nedelchev
Executive director

ОБЩИНСКА БАНКА АД гр. София - ЦУ

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INDEPENDENT AUDITORS' REPORT

Translation from Bulgarian

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

Report on the Audit of the Consolidated 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 2023 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 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the 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 2023 represent 24% of the Group's assets with a net book value of BGN 577,260 thousand consisting of a gross book value of BGN 585,296 thousand and accumulated impairment of BGN 8,036 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:	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

Impairment of loans and receivables from customers	
Key audit matter	**How this matter was addressed during the audit**
- the classification of exposures by impairment stages and identification of 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 3.10, 4.2 and 21 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 2023.	introduced by the Group, as well as an assessment of their operational efficiency; - 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.

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.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are

responsible for the management, supervision, and conduct of the audit of the Group. We bear sole responsibility for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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;
(e) 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 2023 by the general meeting of shareholders, held on 1 June 2023, for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended on 31 December 2023 has been made for sixth consecutive year for Grant Thornton OOD and sixth 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 Group in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Group in addition to the statutory audit, which have not been disclosed in the activity report or financial statements.

14 May 2024
Sofia, Bulgaria

Grant Thornton OOD
Audit firm

Zornitza Djambazka
Registered auditor, responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

Mariy Apostolov
Manager
26, Cherni Vrah Blvd,
Sofia, Bulgaria

RSM BG OOD
Audit firm

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 173
РСМ БГ ООД

Tania Kotocheva, PhD.
Registered auditor responsible for the audit

Vladislav Mihaylov
Manager
9, Fritjof Nansen Str.,
Sofia, Bulgaria

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	For the year ended 31.12.2023	For the year ended 31.12.2022
Interest income accounted under effective interest method	6	55,383	22,441
Other interest income	6	829	353
Interest expense	6	(3,195)	(4,827)
Net interest income		**53,017**	**17,967**
Dividend income		215	233
Fees and commissions income	7	18,389	18,785
Fees and commissions expenses	7	(3,827)	(3,276)
Net fees and commissions income		**14,562**	**15,509**
Net profit on financial assets at fair value through profit or loss	8	4,081	1,741
Net gains on derecognition of financial assets that are not at fair value through profit or loss	9	-	44
Net gains on foreign exchange revaluation		538	165
Gains on sale of non-current assets		126	336
Change in fair value of investment property	26	(682)	1,509
Other operating income	10	1,156	1,186
Other operating expenses	11	(493)	(751)
NET OPERATING INCOME		**72,520**	**37,939**
Impairment of financial assets	12	(3,938)	(401)
Reversed/ (Accrued)/ provisions for the period	13	95	(133)
Administrative expenses	14	(34,932)	(29,004)
Depreciation and amortization	25, 27, 28	(2,957)	(2,854)
PROFIT BEFORE TAX		**30,788**	**5,547**
Income tax expense	15	(3,435)	(27)
PROFIT FOR THE YEAR		**27,353**	**5,520**

Nedelcho Nedelchev
Executive Director
Date:14.05.2024

Marieta Vacheva
Chief Accountant

Borislav Chilikov
Executive Director

Общинска банка АД гр. София

Audited according to auditors' report dated 14 May 2024

Zornitza Djambazka
Registered auditor, responsible for the audit

Mariy Apostolov
Managing partner
Grant Thornton OOD, Audit firm

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

Tania Kotocheva, PhD
Registered auditor, responsible for the audit

Vladislav Mihaylov
Managing partner
RSM BG OOD, Audit firm

Одиторско дружество София Рег. № 173 РСМ БГ ООД

The notes from1 to 42 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 31.12.2023	For the year ended 31.12.2022
PROFIT/(LOSS) FOR THE YEAR		**27,353**	**5,520**
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	*18*	1,390	1,744
Net change in the fair value of owner-occupied property		651	770
Revaluations of liabilities on defined benefit plans	*13.3*	6	(13)
Change in deferred taxes related to components of other comprehensive income, that will not be reclassified subsequently to profit or loss		(65)	(77)
Total items that will not be reclassified subsequently to profit or loss		*1,982*	*2,424*
Other comprehensive income for the year, net of tax		**1,982**	**2,424**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**29,335**	**7,944**

Nedelcho Nedelchev
Executive Director

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

Date:14.05.2024

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Registered auditor, responsible for the audit

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Managing partner
Grant Thornton OOD, Audit firm

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Registered auditor, responsible for the audit

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Managing partner
RSM BG OOD, Audit firm

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31.12.2023	As at 31.12.2022
ASSETS			
Cash on hand and cash balances with the Central Bank	16	1,097,396	1,039,835
Financial assets at fair value through profit or loss	17	11,864	12,708
Financial assets at fair value through other comprehensive income	18	12,544	11,322
Receivables from banks and other financial institutions	19	176,759	115,607
Receivables from repurchase agreements	20	5,006	-
Loans and receivables from customers	21	577,260	487,518
Debt instruments at amortised cost	22	386,121	393,052
Current tax assets		-	370
Other assets	23	16,808	17,812
Assets acquired in foreclosure	24	13,509	13,043
Property and equipment	25	40,703	37,013
Investment property	26	21,381	22,063
Intangible assets	27	3,810	1,191
Right-of-use assets	28	4,616	4,232
TOTAL ASSETS		**2,367,777**	**2,155,766**
LIABILITIES			
Deposits from other customers	29	2,118,808	1,949,612
Loans received from banks	30	35,321	24,076
Bonds issued	31	21,081	21,081
Loans received from customers	32	8,796	6,293
Lease liabilities	28.2	4,772	4,336
Provisions	13	844	945
Other liabilities	33	5,924	27,417
Current tax liabilities	34.1	441	10
Deferred tax liabilities	34.2	962	873
TOTAL LIABILITIES		**2,196,949**	**2,034,643**
EQUITY			
Share capital	35.1	89,362	69,362
Statutory reserves	35.2	44,632	44,549
Other reserves		16,937	14,955
Retained earnings/(Accumulated loss)		19,897	(7,743)
TOTAL EQUITY		**170,828**	**121,123**
TOTAL LIABILITIES AND EQUITY		**2,367,777**	**2,155,766**

Nedelcho Nedelchev
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Date:14.05.2024

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserves	Other reserves	(Accumulated loss)/ Retained earnings	Total
AS AT 1 JANUARY 2022	**69,362**	**44,394**	**12,602**	**(13,177)**	**113,181**
Profit for the year	-	-	-	5,520	5,520
Other comprehensive income for the period, net of taxes	-	-	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**
Profit for the year	-	-	-	27,353	27,353
Other comprehensive income, net of tax	-	-	1,982	-	1,982
Total comprehensive income	**-**	**-**	**1,982**	**27,353**	**29,335**
Increase in share capital	20,000	-	-	-	20,000
Total transactions with owners	**20,000**	**-**	**-**	**-**	**20,000**
Increase in statutory reserves	-	83	-	(83)	-
Other movement	-	-	-	370	370
AS AT 31 DECEMBER 2023	**89,362**	**44,632**	**16,937**	**19,897**	**170,828**

Nedelcho Nedelchev
Executive Director
Date:14.05.2024

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

Общинска банка АД гр. София - ЕИК

Audited according to auditors' report dated 14 May 2024

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Registered auditor, responsible for the audit

Mariy Apostolov
Managing partner
Grant Thornton OOD, Audit firm

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

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Vladislav Mihaylov
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Одиторско дружество София Рег. № 173 РСМ БГ ООД

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended 31.12.2023	For the year ended 31.12.2022
OPERATING ACTIVITIES			
Net profit before tax		30,788	5,547
Adjustments to offset net profit with net cash flows from operating activities:			
Depreciation and amortisation	25,26 27, 28	2,957	2,856
Net effect of impairment of financial assets	12	3,938	401
Net effect of derecognition of financial assets that are not at fair value through profit or loss	9	-	(44)
Provisions	13	(95)	133
Net interest income	6	(53,017)	(17,967)
Dividend income		(215)	(233)
Gain/ (loss) on sale of securities		-	(4)
Gain on FX trading	8	(3,819)	(2,493)
Net unrealized gain on currency revaluation on securities	8	(262)	(311)
Net unrealized loss on securities at fair value		164	756
Change in fair value of investment property	26	682	(1,509)
		(18,879)	**(12,868)**
(Increase)/ decrease in deposits in banks		(5,031)	363
(Increase) in loans and receivables from customers		(82,734)	(185,945)
Decrease/(increase) in financial assets at fair value through profit or loss, net of reclassifications		4,931	(7,077)
Decrease in other assets, including assets acquired in foreclosure		523	51
(Decrease)/ increase in deposits from credit institutions		-	(985)
Increase/ (decrease) of deposits of customers other than credit institutions		169,313	145,682
Decrease in provisions		-	(129)
Increase in deferred taxes	34.2	65	74
Increase/ (decrease) in other liabilities		(1,426)	2,380
Interest received		44,466	20,357
Interest paid		(603)	(4,296)
Dividend received		215	233
Income tax paid		(2,240)	(387)
NET CASH FLOW USED IN OPERATING ACTIVITIES		**108,600**	**(42,547)**

Nedelcho Nedelchev
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Date:14.05.2024

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All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATEAD STATEMENT OF CASH FLOWS (CONTINUED)

	Note	For the year ended 31.12.2023	For the year ended 31.12.2022
INVESTMENT ACTIVITY			
Cash payments for acquisition of tangible assets		(4,240)	(915)
Cash payments for acquisition of intangible assets		(3,032)	(179)
Proceeds from sale of tangible assets		-	413
Proceeds from sale of investment property		-	25
Cash payments for purchase of investments measured at amortized cost		(76,801)	(124,391)
Loans granted to banks		(11,000)	(34,000)
Proceeds from matured and sold financial assets measured at amortized cost		84,384	73,259
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES		**(10,689)**	**(85,788)**
FINANCING ACTIVITY			
Lease payments	32	(1,584)	(1,389)
Proceeds from increase of share capital	32	-	20,000
Proceeds from bonds issued	32	-	20,702
Loans received from banks	32	11,000	24,000
Loans received from clients	32	2,500	6,237
Interest payments from financial activity		(2,300)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		**9,616**	**69,550**
Net change in the cash and cash equivalents		107,527	(58,785)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,120,684	1,179,469
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	37	**1,228,211**	**1,120,684**

Operating cash flows related to interest and fees and commissions	For the year ended 31.12.2023	For the year ended 31.12.2022
Interest received	53,712	20,357
Interest paid	(2,903)	(4,269)
Fees received	18,389	18,228
Fees paid	(3,827)	(3,276)

Nedelcho Nedelchev
Executive Director
Date:14.05.2024

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Marieta Vacheva
Chief Accountant

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Managing partner
RSM BG OOD, Audit firm

The notes from 1 to 42 are an integral part of these Consolidated Financial Statements.

1. Corporate information and main operations

Municipal Bank AD (the Bank, the Parent 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 Parent 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 2023, the Parent Bank operates through a Head Office and 46 financial centres and external offices.
On November 15, 2022, the General Meeting of Shareholders decided to increase the registered capital of the Parent Bank, with the main shareholder Novito Opportunities Fund SICAV transferring the funds for their acquisition in December 2022. On January 4, 2023, an increase in share capital was registered in the Commercial register and register of non-profit legal entities with 2,000,000 ordinary, registered, non-negotiable shares with voting rights and a nominal value of 10 BGN each in Municipal Bank AD. On January 25, 2023, the Bulgarian National Bank (BNB) granted permission for the new shares to be included in the Tier 1 capital. Thus, the majority shareholder in the Bank, Novito Opportunities Fund SICAV, owns 8,624,316 shares with a nominal value of 10 BGN each, representing 96.51% of the shares in Municipal Bank AD. The ultimate management company of the fund is CAIAC Fund Management AG.

On June 7, 2023, a change in the composition of the Management Board of Municipal Bank AD was registered in the Commercial Register. Todor Vanev was removed as a member of the Management Board. Stanislav Bozhkov was registered as a new member of the Management Board.

The financial year for the Group ends on 31 December.

2. Basis of preparation of the financial statements and statements of compliance

2.1. Statement of compliance with IFRS, as adopted by the EU

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 Accountancy 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.

Management is responsible for the preparation and fair presentation of the information in these financial statements.

These financial statements are consolidated financial statements and are prepared in accordance with International Financial Reporting Standards (IFRS) developed and published by the International Accounting Standards Board (IASB) and approved by EU. Investments in subsidiaries are accounted for and disclosed in consolidated financial statements in accordance with IFRS 10 Consolidated Financial Statements.

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.

2.3. Macroeconomic framework

The economic environment has undergone significant changes in recent years. The global economy has been affected by two major crises - the COVID-19 pandemic and the war in Ukraine. Military conflicts in the Middle East periodically intensify, contributing to economic instability and unpredictability. The longstanding policy of negative interest rates was discontinued in mid-2022 in response to high inflation, while the increase in key interest rates by the European Central Bank continued into 2023.

The real economy and the financial system are undergoing transformation, with global trade and economic activity weakening following rapid recovery from the pandemic. Inflation in the European Union (EU) rapidly declined, reaching 3.4% on an annual basis by the end of 2023, and 2.9% in the eurozone (compared to 10.4% and 9.2% in 2022). Meanwhile, EU GDP showed zero growth in the last two quarters compared to the previous quarter, with some countries, including Germany, reporting a decrease on an annual basis. Inflationary pressures eased due to restrictive monetary policy and stabilization in energy and commodity markets. ECB interest rates remained unchanged following the September 2023 increase of 0.25 percentage points. Businesses and analysts expect a forthcoming decrease, driven by inflation stabilization and the likelihood of the economy entering a recession. However, there are still not enough signals to suggest that a change is possible in the first half of the year.

The economic performance of EU countries varies, with some Southern European countries showing better data, benefiting from a tourism boom and being less sensitive to declines in industrial production and gas prices, while Germany, heavily affected by energy prices following sanctions against Russia and slower growth compared to the previous year in the Chinese economy, one of its important trading partners.

In Bulgaria, the economy began to slow down from mid-2022, but growth in 2023 remained positive and higher than the forecasted 0.4%. According to preliminary data from the National Statistical Institute, the real increase in GDP on an annual basis was 1.8% (compared to 3.9% in 2022). Worsened prospects for our main trading partners in the EU weakened external demand in recent months. Domestic demand is driven by investment activity and private consumption amid rising incomes.

A slowdown in annual inflation (HICP) is forecasted by the end of 2024 to 3.1%, although short-term prospects are dominated by inflationary factors such as strong domestic demand, low propensity to save, and increased labour costs. Globally, food and energy prices are expected to decrease, which will alleviate price pressures in Bulgaria.

Unemployment in Bulgaria has been at a low level for the past three years, with the number of employed individuals remaining almost unchanged and high demand for labour. The tight labour market leads to continuously increasing average wages in support of consumption, but growth rates will decline in the coming years. Wages and prices in Bulgaria follow a long-term trend towards reaching average levels in the EU.

Bulgaria's long-term credit rating by S&P Global Ratings remained at BBB, confirmed in November 2023. The outlook was changed to positive due to actions to join the Eurozone.

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 2024 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.

2.4. Application of the going concern principle

As of the date of preparation of this consolidated financial statement, the management of the Group has assessed the Group's ability to continue operating as a going concern based on the available information in the foreseeable future. Following the conducted assessments, the Board of Directors has reasonable expectations that the Group has sufficient resources to continue operating in the foreseeable future. Accordingly, they continue to apply the going concern principle in preparing the annual consolidated financial statement.

3. Significant information about accounting policies

3.1. Overall considerations

The Bulgarian Lev is the functional currency and the presentation currency in the current consolidated financial statements. All amounts are presented in thousands of leva (BGN), including the comparative information for 2022, unless otherwise stated.

The most significant information regarding the accounting policies applied in the preparation of these consolidated financial statements is provided below.

The financial statements are prepared in Bulgarian Lev, which is the Group's functional currency. All amounts are presented in thousands of leva (BGN) (including the comparative information for 2022), unless stated otherwise.

It should be noted that in preparing the financial statements presented, accounting estimates and assumptions have been used. Although these are based on information provided to management as of the date of preparation of the financial statements, actual results may differ from the estimates and assumptions made.

3.2. 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 Parent 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 statement of profit or loss, 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.

All amounts are represented in thousand BGN, unless otherwise stated.

The companies consolidated in the financial statements of the Group as at 31.12.2023 and 31.12.2022 are:

Name of the Company	31.12.2023 (%) ownership	31.12.2022 (%) ownership	Consolidation method
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

3.3. Comparative information

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.

3.4. 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 6.

3.5. 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 Group is determined in the various tariffs of the Group 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.

3.6. 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:

All amounts are represented in thousand BGN, unless otherwise stated.

Type of currency	31 December 2023	31 December 2022
USD	1.76998	1.83371
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.

3.7. 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 8.

3.8. 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.

3.9. Income taxes

The income tax includes the current tax expense and the change in the deferred tax assets and liabilities. The Group 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.

3.10. Financial assets and liabilities

3.10.1. 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.

3.10.2. 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 Group 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 Group 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 Group 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 Group 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.

3.10.3. 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.

3.10.4. Expected credit losses of financial assets

For the purpose of applying the requirements for impairment in IFRS 9 the Group 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 Group 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 Group 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 Group 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 Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group, 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.

3.10.5. 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).

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.

3.10.6. 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.

3.10.7. 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.

3.10.8. 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.

3.10.9. 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.

3.10.10.Reclassification of financial assets

Reclassification of financial assets is performed if the Group 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.

3.11. Investments in subsidiaries

Investments in subsidiaries include equity interests in entities where the Group exercises control. Under IFRS 10 Consolidated Financial Statements, the Group controls the entity in which it has invested when it is exposed to or is entitled to the variable return on its holdings in the relevant entity and is capable of influencing that return through its authority in that entity.

The Group exercises control when it meets the following criteria simultaneously:
(a) has powers in the entity where it has invested;
(b) is exposed to or is entitled to the variable income from its holdings in the entity where it has invested, and
(c) is capable of using its powers in the entity where it has invested in order to influence on the amount of return to the investor.

In the Group's consolidated financial statements, the shares in its subsidiaries are initially recognized at cost. Subsequently, the Bank periodically carries out reviews for the existence of impairment. If so, it is recognized in the Statement of Profit or Loss as losses from impairment of investments in subsidiaries.

3.12. 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

All amounts are represented in thousand BGN, unless otherwise stated.

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".

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 2023 and 2022:

	2023	2022
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.

3.13. Investment property

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'.

3.14. 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 statement of profit or loss. 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. As at 31 December 2023 the impairment of these assets is BGN 0 (2022: BGN 64 thousand). Further information is presented in the Note 24.

3.15. 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 3.16.2.

3.16. Employee benefits

3.16.1. 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 Group 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.

3.16.2. 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.

3.16.3. 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.

3.17. Leases

3.17.1. 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 Consolidated Statement of Financial Position, right-of-use assets have been included in „Right-of-use assets", and lease liabilities have been included „Lease liabilities".

When a lease liability is remeasured, a corresponding adjustment is reflected in the right-of-use asset or recognised in profit or loss if the carrying amount of the right-of-use asset has already been reduced to zero.

3.17.2. 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 10, 26). 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 statement of profit or loss 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.

3.18. 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 2023.

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 Note5.

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 4.2.

Periodic revaluation of real estate - land and buildings used in the Group's operations and investment properties

As at 31 December 2023, 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 25 and 26.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Group'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 manThe assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Group'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.

3.19. New or amended standards and interpretations

3.19.1. New Standards adopted as at 1 January 2023

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 2023 but do not have a significant impact on the Company's financial results or position:

- IFRS 17 "Insurance Contracts" 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, IFRS Statements for Annex 2: Disclosure of Accounting Policies, effective from 1 January 2023, as 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 IAS 12 Income Taxes: International Tax Reform - Pillar 2 Model Rules, effective from 1 January 2023, adopted by the EU.

3.19.2. 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 2023 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:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current effective from 1 January 2024, adopted by the EU;
- Amendments to IAS 1 Presentation of Financial Statements: Non-current liabilities linked to financial performance effective from January 1, 2024, adopted by the EU.
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback effective not earlier than 1 January 2024, adopted by the EU;
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements, effective from January 1, 2024, have not yet been adopted by the EU;
- Amendments to IAS 21 Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability, effective from January 1, 2025, have not yet been adopted by the EU.

4. Risk management

4.1. Risk framework

In its normal course of business, the Group 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 Group'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 Group'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 Group 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.

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.

All amounts are represented in thousand BGN, unless otherwise stated.

Official rating	As at 31.12.2023	As at 31.12.2022
AA	2,703	2,500
AA-	28,838	28,734
A+	18,251	540
A	-	-
A-	11,451	27,125
BBB+	21,710	22,213
BBB	48,017	277
BBB-	172	-
Internal rating	-	-
TOTAL EXPOSURE	**131,142**	**81,389**

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.

All amounts are represented in thousand BGN, unless otherwise stated.

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

	As at 31.12.2023	As at 31.12.2022
Concentration by sector		
Central banks	1,071,251	1,015,853
Bulgarian commercial banks	100,951	41,833
Foreign commercial banks	75,454	73,332
Foreign financial institutions	544	540
	1,248,200	**1,131,558**
Expected credit loss	(190)	(98)
TOTAL	**1,248,010**	**1,131,460**

	As at 31.12.2023	As at 31.12.2022
Concentration by region		
Europe	1,219,393	1,103,150
America	28,801	28,359
Asia	6	49
	1,248,200	**1,131,558**
Expected credit loss	(190)	(98)
TOTAL	**1,248,010**	**1,131,460**

Loans and receivables from customers

The breakdown by sector is presented in Note 21. All loans and receivables from customers as at 31 December 2023 and 2022 are in the Europe region.

To control the risk of concentration of loans to non-bank customers, the Group 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.

Debt instruments at amortised cost

	As at 31.12.2023	As at 31.12.2022
Concentration by sector		
Government	366,682	361,409
Bulgarian companies	19,772	22,794
Financial institutions	-	9,009
	386,454	**393,212**
Expected credit loss	(333)	(160)
TOTAL	**386,121**	**393,052**

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 2023 and 2022, 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.

All amounts are represented in thousand BGN, unless otherwise stated.

	As at 31.12.2023				As at 31.12.2022
Cash balances with the central bank and receivables from banks and other financial institutions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 1 Lifetime ECL	Total	Total
Central banks	1,071,251	-	-	1,071,251	1,015,853
Banks with investment rating	146,499	-	-	146,499	93,416
Banks with non-investment rating	30,450	-	-	30,450	22,289
Total gross carrying amount	**1,248,200**	-	-	**1,248,200**	**1,131,558**
Loss allowance	(190)	-	-	(190)	(98)
Carrying amount	**1,248,010**	-	-	**1,248,010**	**1,131,460**

	As at 31.12.2023				As at 31.12.2022
Loans and receivables from customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 1 Lifetime ECL	Total	Total
Corporate customer: Standard	340,734	41	9,168	349,943	303,242
Corporate customer: Revolving	107,386	-	25	107,411	63,078
Individuals: Mortgages	52,582	383	485	53,450	63,810
Individuals: Standard	69,097	1,324	2,947	73,368	60,292
Individuals: Revolving	1,066	17	41	1,124	1,474
Total gross carrying amount	**570,865**	**1,765**	**12,666**	**585,296**	**491,896**
Loss allowance	(2,811)	(133)	(5,092)	(8,036)	(4,378)
Carrying amount	**568,054**	**1,632**	**7,574**	**577,260**	**487,518**

	As at 31.12.2023				As at 31.12.2022
Loan commitments and guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 1 Lifetime ECL	Total	Total
Loan commitments	39,925	56	45	40,026	50,212
Financial guarantee contracts and letters of credit	49,315	55	-	49,370	29,948
Total loan commitments and guarantees	**89,240**	**111**	**45**	**89,396**	**80,160**
Provisions	**149**	**-**	**25**	**174**	**269**

	As at 31.12.2023				As at 31.12.2022
Debt instruments at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 1 Lifetime ECL	Total	Total
Bulgarian government bonds	278,345	-	-	278,345	304,405
Bulgarian municipal bonds	29,945	-	-	29,945	57,004
Bonds of foreign banks	-	-	-	-	9,009
Bonds of local enterprises	19,772	-	-	19,772	22,794
Foreign government bonds	58,392	-	-	58,392	-
Total gross carrying amount	**386,454**	-	-	**386,454**	**393,212**
Loss allowance	(333)	-	-	(333)	(160)
Carrying amount	**386,121**	-	-	**386,121**	**393,052**

All amounts are represented in thousand BGN, unless otherwise stated.

	As at 31.12.2023				As at 31.12.2022
Receivables from banks and other financial institutions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 1 Lifetime ECL	Total	Total
Nostro accounts with banks	43,753	-	-	43,753	58,939
Deposits granted with banks	87,101	-	-	87,101	21,920
Loans granted to banks	45,551	-	-	45,551	34,306
Guarantee deposits with Mastercard Inc. and Visa	544	-	-	544	540
Total gross carrying amount	**176,949**	**-**	**-**	**176,949**	**115,705**
Loss allowance	(190)	-	-	(190)	(98)
Carrying amount	**176,759**	**-**	**-**	**176,759**	**115,607**

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 2023 is BGN 11,864 thousand (2022: BGN 12,708 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 31.12.2023	As at 31.12.2022
Receivables from banks and other financial institutions	190	98
Loans and receivables from customers	8,036	4,378
Debt instruments at amortised cost	333	160
Loan commitments and financial guarantee contracts	174	269
TOTAL	**8,733**	**4,905**

The tables below analyse the movement in impairment loss in 2023 and 2022 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 2023	**1,907**	**332**	**2,139**	**4,378**
Changes in the Loss allowance				
- Transfer to stage 1	9	(7)	(2)	-
- Transfer to stage 2	(3)	28	(25)	-
- Transfer to stage 3	(1)	(21)	22	-
- Increases due to change in credit risk	457	34	1,344	**1,835**
- Decreases due to change in credit risk	(434)	(24)	(220)	**(678)**
- Repayments	(266)	(229)	(319)	**(814)**
New financial assets originated or purchased during the period	1,142	20	2,153	**3,315**
Loss allowance as at 31 December 2023	**2,811**	**133**	**5,092**	**8,036**

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 represented in thousand BGN, unless otherwise stated.

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 2023 and 2022 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 2023	**257**	-	-	**257**
Changes in the Loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	22	-	10	32
– Decreases due to change in credit risk	(46)	-	-	(46)
New financial assets originated or purchased during the period	78	-	15	93
Write-offs of financial assets	(170)	-	-	(170)
Loss allowance as at 31 December 2023	**141**	-	**25**	**166**

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 – Financial guarantee contracts	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Loss allowance as at 1 January 2023	**1**	**1**	**10**	**12**
Changes in the Loss allowance				
– Increases due to change in credit risk	-	-	-	-
– Decreases due to change in credit risk	-	-	-	-
New financial assets originated or purchased	7	-	-	7
Financial assets that have been repaid	-	(1)	(10)	(11)
Loss allowance as at 31 December 2023	**8**	-	-	**8**

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 represented in thousand BGN, unless otherwise stated.

More information about significant changes during 2023 and 2022 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 2023	**475,536**	**11,007**	**5,353**	**491,896**
Changes in the gross carrying amount				
- Transfer to stage 1	375	(371)	(4)	-
- Transfer to stage 2	(1,215)	1,268	(53)	-
- Transfer to stage 3	(403)	(6,941)	7,344	-
New financial assets	212,591	248	2,391	215,230
Repaid	(116,019)	(3,446)	(2,365)	(121,830)
Write-offs	-	-	-	-
Gross carrying amount as at 31 December 2023	**570,865**	**1,765**	**12,666**	**585,296**
Loss allowance 31 December 2022	(2,811)	(133)	(5,092)	(8,036)
Carrying amount as at 31 December 2023	**568,054**	**1,632**	**7,574**	**577,260**

	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**

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 represented 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 31.12.2023	As at 31.12.2022
Less than 50%	9,571	4,627
51% - 70%	14,423	7,678
71% - 90%	33,312	38,518
91% - 100%	4,074	7,116
More than 100%	1,335	2,620
Total	**62,715**	**60,559**

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 2023, the net carrying amount of loans and receivables from corporate clients amounting to BGN 408,478 thousand (2022: BGN 318,793 thousand), and the value of the related collateral is amounting to BGN 2,235,756 thousand (2022: BGN 1,992,568 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. cCredit 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.cInternal 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-

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19 pandemic, prepared by the business units, coordinated with the Risk Directorate and approved by the Group's Management 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 of 31.12.2023 the active loans are 3,292 with a gross book value of BGN 6,918 thousand. Exposures classified in phase 2 are 268 pcs and amount to BGN 528 thousand. The exposures that were accounted for and impaired in phase 3 amounted to BGN 1,988 thousand, made up of 554 exposures.

As of 31.12.2023, the Program's loans that are past due and immediately callable, court cases and adjudged have a gross carrying amount of BGN 1,066 thousand.

	Amount	Gross carrying amount as at 31.12.2023	Impairment losses as at 31.12.2023
Total loans under the program	3,292	6,918	645
Over 30 days overdue as at 31.12.2023	178	358	5
Over 90 days overdue as at 31.12.2023	103	266	57
Due before maturity and court loans	41	1,637	571

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 2023 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 no direct credit exposures to customers in Russia, Belarus, 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 Group. 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 Group 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. The Group operates in foreign currency as well, which exposes its results to fluctuations of exchange rates. The Group 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.o

All amounts are represented in thousand BGN, unless otherwise stated.

The table below presents the foreign exchange rates risk as at 31 December 2023, 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	128,143	1,104	967,445	704	1,097,396
Financial assets at fair value through profit or loss	9,628	-	2,236	-	11,864
Financial assets at fair value through other comprehensive income	-	5,542	7,002	-	12,544
Receivables from banks and other financial institutions	13,023	56,520	100,174	7,042	176,759
Loans and receivables from customers	-	-	5,006	-	5,006
Debt instruments at amortised cost	148,032	-	429,228	-	577,260
Current tax assets	87,833	-	298,288	-	386,121
Other assets	524	1	16,283	-	16,808
Assets acquired in foreclosure	-	-	13,509	-	13,509
Property and equipment	-	-	40,703	-	40,703
Investment properties	-	-	21,381	-	21,381
Intangible assets	-	-	3,810	-	3,810
Right-of-use assets	-	-	4,616	-	4,616
TOTAL ASSESTS	387,183	63,167	1,909,681	7,746	2,367,777
Liabilities					
Deposits from other customers	369,082	61,834	1,680,140	7,752	2,118,808
Loans received from banks	-	-	35,321	-	35,321
Bonds issued	-	-	21,081	-	21,081
Loans received from clients	3,347	-	5,449	-	8,796
Lease liabilities	-	-	4,772	-	4,772
Provisions	-	-	844	-	844
Other liabilities	432	8	5,484	-	5,924
Current tax liabilities	-	-	441	-	441
Deferred tax liabilities	-	-	962	-	962
TOTAL LIABILITIES	372,861	61,842	1,754,494	7,752	2,196,949

As at 31 December 2023 the Group's exposures in foreign currency assets and liabilities other than BGN and EUR are respectively 2.99% and 3.17% of the total assets and liabilities.

All amounts are represented in thousand BGN, unless otherwise stated.

The table below presents the foreign exchange rates risk as at 31 December 2022, 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	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
Deposits from banks	-	-	24,076	-	24,076
Bond 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.
The difference between the Group '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.b b
The table below shows the interest-bearing instruments of the Group presented at carrying amount, categorized by type of interest rate:

	2023			2022		
	Variable interest rate	Fixed interest rate	Total	Variable interest rate	Fixed interest rate	Total
Assets						

Financial assets at fair value through profit or loss	-	8,819	8,819	-	12,331	12,331
Receivables from banks and other financial institutions	-	176,949	176,949	-	115,705	115,705
Loans and receivables from customers	-	5,006	5,006	-	-	-
Debt instruments at amortised cost	456,732	128,563	585,295	410,811	81,085	491,896
Total assets	25,733	360,721	386,454	47,653	345,559	393,212
	482,465	680,058	1,162,523	458,464	554,680	1,013,144
Liabilities						
Deposits from banks						
Deposits from other customers	-	2,118,808	2,118,808	-	1,949,612	1,949,612
Loans received from banks	-	35,321	35,321	-	24,076	24,076
Bonds	-	21,081	21,081	-	21,081	21,081
Loans received from customers	-	8,796	8,796	-	6,293	6,293
Lease liabilities	4,772	-	4,772	4,336	-	4,336
Total liabilities	4,772	2,184,006	2,188,778	4,336	2,001,062	2,005,398

The change in the annual interest income of the Group at 200 bp. change in the interest rate curve is BGN 5,676 thousand (2022: BGN 3,633 thousand) or 3.81% (2022: 3.28%) 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 5,148 thousand negative change, which is 3.45% 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%.
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 31.12.2023	As at 31.12.2022
Interest rate risk	657	79
Price risk in equity instruments	147	241
Foreign currency risk	66	73
VAR cumulative*	**668**	**849**

* Includes diversification among risk exposures

The following table shows the dynamics during the year 2023 of Value at Risk (VaR) measure for a one-day holding period at a confidence level of 99%.

All amounts are represented in thousand BGN, unless otherwise stated.

	VAR cumulative*	Risk category		
		Interest rate risk	Price risk in equity instruments	FX risk
Average	889	845	193.5	75.1
Minimum	580	565	144.0	62.9
Maximum	2,478	2,463	261.5	81.6

The calculations made regarding the Group'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. Liquidity risk

Liquidity risk measures the ability of the Group 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 Groups assets in terms of size, structure, and ratios, in such a way that ensures at any time that the Group 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 Group 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 Group 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 represented in thousand BGN, unless otherwise stated.

31 December 2023	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	1,097,396	-	-	-	-	1,097,396
Financial assets at fair value through profit or loss	9,285	-	-	847	1,732	11,864
Financial assets at fair value through other comprehensive income	-	-	-	12,544	-	12,544
Receivables from banks and other financial institutions	98,950	31,865	-	45,400	544	176,759
Loans and receivables from customers	-	-	5,006	-	-	5,006
Debt instruments at amortised cost	3,426	27,153	83,437	242,282	220,962	577,260
Current tax assets	-	19,737	41,754	208,253	116,377	386,121
Other assets	-	-	-	-	16,808	16,808
Assets acquired in foreclosure	-	-	-	-	13,509	13,509
Property and equipment	-	-	-	-	40,703	40,703
Investment properties	-	-	-	-	21,381	21,381
Intangible assets	-	-	-	-	3,810	3,810
Right-of-use assets	-	-	-	-	4,616	4,616
Total assets	**1,209,057**	**78,755**	**130,197**	**509,326**	**440,442**	**2,367,777**
Liabilities						
Deposits from other clients	1,792,784	121,064	180,559	22,957	1,444	2,118,808
Deposits from banks	-	-	-	35,321	-	35,321
Bonds	-	-	-	21,081	-	21,081
Loans received from clients	-	-	-	8,796	-	8,796
Lease liabilities	398	1,194	2,388	792	-	4,772
Provisions	-	-	-	844	-	844
Other liabilities	5,924	-	-	-	-	5,924
Current tax liabilities	7	-	-	-	434	441
Deferred tax liabilities	-	-	-	-	962	962
Total liabilities	**1,799,113**	**122,258**	**182,947**	**89,791**	**2,840**	**2,196,949**
MATURIY MISMATCH, NET	**(590,056)**	**(43,503)**	**(52,750)**	**419,535**	**437,602**	**170,828**
ACCUMULATED	**(590,056)**	**(633,559)**	**(686,309)**	**(266,774)**	**170,828**	

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 represented in thousand BGN, unless otherwise stated.

Maturity structure of contingent liabilities and commitments as at 31 December 2023 and 2022 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 2023	1,333	13,116	57,336	15,587	2,024	89,396
31 December 2022	3,745	10,753	33,308	5,679	26,674	80,159

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 Group 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 2023 is as follows:

- Liquidity buffer BGN 881,814 thousand (2022: BGN 804,321 thousand);
- Net outflow of 106,527 thousand levs (2022: 151,647 thousand levs);
- Liquidity coverage ratio 828% (2022: 530%);
- Net stable funding ratio 289 % (2022: 302 %).

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:

	2023	**2023**	**2022**	**2022**
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash on hand	26,145	26,145	23,982	23,982
Accounts in the Central Bank	1,071,251	1,071,251	1,015,853	1,015,853
Receivables and deposits in banks	176,759	176,759	115,607	115,607
TOTAL	**1,274,155**	**1,274,155**	**1,155,442**	**1,155,442**

4.4. Financial assets pledged as collateral

As at 31 December 2023 Bulgarian government securities are pledged as collateral and amount to BGN 218,507 thousand (2022: 88,342 thousand).

As at 31 December 2023 the Group has blocked BGN 350,000 thousand (2022: BGN 450,000 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 16).

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 Group 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 Group 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 2023, the total amount of customers' trust assets granted to the Bank for custody amounted to BGN 18,297 thousand (31.12.2022: BGN 18,377 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 Group'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.

All amounts are represented in thousand BGN, unless otherwise stated.

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 9,80 %;
- Common Equity Tier 1 Capital ratio of 7,35 %.

As at 31 December 2023, Municipal Bank AD reports the following capital ratios:

- Total capital adequacy ratio of 20.45%. (2022: 18.27%);
- Common Equity Tier 1 Capital ratio of 20.45%. (2022: 18.27%)

As at 31 December 2023 and 2022, the Parent Bank's equity structure is as follows:

	2023 Basel III	**2022 Basel III**
Tier 1 capital		
Registered and paid in capital	89,362	69,362
Decrease		
- Intangible assets	(1,398)	(1,191)
- Deferred taxes that are based on future profits	(680)	(321)
Unrealized gains on financial instruments at fair value through other comprehensive income	15,099	12,772
Other regulatory adjustments under Basel III	46,444	30,303
Total Tier 1 capital	**148,827**	**110,925**
Total capital base (own funds)	**148,827**	**110,925**

As at 31 December 2023 and 2022, 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 18,196 thousand (2022: BGN 15,181 thousand), 2.5% of the amount of the total risk-weighted exposure of the Bank amounting to BGN 727,820 thousand (2022: BGN 607,567 thousand);
- *countercyclical capital buffer* in the amount of BGN 14,047 thousand, (2022: BGN 5,890 thousand), which is 2% (2022: 1%) of the credit risk exposures in the Republic of Bulgaria;
- *systemic risk buffer* amounting to BGN 21,215 thousand (2022: BGN 17,447 thousand), equal to 3% of the total risk-weighted exposure;
- *capital requirements add-on under Tier II* in the amount of BGN 13,101 thousand (2022: BGN 12,449 thousand), which are 1.80% of the total risk-weighted exposure.

All amounts are represented in thousand BGN, unless otherwise stated.

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 3.10.9
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 an 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.

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 2023 and 2022 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 2023	Level 1	Level 2	Level 3	Carrying amount
Assets at fair value				
Financial assets measured at fair value through profit or loss	11,827	19	18	11,864
Financial assets measured at fair value through other comprehensive income	-	5,542	7,002	12,544
Investment property	-	-	21,381	21,381
Land and buildings used in the activity	-	-	19,972	19,972
TOTAL	11,827	5,561	48,373	65,761

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

All amounts are represented in thousand BGN, unless otherwise stated.

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. Net interest income

	For the year ended on 31.12.2023	For the year ended on 31.12.2022
Interest income		
Interest income under the effective interest rate method		
Interest from loans and receivables from customers	31,633	17,123
Interest from investments measured at amortized cost	5,753	3,608
Interest receivable on lending to and deposits in banks and financial institutions	17,997	1,710
	55,383	**22,441**
Other interest income		
Interests from financial assets at fair value through profit or loss	829	347
Negative interest rates on interest - bearing liabilities	-	6
	829	**353**
Total interest income	**56,212**	**22,794**
Interest expenses		
Interest expenses under the effective interest rate method		
Negative interest on interest-bearing assets	-	(3,874)
Interest on loans from banks	(1,385)	-
Interest on agreements with a repurchase clause	(250)	-
Interests on deposits of customers other than credit institutions	(236)	(342)
Interest on issued bonds	(932)	(379)
Interest on other borrowed funds	(231)	(132)
Interest on leases	(161)	(100)
Total interest expenses	**(3,195)**	**(4,827)**
NET INTEREST INCOME	**53,017**	**17,967**

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 2023 includes income of BGN 55,383 thousand (2022: BGN 22,447 thousand) and expenses of BGN 3,195 thousand (2022: BGN 4,827 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 2023 are accordingly BGN nil (2022: BGN nil).

All amounts are represented in thousand BGN, unless otherwise stated.

7. Net fees and commissions income

	The year ended 31.12.2023	The year ended 31.12.2022
Fees and commissions income		
Servicing and maintenance of accounts	4,771	5,098
Card operations	4,146	4,132
Transfer operations	2,703	3,023
Cash and arbitration operations	2,256	2,668
Documentary operations	532	431
Other	3,981	3,433
Total fees and commissions income	**18,389**	**18,785**
Fees and commissions expenses		
Card operations	(1,988)	(1,736)
Transfer operations	(1,466)	(1,217)
Other	(373)	(323)
Total fees and commissions expenses	**(3,827)**	**(3,276)**
FEES AND COMMISSIONS INCOME, NET	**14,562**	**15,509**

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

	Year ended 31.12.2023	Year ended 31.12.2022
Loss on revaluation of securities at fair value through profit or loss	262	(756)
Gain/(loss) from sale of securities at fair value through profit or loss	-	4
Gains on sale of foreign currency	3,819	2,493
TOTAL	**4,081**	**1,741**

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

During the reporting period, the Group did not have any gains or losses on write-down of financial assets carried at amortised cost. In 2022 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.

All amounts are represented in thousand BGN, unless otherwise stated.

10. Other operating income

	Year ended 31.12.2023	Year ended 31.12.2022
Income from rental agreements	753	584
Income from cash collection	196	188
Penalties under loan and other agreements	60	78
Sale of coins and precious metal items	4	54
Income from written-off receivables	3	1
Other income	140	281
TOTAL	**1,156**	**1,186**

11. Other operating expenses

	Year ended 31.12.2023	Year ended 31.12.2022
Expenses on investment properties	(163)	(247)
Expenses on personalization of electronic cards	(114)	(71)
Impairment of buildings, acquired for resale	-	(394)
Other expenses	(216)	(39)
TOTAL	**(493)**	**(751)**

12. Net impairment of financial assets

The movement of impairment losses and uncollectability 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 2022	**(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 2022	**(4,378)**	**(98)**	**(160)**	**(2,268)**	**(6,904)**
Impairment accrued for the period	(9,603)	(434)	(255)	(47)	(10,339)
Impairment reintegrated for the period	5,945	342	82	32	6,401
Net impairment	(3,658)	(92)	(173)	(15)	(3,938)
AS AT 31 DECEMBER 2023	**(8,036)**	**(190)**	**(333)**	**(2,283)**	**(10,842)**

All amounts are represented in thousand BGN, unless otherwise stated.

13. Provisions

The change in provisions during the period is as follows:

	Provisions for loan commitments	Provisions on lawsuits	Pension provisions	Total
AS AT 1 JANUARY 2022	**(136)**	**(268)**	**(513)**	**(917)**
Provisions accrued for the period	(427)	(11)	(87)	(525)
Provisions reintegrated for the period	294	81	122	497
Recognised as follows:				
Provisions reintegrated for the period through comprehensive income	-	-	*13*	*13*
Net accrued provisions online "(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)**
Provisions accrued for the period	(356)	-	(127)	(483)
Provisions reintegrated for the period	451	2	131	584
Recognised as follows:				
Provisions reintegrated for the period through comprehensive income	-	-	*6*	*6*
Net accrued provisions on line "(Accrued)/reintegrated provisions on credit commitments"	*95*	-	-	*95*
Net accrued provisions recognized in other expense items	-	*2*	*(2)*	-
AS AT DECEMBER 2022	**(174)**	**(196)**	**(474)**	**(844)**

13.1. 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.

13.2. 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 2023, the Group assessed the lawsuits filed against the Group and assessed the necessary provisions for them at the amount of BGN 196 thousand (2022: BGN 198 thousand).

13.3. 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 2023 are: discount rate - 4.03%; salary increase - 2% per year; retirement age: men 64 years and 6 months, women 62 years for 2023 and an increase of 2 months each year until age 65 is reached for both men and women.

All amounts are represented in thousand BGN, unless otherwise stated.

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 31.12.2022	**87**
Retirement benefits paid	108
Shortage of reserve	(21)
Out of which due to unexpected circumstances such as:	
- early retirement	7
- persons with adjustment of gross remuneration as a result of a change of class in 2022	14
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%**
	474	464	479	485	464	460	489
Change		**(10)**	**5**	**11**	**(10)**	**(14)**	**14**

The expectations for the change in the defined benefit plan obligation in 2024 may be presented as follows:

	Pension provisions
Pension provisions as at 31.12.2023	**474**
Expected actual expense for retirements in 2024	(172)
Reserve released for leavers	(14)
Increase in provision for remaining employees	219
Expected Pension Provision as at 31.12.2024	**507**

14. Administrative expenses

	Year ended 31.12.2023	Year ended 31.12.2022
Employee benefits expense	(18,362)	(15,493)
Information, communication, and technology expenses	(3,281)	(3,362)
Expenses on security and cash collection	(1,709)	(1,653)
Contribution to Bulgarian Deposit Insurance Fund	(2,733)	(2,436)
Deliveries and other hired services	(2,341)	(1,491)
Expenses on materials and supplies	(905)	(1,009)
Consultancy, auditing, and other professional services	(1,214)	(519)
Rentals of buildings and assets	(156)	(297)
Advertising, marketing, and communications	(277)	(67)
Other expenses	(3,954)	(2,677)
TOTAL	**(34,932)**	**(29,004)**

The number of employees of the Group as at 31 December 2023 is 519 (2022: 522).

The remuneration for services performed by the registered auditors of the Group includes independent financial audit amounts to BGN 149 thousand (2022: BGN 148 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 52 thousand (2022: 21 thousand).

All amounts are represented in thousand BGN, unless otherwise stated.

15. 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 2023 and 2022.

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

	Year ended 31.12.2023	Year ended 31.12.2022
Current tax expense	(3,041)	(9)
Deferred tax income, related to the occurrence and reversal of deferred taxes	(394)	(18)
TOTAL INCOME TAX EXPENSE	**(3,435)**	**(27)**

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 31.12.2023	Year ended 31.12.2022
Profit before tax	30,788	5,547
Tax expense based on the applicable tax rate 10 % for 2023 and 2022	(2,737)	(555)
Tax effect of income /(expenses) which decrease /increases the taxable profit	(304)	546
Current tax expense	**(3,041)**	**(9)**
Tax income on deferred tax asset, related to the occurrence and reversal	(394)	(18)
TOTAL INCOME TAX (EXPENSE)	**(3,435)**	**(27)**
Effective tax rate	11.16%	-

In 2023, the Group recognized a current tax expense in connection with elements of other comprehensive income in the amount of BGN 65 thousand (2022: BGN 77 thousand).

16. Cash on hand and cash balances with central banks

	As at 31.12.2023	As at 31.12.2022
Cash on hand	26,145	23,982
Current accounts with the Central Bank	1,071,251	1,015,853
TOTAL	**1,097,396**	**1,039,835**

The accounts with the Central Bank include minimum non-interest bearing reserves of BGN 196,887 thousand (2022: BGN 152,241 thousand) and a reserve provision fund in relation to the guarantee mechanism of the Borica information system in the amount of BGN 9,513 thousand (2022: BGN 9,513 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 2023, the blocked amount was BGN 350,000 thousand (2022: BGN 450,000 thousand).

All amounts are represented in thousand BGN, unless otherwise stated.

17. Financial assets at fair value through profit or loss

	As at 31.12.2023	As at 31.12.2022
Interest in mutual funds	19	16
Bulgarian corporate bonds	8,819	9,801
Bulgarian government securities	2,579	2,530
Shares in local entities	429	345
Foreign corporate bonds	-	2
Compensatory instruments	18	14
TOTAL	**11,864**	**12,708**

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

As at 31 December 2023, the fair value hierarchy, which categorises the fair value measurement of these assets by level, is as follows: Level 1 - BGN 11,827 thousand (2022: BGN 12,676 thousand), Level 2 - BGN 19 thousand (2022: BGN 16 thousand) and Level 3 - BGN 18 thousand (2022: BGN 16 thousand).

18. Financial assets at fair value through other comprehensive income

	As at 31.12.2023	As at 31.12.2022
Shares in foreign entities	5,542	4,377
Shares in local entities	7,002	6,945
TOTAL	**12,544**	**11,322**

The financial assets measured at fair value through other comprehensive income as at 31 December 2023 represent shares in foreign companies with a value of BGN 5,542 thousand (2022: BGN 4,377 thousand) and in Bulgarian companies with a value of BGN 7,002 thousand (2022: BGN 6,945 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 1,390 thousand (2022: BGN 1,744 thousand).

19. Receivables from banks and other financial instruments

	As at 31.12.2023	As at 31.12.2022
Nostro accounts with banks	43,753	58,939
Deposits due from banks	87,101	21,920
Loans to banks	45,551	34,306
Guarantee deposits with Mastercard Inc. and Visa	544	540
	176,949	**115,705**
Expected credit losses	(190)	(98)
TOTAL	**176,759**	**115,607**

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

As of 31 December 2023 and 2022, the residual and original maturity of all deposits due from banks is up to 3 months.

In 2023, long-term loans were granted to 3 Bulgarian banks with an original maturity of 5 years in the total principal amount of BGN 11 000 thousand (2022: BGN 34 000 thousand).

All amounts are represented in thousand BGN, unless otherwise stated.

20.Receivables under agreements with a repurchase clause

As at 31.12.2023 the Bank is party to one repo transaction with a carrying amount of BGN 5,006 thousand. The collateralisation ratio of agreements with a repurchase clause that are secured by a pledge of corporate securities is 130%. The maturity of this agreement is in June 2024.

21.Loans and receivables from customers

21.1. 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	128,241	(1,725)	126,516	125,576	(1,578)	123,998
Mortgages	53,450	(53)	53,397	45,117	(56)	45,061
consumer loans	73,997	(1,632)	72,365	79,329	(1,509)	77,820
credit cards	794	(40)	754	1,130	(13)	1,117
Corporates	408,478	(5,859)	402,619	318,793	(2,515)	316,278
Government entities	21,488	(237)	21,251	42,068	(265)	41,803
Non-banking financial institutions	27,089	(215)	26,874	5,459	(20)	5,439
TOTAL	**585,296**	**(8,036)**	**577,260**	**491,896**	**(4,378)**	**487,518**

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

		31 December 2022			
Segment	**Stage**	**Number of transactions**	**Segment**	**Stage**	**Number of transactions**
Individuals	stage 1	11,088	123,044	(326)	122,718
	stage 2	373	1,724	(133)	1,591
	stage 3	733	3,473	(1,266)	2,207
	Total	**12,194**	**128,241**	**(1,725)**	**126,516**
Non-financial entities	stage 1	134	399,244	(2,033)	397,211
	stage 2	1	41	-	41
	stage 3	14	9,193	(3,826)	5,367
	Total	**149**	**408,478**	**(5,859)**	**402,619**
Financial institutions	stage 1	3	27,089	(215)	26,874
	stage 2	-	-	-	-
	stage 3	-	-	-	-
	Total	**3**	**27,089**	**(215)**	**26,874**
Budget	stage 1	18	21,488	(237)	21,251
	stage 2	-	-	-	-
	stage 3	-	-	-	-
	Total	**18**	**21,488**	**(237)**	**21,251**
Total Loan Portfolio		**12,364**	**585,296**	**(8,036)**	**577,260**

All amounts are represented in thousand BGN, unless otherwise stated.

21.2. Analysis by sector

	As at 31.12.2023			As at 31.12.2022		
	Gross carrying amount	Impairment for uncollectability	Carrying amount	Gross carrying amount	Impairment for uncollectability	Carrying amount
Individuals	128,241	(1,725)	126,516	125,576	(1,578)	123,998
Manufacture	39,078	(2,879)	36,199	16,284	(292)	15,992
Services	200,934	(727)	200,207	165,984	(631)	165,353
Commerce	65,351	(1,238)	64,113	55,713	(1,093)	54,620
Government entities	21,488	(237)	21,251	42,068	(265)	41,803
Construction	46,582	(742)	45,840	56,094	(276)	55,818
Transport	46,180	(212)	45,968	15,702	(172)	15,530
Agriculture	10,353	(61)	10,292	9,016	(51)	8,965
Financial and insurance operations	27,089	(215)	26,874	5,459	(20)	5,439
TOTAL	**585,296**	**(8,036)**	**577,260**	**491,896**	**(4,378)**	**487,518**

In 2023, loans receivable written off against the allowance for bad debts amounted to BGN nil (2022: BGN 127 thousand).

22. Debt instruments at amortised cost

	As at 31.12.2023	As at 31.12.2022
Bulgarian government bonds	278,345	304,405
Bulgarian municipal bonds	29,945	57,004
Foreign corporate bonds	-	9,009
Bulgarian corporate bonds	19,772	22,794
Foreign government bonds	58,392	-
	386,454	**393,212**
Expected credit losses	(333)	(160)
TOTAL	**386,121**	**393,052**

Bulgarian government securities blocked as collateral for the maintenance of budget accounts as at 31 December 2023 amount to BGN 218,569 thousand (2022: BGN 88,342 thousand).

23. Other assets

	As at 31.12.2023	As at 31.12.2022
Properties acquired for resale	11,982	11,982
Advances paid to suppliers	1,942	2,522
Prepaid expenses	457	1,178
Other financial receivables	3,928	3,516
Current stock of precious metals	360	393
Other receivables from banks	88	105
Materials	150	191
Other assets	184	193
TOTAL	**19,091**	**20,080**
Impairment for uncollectability	**(2,283)**	**(2,268)**
	16,808	**17,812**

In 2020, the Bank purchased a regularised land parcel adjacent to a property it owns, acquired in foreclosure of BGN 11,871 thousand (2022: BGN 12,105 thousand), presented in note 24.

All amounts are represented in thousand BGN, unless otherwise stated.

In 2022, a depreciation of the property in the amount of BGN 234 thousand was recognized; following an inspection in 2023, no indication for additional depreciation was found. The Bank continues to be in negotiations with a buyer who has declared an intention to purchase both properties in their entirety.

24. Assets acquired in foreclosure

Change in assets acquired in foreclosure is as follows:

	Real estate
As at 1 January 2022	**13,468**
Sold	(361)
Impairment	(64)
As at 31 December 2022	**13,043**
Acquired	1,237
Sold	(771)
As at 31 December 2023	**13,509**

The Bank has conducted its annual analysis of the existence of indications of impairment to the net realizable value of the assets acquired in foreclosure. In 2023, no depreciation was recognized (2022: 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 Bank. 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 23, the Bank 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 2023 of BGN 11,871 thousand and land acquired from collateral with a carrying value as of 31 December 2023 of BGN 12,652 thousand. On review for impairment at the end of 2023, no further impairment was charged , in 2022 both properties were impaired totalling BGN 298 thousand.

All amounts are represented in thousand BGN, unless otherwise stated.

25. 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 2022	**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
31 December 2022	**20,613**	**8,757**	**1,079**	**2,832**	**3,689**	**18,790**	**55,760**
Additions	3,594	446	-	120	21	-	4,181
Disposals	-	(673)	-	(93)	(84)	-	(850)
Revaluation	651	-	-	-	-	-	651
31 December 2023	**24,858**	**8,530**	**1,079**	**2,859**	**3,626**	**18,790**	**59,742**
Accumulated depreciation							
1 January 2022	**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)
31 December 2022	**4,528**	**7,485**	**571**	**2,705**	**3,458**	**-**	**18,747**
Accrued for the year	358	612	87	43	36	-	1,136
Depreciation of disposals	-	(671)	-	(90)	(83)	-	(844)
31 December 2023	**4,886**	**7,426**	**658**	**2,658**	**3,411**	**-**	**19,039**
Carrying amount as at 31 December 2022	**16,085**	**1,272**	**508**	**127**	**231**	**18,790**	**37,013**
Carrying amount as at 31 December 2023	**19,972**	**1,104**	**421**	**201**	**215**	**18,790**	**40,703**

As at 31 December 2023, in accordance with the adopted accounting policy, the Bank has made a revaluation in the amount of BGN 651 thousand of the land and buildings used in its operations (owner occupied property) (2022: BGN 770 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 2023 if the land and buildings used in the Bank's operations were accounted for using the cost method, their carrying amount would be BGN 11,052 thousand (2022: BGN 8,041 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 Bank's own headquarters building. In 2022 the Bank has received a building permit.
As of 31 December 2023 the Bank 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 represented in thousand BGN, unless otherwise stated.

26. Investment property

The Bank's investment properties represent land and buildings that the Bank leases or uses for capital appreciation.

	Land and buildings
Carrying amount as at 31 December 2022	**20,581**
Sold during the period	(27)
Net gain from change of fair value	1,509
Carrying amount as at 31 December 2022	**22,063**
Net loss from change of fair value	(682)
Carrying amount as at 31 December 2023	**21,381**

In 2022, the Bank changes the subsequent valuation model for its investment properties, choosing to use the fair value method. This resulted in an initial net revaluation effect of BGN 751 thousand, which is presented under the line "Change in fair value of investment properties and revaluation for the period" BGN 758 thousand.
In 2023 the Bank recorded rental income from investment properties of BGN 734 thousand (2022: BGN 567 thousand). The direct costs of maintaining investment properties in 2023 amounted to BGN 146 thousand (2022: BGN 232 thousand). The analysis of the fair values of the Bank's investment properties, by level in the fair value hierarchy, categorises the fair value measurement in Level 3.

As at 31 December 2023, the carrying value of investment properties acquired from collateral is BGN 8,532 thousand (2022: BGN 8,532 thousand). The Bank has classified them in this group as the assets are operated by letting them out and management's intention is to hold them to earn rental income or for appreciation and eventual sale.

27. Intangible assets

Gross carrying amount	Software 2023	Software 2022
1 January	**4,738**	**4,931**
Additions	3,032	178
Disposals	(228)	(371)
31 December	**7,542**	**4,738**
Amortization accumulated		
1 January	**3,547**	**3,582**
Accrued for the year	413	337
Amortization of disposals	(228)	(372)
31 December	**3,732**	**3,547**
Net carrying amount as at 31 December	**3,810**	**1,191**

As at 31 December 2023 the Bank does not own any pledged intangible assets and no commitments to acquire significant intangible assets

All amounts are represented in thousand BGN, unless otherwise stated.

28. Right-of-use assets and lease liabilities

28.1. Right-of-use assets

	Buildings
Gross carrying amount	
Balance at 1 January 2022	**6,185**
Additions	2,940
Disposals	(1,630)
Balance at 31 December 2022	**7,495**
Additions	1,859
Disposals	(774)
Balance at 31 December 2023	**8,580**
Depreciation and impairment	
Balance at 1 January 2022	**3,580**
Accrued for the year	1,261
Depreciation of disposals	(1,578)
Balance at 31 December 2022	**3,263**
Accrued for the year	1,408
Depreciation of disposals	(707)
Balance at 31 December 2023	**3,964**
Net carrying amount as at 31 December 2022	**4,232**
Net carrying amount as at 31 December 2023	**4,616**

28.2. Lease liabilities

	As at 31.12.2023	**As at 31.12.2022**
Lease liabilities – non-current portion	3,410	3,141
Lease liabilities – current portion	1,362	1,195
Total	**4,772**	**4,336**

The Bank leases premises in buildings, which it uses for Bank 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 Bank to sublease the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee.

Future minimum lease payments at 31 December 2023 were as follows:

	Minimum lease payments due						
	Within 1 year	Within 1-2 years	Within 2-3 years	Within 3-4 years	Within 4-5 years	Over 5 years	Total
Lease payments 31.12.2023							
Gross lease payments	1,497	1,290	1,103	787	246	184	5,107
Finance charges	(140)	(96)	(57)	(25)	(9)	(8)	(335)
Net present values	**1,357**	**1,194**	**1,046**	**762**	**237**	**176**	**4,772**

All amounts are represented in thousand BGN, unless otherwise stated.

Future minimum lease payments at 31 December 2022 were as follows:

	Minimum lease payments due						
	Within 1 year	Within 1-2 years	Within 2-3 years	Within 3-4 years	Within 4-5 years	Over 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**

The increase in right-of-use assets is due to new contracts signed for the Bank's branch network.

28.3. Lease payments not recognised as a liabilities

The Bank 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 31.12.2023	Year ended 31.12.2022
Short-term leases	137	269
Leases of low value assets	36	41
	173	**310**

28.4. Operating lease – Bank as a lessor

	As at 31.12.2023	As at 31.12.2022
Within 1 year	750	703
1 to 5 years	1,409	2,022
More than 5 years	148	176
TOTAL	**2,307**	**2,901**

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	Within 1-2 years	Within 2-3 years	Within 3-4 years	Within 4-5 years	Over 5 years	Total
Gross lease proceeds							
As at 31.12.2023	750	687	511	154	57	148	2,307
As at 31.12.2022	703	703	680	502	137	176	2,901

Revenue from operating leases is presented in Note 10. The lower rental income reported for 2022 is due to the termination of certain leases due to the sale of the properties.

All amounts are represented in thousand BGN, unless otherwise stated.

29. Deposits from other customers

	31 December 2023			31 December 2022		
	BGN	**Foreign currency**	**Total**	**BGN**	**Foreign currency**	**Total**
RESIDENTS	1,677,971	402,855	2,080,826	1,513,988	417,418	1,931,406
Individuals	876,526	255,341	1,131,867	761,820	257,380	1,019,200
Budget	452,104	37,638	489,742	399,379	40,846	440,225
Services	123,343	16,933	140,276	153,641	19,891	173,532
Manufacture	56,801	11,478	68,279	50,615	9,647	60,262
Commerce	42,388	76,314	118,702	41,880	71,457	113,337
Transport	58,796	2,525	61,321	29,746	14,120	43,866
Construction	56,683	1,217	57,900	62,567	2,068	64,635
Finance (other than banks)	4,462	1,098	5,560	3,713	1,088	4,801
Agriculture	6,868	311	7,179	10,627	921	11,548
NON-RESIDENTS	2,169	35,813	37,982	2,549	15,657	18,206
TOTAL	**1,680,140**	**438,668**	**2,118,808**	**1,516,537**	**433,075**	**1,949,612**

The deposits of Budget entities as at 31 December 2023 and 2022 include mainly current, budget and deposit accounts of Bulgarian municipalities.

30. Loans received from banks

	As at 31.12.2023	As at 31.12.2022
Principal	35,000	24,000
Interest liabilities	321	76
	35,321	**24,076**

As at 31 December 2023 and 31 December 2022, the Bank has the following long-term loans obtained from local banks.

- Conditions of Issue 1:Principal: BGN 12,000 thousand;
- Coupon: 4.5% fixed;
- Date of disbursement: November 2022;
- Maturity: November 2027;

- Conditions of Issue 2:Principal: BGN 12,000 thousand;
- Coupon: 5% fixed;
- Date of disbursement: December 2022;
- Maturity: December 2026

- Conditions of Issue 3:Principal: BGN 3,000 thousand;
- Coupon: 4.5% fixed;
- Date of disbursement: July 2023;
- Maturity: July2028 Conditions of Issue 4:Principal: BGN 5,000 thousand;
- Coupon: 5% fixed;
- Date of disbursement: August 2023;
- Maturity: August 2028

- Conditions of Issue 5:Principal: BGN 3,000 thousand;
- Coupon: 7% fixed;
- Date of disbursement: August 2023;
- Maturity: August 2028

All amounts are represented in thousand BGN, unless otherwise stated.

All loans received are unsecured. The monies were provided to the Bank under products developed for individuals, the purpose of which is to diversify the forms of funds raised from customers, 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).

31. Bonds issued

	As at 31.12.2023	As at 31.12.2022
Principal	20,702	20,702
Interest liabilities	379	379
	21,081	**21,081**

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.

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.

32. Loans received from customers

	As at 31.12.2023	31.12.2022
Principal amounts from loans received from individuals	6,237	6,237
Principal amounts from loans received from non-financial enterprises	2,500	-
Interest liabilities on loans received from clients	59	56
	8,796	**6,293**

As at 31 December 2023 the Bank received long term unsecured loans for over 3 or 4 years from individuals and non-financial corporations. Loans are received in BGN or EUR. Interest expenses on them amount to BGN 59 thousand (2022: BGN 56 thousand). The monies were provided to the Bank under products developed for individuals, the purpose of which is to diversify the forms of funds raised from customers, 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

All amounts are represented in thousand BGN, unless otherwise stated.

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. Other liabilities

	As at 31.12.2023	As at 31.12.2022
Financial liabilities	2,443	1,254
Share capital increase contributions	-	20,000
Cession payables	-	3,691
Deferred income	318	325
Unsettled bank transfers	409	317
Unused paid leaves and other employee compensations	385	392
Other liabilities	2,369	1,438
TOTAL	**5,924**	**27,417**

In 2022, the 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 are recorded in the TRLMNC and reflected as an increase in the share capital of the Parent Bank on January 4, 2023.

The remainder of the financial liabilities consist mainly of payables to service providers provided to the Bank, which were paid in January 2024 and 2023, respectively. Bank remittances in execution represent liabilities for foreign currency transfers ordered by customers on the last day of 2023 and 2022, respectively, with a remittance execution lag of up to two days. These transfers are executed on the first business day of 2024 and 2023, respectively.

34. Tax assets and liabilities

34.1. Current taxes

Current tax assets are the net tax position relating to income tax for the relevant year, increased with amount of the income tax which was overpaid and still not refunded by the tax administration for the previous year. In accordance with the legal requirements, the Bank prepaid income tax calculated on the basis of the expected tax profits for the previous year. If the prepayments made at the end of the year exceed the tax due for the year, this excess cannot automatically be deducted from the income tax liabilities for the following year but must be refunded by the tax administration. As at 31 December 2023 the Bank's current tax assets amount to BGN nil (31.12.2022: BGN 370 thousand).

34.2. Deferred taxes

Deferred income taxes are calculated on the basis of all temporary differences using the balance sheet method of determining liabilities, applying a tax rate of 10%.

Information on Deferred Tax Assets and Liabilities as at 31 December 2023 and 2022 is presented in the following table:

Balances on deferred income tax belong to the following balance sheet positions:

	Assets		**Liabilities**		**Net (assets)/liabilities**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Property and equipment	(25)	(210)	793	944	**768**	734
Provisions	(38)	(37)	-	-	**(38)**	(37)
Actuarial gains and losses	(48)	(51)	-	-	**(48)**	(51)
Other liabilities	(569)	(23)	622	23	**53**	-
Financial assets	-	-	227	227	**227**	227
Net deferred tax (assets)/ liabilities	**(680)**	**(321)**	**1,642**	**1,194**	**962**	**873**

All amounts are represented in thousand BGN, unless otherwise stated.

The movement of temporary tax differences in 2023 is formed from:

	Balance 01.01.2023	Recognized during the year In profit and loss	In other comprehensive income	Balance 31.12.2023
Property and equipment	734	(31)	65	768
Provisions	(37)	(1)	-	(38)
Actuarial gains and losses	(51)	3	-	(48)
Other liabilities	-	53	-	53
Financial assets	227	-	-	227
Net deferred tax (assets)/ liabilities	**873**	**24**	**65**	**962**

The movement of temporary tax differences in 2022 is formed from:

	Balance 01.01.2022	Recognized during the year In profit and loss	In other comprehensive income	Balance 31.12.2022
Property and equipment	683	(22)	73	734
Provisions	(37)	-	-	(37)
Actuarial gains and losses	(55)	4	-	(51)
Other liabilities	(36)	36	-	-
Financial assets	227	-	-	227
Net deferred tax (assets)/ liabilities	**782**	**18**	**73**	**873**

35. Equity and reserves

35.1. Share capital

On January 4, 2023, an increase in share capital of Municipal Bank AD was recorded in the Commercial register and register of non-profit legal entities, consisting of 2,000,000 ordinary, registered, non-negotiable shares with voting rights, with a nominal value of BGN 10 each, purchased by the parent bank's main shareholder. As at 31 December 2023, the Bank's share capital amounted to BGN 89,362 thousand and consisted of 8,936,281 registered dematerialised shares with voting rights, each with a par value of BGN 10. As at 31 December 2023, Novito Opportunities Fund AGmvK has a 96.51% (31.12.2022: 95.5%) interest in the share capital of the Bank.

In 2023 and 2022 the Group did not distribute any dividends.

35.2. Statutory reserves

The Group forms a Reserve Fund upon a decision of the General Shareholders Meeting on the grounds of Art.246 (2) (4) of the Commerce Act from the allocated profit after taxes, the value of which as at 31 December 2023 amounts to BGN 44,632 thousand (2022: BGN 44,549 thousand).

35.3. 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 Group under IAS 16 Property, Plant and Equipment (Note 25), 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 Group's liabilities under defined benefit plans in accordance with IAS 19 "Employee Benefits"

	As at 31.12.2023	As at 31.12.2022
Revaluation reserve of owner-occupied property	9,170	8,584
Revaluation reserve of securities	7,786	6,396
Actuarial losses	(19)	(25)

All amounts are represented in thousand BGN, unless otherwise stated.

Total	**16,937**	**14,955**

36. Related parties

Related parties to the Group include its owners and key management personnel, as the group does not have associated or joint ventures, as well as other entities under common control.

Business transactions with related parties are carried out in the normal course of business. These transactions are executed at negotiated prices that do not differ from market ones. There are no overdue receivables from related parties.

Related party transactions and balances as at 31 December are as follows:

36.1. Related party balances

2023	Key management personnel	Major shareholder	Total
Loans and receivables	38	-	38
Deposits	1,280	-	1,280
Undrawn commitments and issued guarantees	31	-	31

2022	Key management personnel	Major shareholder	Total
Loans and receivables	1	-	1
Deposits	1,127	-	1,127
Undrawn commitments and issued guarantees	33	-	33

36.2. Related party transactions

In 2023 and 2022, there were no revenues or expenses reported in the profit or loss from transactions with related parties.

The short-term benefits of the key management personnel of the Parent Bank for the year ended 31 December 2023 amounting to BGN 1,866 thousand (2022: BGN 1,057 thousand).

37. Cash and cash equivalents

Cash and cash equivalents for the purposes of the Cash Flow Statement consist of the following balances:

	As at 31.12.2023	As at 31.12.2022
Cash on hand	26,145	23,982
Balances with the Central Bank	1,071,251	1,015,853
Nostro accounts in banks	43,753	58,939
Deposits with banks	87,101	21,920
Expected credit losses	(39)	(10)
TOTAL	**1,228,211**	**1,120,684**

Cash and cash equivalents as presented in the Statement of Cash Flow include cash on hand, cash in the Central Bank, as well as nostro accounts, deposits with banks and bank receivables from repurchase agreements with original maturity up to 3 months. The Group recognizes as cash and cash equivalents the amount of minimum reserve requirements and reserve preventive fund, as disclosed in Note 16. Banks may use these funds against interest payments, in accordance with Ordinance 21 of the BNB for minimum reserve requirements that banks maintain at the BNB.

38. Reconciliation of liabilities arising from financing activities

Changes in the Group's financial liabilities arising from financing activities can be classified as follows:

	Loans received from banks	Bonds issued	Loans received from customers	Lease liabilities	Share equity contributions	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
1 January 2023	**24,076**	**21,081**	**6,293**	**4,336**	**20,000**	**75,786**
Cash flows						
Payments	-	-	-	(1,584)	-	(1,584)
Proceeds	11,000	-	2,500	-	-	13,500
Interest paid	(1,140)	(932)	(228)			(2,300)
Non-monetary changes						
Interest accrued	1,385	932	231	161	-	2,709
Asset additions	-	-	-	1,859	-	1,859
Recorded share capital	-	-	-	-	(20,000)	(20,000)
31 December 2023	**35,321**	**21,081**	**8,796**	**4,772**	**-**	**69,970**

	Loans received from banks	Bonds issued	Loans received from customers	Lease liabilities	Share equity contributions	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
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**

39. Non-cash transactions

During the presented reporting periods the Group has entered into the following non-cash investing and financing transactions in which no cash or cash equivalents have been used and which are not reflected in the cash flow statement:

- The Group has acquired right-of-use assets in the amount of BGN 1,859 thousand (2022: BGN 2,940 thousand).

40. Contingent and irrevocable commitments

The contingent and irrevocable commitments made by the Group consist of issued guarantees, commercial letters of credit and undrawn commitments under agreed loans.

As at 31 December 2023, the Group has issued guarantees to customers in favour of third parties in the amount of BGN 49,370 thousand (2022: BGN 29,948 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 2023 amount to BGN 40,026 thousand (2022: BGN 50,212 thousand).

As at 31 December 2023 and 2022, the Group has not entered into any forward transactions.

41. Events after the end of the reporting period

No adjusting events or significant non-adjusting events have occurred between the date of the separate financial statements and the date of their authorization for issue.

42. Approval of the consolidated financial statements

The consolidated financial statements as at 31 December 2023 (including comparative information) were approved for issue to the Supervisory Board by the Management Board on 14.05.2024.