MUNICIPAL BANK AD

ANNUAL SEPARATE ACTIVITY REPORT
INDEPENDENT AUDITORS' REPORT
ANNUAL SEPARATE 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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MUNICIPAL BANK AD

Annual Separate Activity Report

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2023

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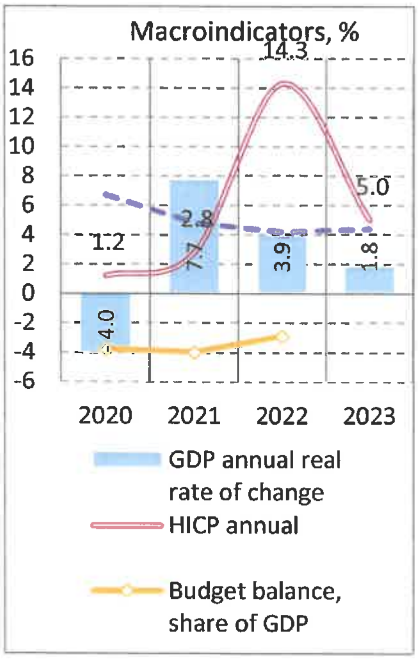
Economic environment

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. However, domestic demand is driven by 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. Labour 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 performance of the economy. 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. More than half of the interest expenses in 2023 were on 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.

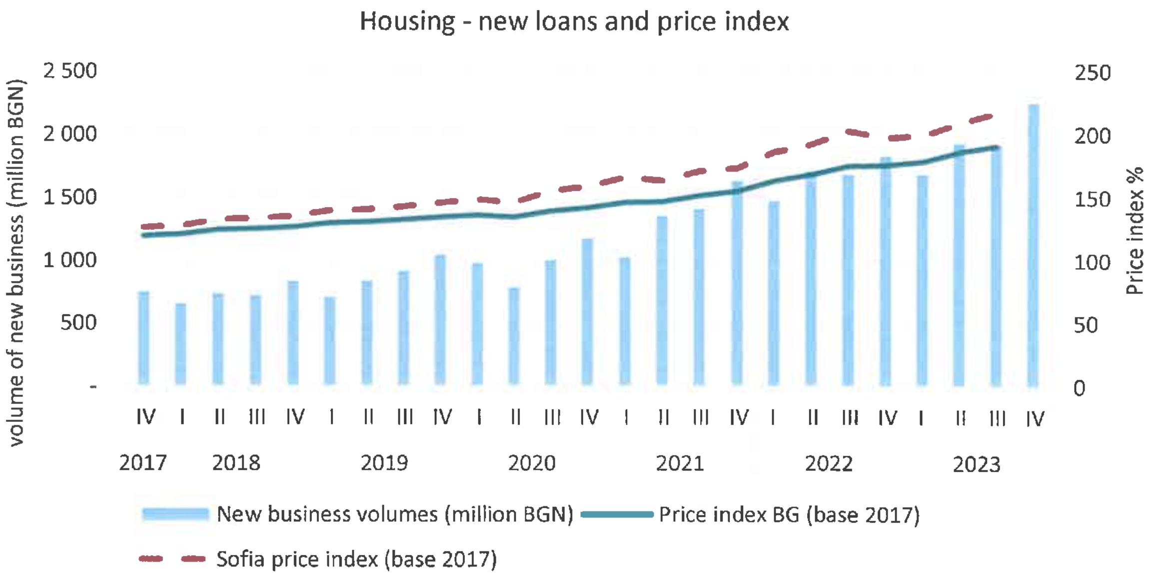
The continued high activity in lending to non-bank clients in 2023 only led to a higher growth volume of loans compared to deposits. The loans-to-deposits ratio increased from 68.2% to 71.2%, but the accumulated deposit base still allows banks not to significantly raise deposit rates.

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 preemptive 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%.

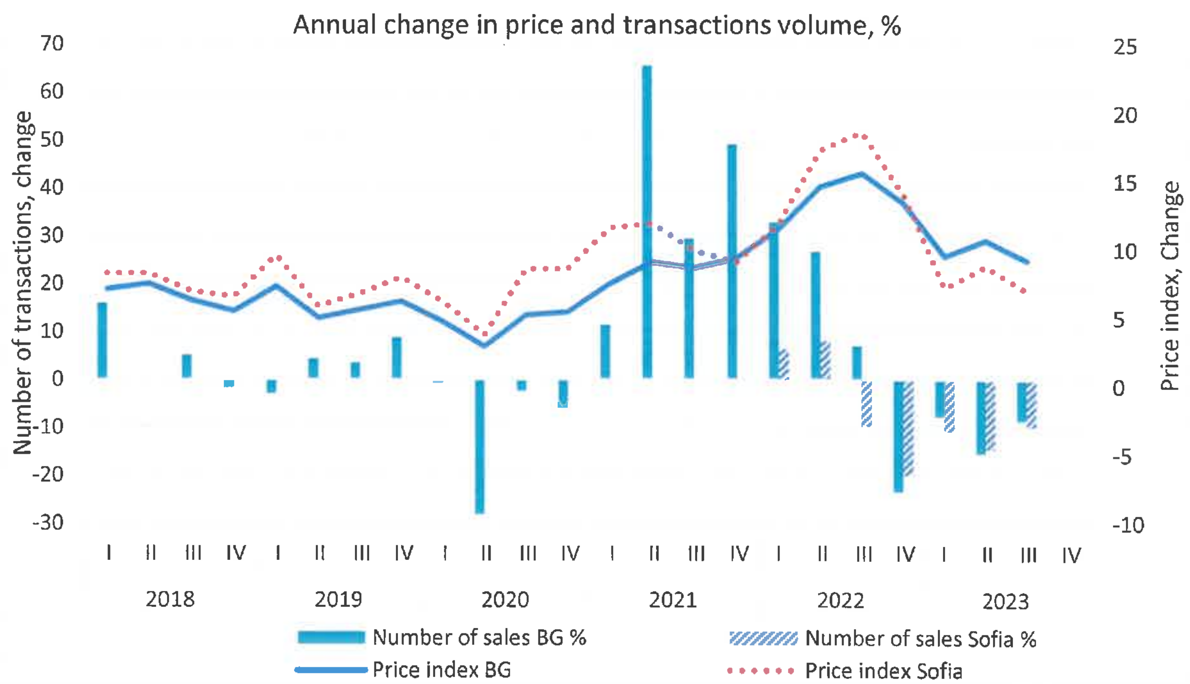
Balance sheet items, BGN million	*2021*	*2022*	*2023*	**Change**		
				2022	*2023*	
Total assets	135,410	155,406	172,075	14.8%	10.7%	16,669
Cash	28,487	32,428	36,267	13.8%	11.8%	3,839
Debt securities	22,014	23,607	25,960	7.2%	10.0%	2,354
Loans and advances (gross, net of CB), incl.	82,362	96,137	106,295	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

Source: 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.

Signals 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

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 of 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.

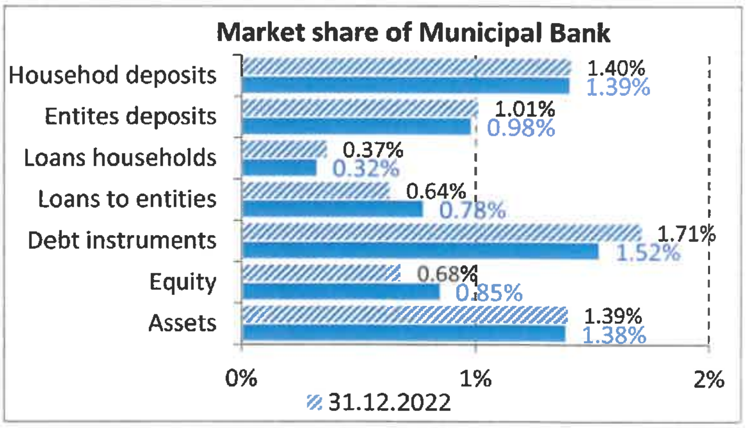
Business model and market position

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

	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	2,120,205	1,950,952
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.

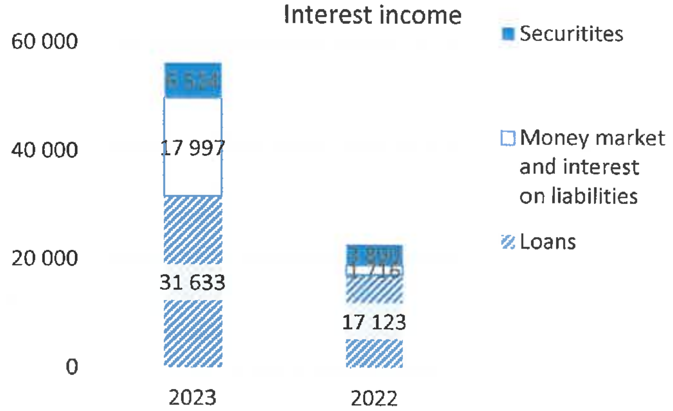
**Including personnel costs and contributions to the Deposit Insurance Fund.

Financial results

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 BGN 27,305 thousand (2022: BGN 5,426 thousand), 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.

Separate Statement of Profit or Loss, TBGN	*2023*	*2022*	*Change*	
			%	*Amount*
Net interest income	52,959	17,929	195.4%	35,030
Interest income	56,154	22,729	147.1%	33,425
Interest expense	(3,195)	(4,800)	(33.4%)	1,605
Dividend income	215	233	(7.7%)	(18)
Net fees and commissions income	14,562	15,509	(6.1%)	(947)
Net gains from operations with FV through profit and loss	3,929	1,551	153.3%	2,378
Net gains on derecognition of financial assets that are not at fair value through profit or loss	-	44	(100.0%)	(44)
Net gains/(loss) 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 incomes / expenses, net	663	448	48.0%	215
Net operating income	**72,310**	**37,724**	**91.7%**	**34,586**
Administrative expenses	(34,777)	(28,874)	20.4%	(5,903)
Depreciation and amortization	(2,957)	(2,854)	3.6%	(103)
Impairment of financial assets, net	(3,938)	(419)	839.9%	(3,519)
Provisions accrued for the period, net	95	(133)	(171.4%)	228
Income tax expense	(3,428)	(18)	--	(3,410)
PROFIT FOR THE YEAR	**27,305**	**5,426**	**403.2%**	**21,879**

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 Bank 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.

Municipal Bank AD, like most banks in our market, has accumulated deposit capacity, regardless of the near-zero interest rates on term deposits. Market interest rates on deposits began to rise for products with a term of over 1 year, with expectations that this trend will be transferred to other products in the future. The interest expenses of Municipal Bank AD decreased by 33.4% in 2023, due to the elimination of assets with negative interest rates (including reserves at the BNB). The main component for the Bank 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 acceptable liabilities in meeting the Minimum Capital Requirements and acceptable liabilities.

Interest expenses	*2023*	*2022*	*Change*	
Interest on loans received from banks	(1,385)	(76)	1 722.4%	(1,309)
Interest on agreements with repurchase clauses	(250)	-	100.0%	(250)
Interest on deposits, other than credit institutions	(236)	(315)	(25.1%)	79
Interest on issued bonds	(932)	(379)	145.9%	(553)
Interest on other attracted funds	(231)	(56)	312.5%	(175)
Interest on leasing agreements	(161)	(100)	61.0%	(61)
Negative interest on interest-bearing assets	-	(3,874)	(100.0%)	3,874
Total	**(3,195)**	**(4,800)**	**(33.4%)**	**1,605**

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, and the increase in interest expenses in 2023 compared to 2022 follows from the volumes of these loans. 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 Bank achieved a higher interest margin in 2023, leading to a substantial improvement in profitability and efficiency indicators – return on equity in 2023 was 17.71%, return on assets increased to 1.22%, and the ratio of expenses to net operating income decreased to 48.09%. According to data from the Bulgarian National Bank (BNB), the calculated return on equity for banks in Bulgaria in 2023 was 18.3%.

Indicators	*2023*	*2022*
Return on equity (ROE)*	17.71%	4.72%
Return on assets (ROA)*	1.22%	0.27%
Net interest margin*	2.49%	0.95%
Cost income ratio (CIR)	48.09%	76.54%

* Based on average daily balance

The net profits from financial asset operations, valued at fair value through profit or loss, significantly increased during the reporting year as a result of the Bank's activity in currency trading (BGN 3,820 thousand) and the positive result of BGN 109 thousand from the revaluation of financial instruments valued at fair value through profit or loss, compared to the loss of BGN 946 thousand 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	*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	(1,660)	(1,736)	(4.4%)	76
Transfer operations	(1,794)	(1,217)	47.4%	(577)
Other	(373)	(323)	15.5%	(50)
Total fees and commissions expense	(3,827)	(3,276)	16.8%	(551)
FEES AND COMISSIONS 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.Net effect from the impairment of financial assets is an accrual of BGN 3,938 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 20.1% in 2023. The rise in personnel expenses is 18.5%, considering the state of the labour market and inflationary adjustments. The Bank 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.

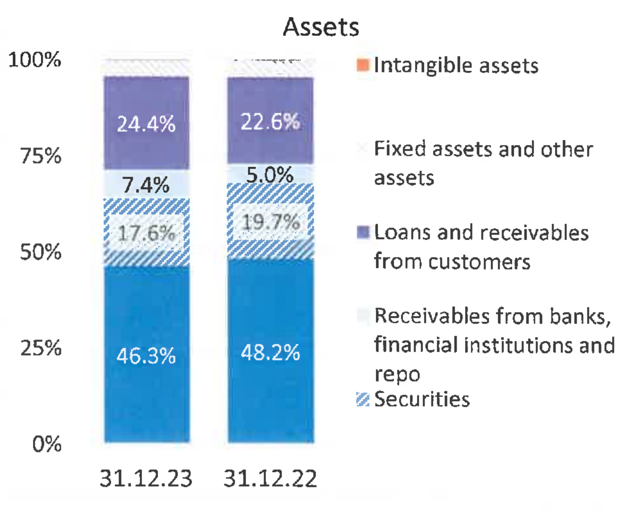
Administrative expenses	*31.12.23*	*31.12.22*	*Change*	
Employee benefits	(18,261)	(15,414)	18.5%	(2,847)
Information, communication and technological expenses	(3,272)	(3,352)	(2.4%)	80
Security and debt collection costs	(1,709)	(1,653)	3.4%	(56)
Contribution to FSC	(2,733)	(2,436)	12.2%	(297)
Procurement and other external services	(2,302)	(1,456)	58.1%	(846)
Consumables and materials expenses	(905)	(1,009)	(10.3%)	104
Consultancy, auditing and other professional services	(1,208)	(513)	135.5%	(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	**(34,777)**	**(28,874)**	**20.4%**	**(5,903)**

Assets

As of December 31, 2023, the assets of Municipal Bank AD amount to BGN 2,368,048 thousand. On an annual basis, the increase is BGN 212,020 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.

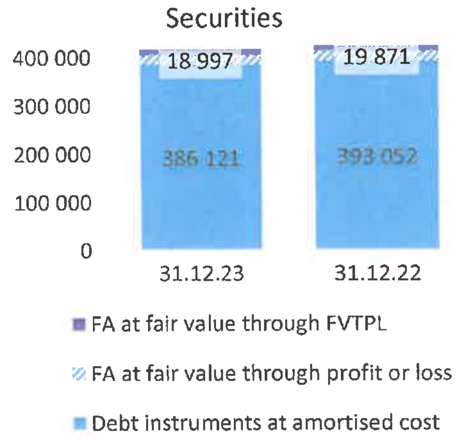
ASSETS	*31.12.22*	*31.12.22*	*Change*	
Cash on hand and cash balances with the Central Bank	1,097,396	1,039,835	5.5%	57,561
Securities	417,662	424,245	(1.6%)	(6 583)
Receivables from banks and other financial institutions	169 549	108 357	56.5%	61,192
Receivables from agreements for repurchase	5,006	-	100.0%	5,006
Loans and receivables from customers	577,260	487,518	18.4%	89,742
Current tax assets	-	370	(100.0%)	(370)
Other assets	16,806	17,811	(5.6%)	(1 005)
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
Investments in subsidiaries	350	350	0.0%	-
Total assets	**2,368,048**	**2,156,028**	**9.8%**	**212,020**

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 over the past few years, the proportion of cash and cash equivalents has gradually decreased, offset by increased lending and receivables from banks. Although cash and cash equivalents still represent the highest share, they have been shrinking for another year, standing at 46.3% at the end of 2023 (2022: 48.2%). Based on average daily balances, cash and cash equivalents accounted for 31.0% in 2023 (2022: 45.7%). Receivables from banks and repo transactions increased by 56.5% compared to the previous year. The bank offers short-term deposits in the money market both domestically and internationally, where the returns during the year were higher compared to mortgage lending in the Bulgarian market given the current interest rate environment.

Investments in securities saw a negligible change, decreasing by 1.6%, with a total volume of BGN 417,662 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 92.4%. Bulgarian government bonds predominate among the debt securities, some of which are used to secure budgetary funds in favor 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 carrying amount	*31.12.2023*	*31.12.2022*	*Change*	*Change*
Individuals	128,241	125,576	2,665	2.1%
Mortgages	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%)
Non-banking financial institutions	27,089	5,459	21,630	396.2%
TOTAL	585,296	491,896	93,400	19.0%

Gross loans as at 31.12.2023 amounted to BGN 585,296 thousand, which increased by 19.0% during the year. The loan-to-deposit ratio excluding budgetary rose in 2023 to 35.7% from 32.4% at end-2022.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.

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 8,223 thousand (2022: BGN 4,471 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.

At the macro level, household incomes in 2023 compensated for inflation, and loan interest rates remained unchanged in the Bulgarian market. These conditions provided a good stimulus for credit demand. On the part of Municipal Bank AD, commercial efforts in 2023 were focused on the segment of mortgage lending, where we achieved an annual growth rate of 18.5%. The average portfolio structure for households in banks in the country has 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 terms of new business loans for 2023, the share of those in euros is 5.5%.

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%**

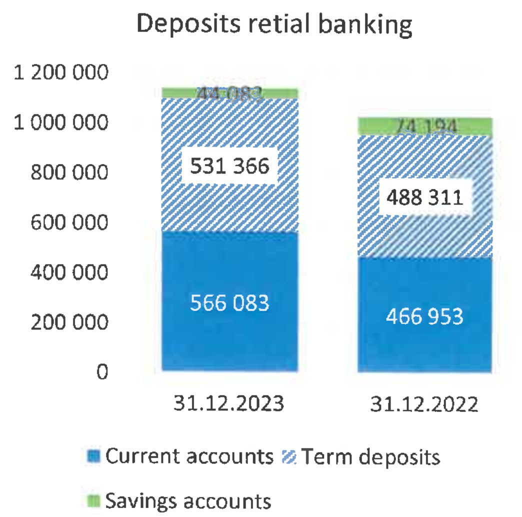
Liabilities

The annual growth of liabilities was 8.0% to a total volume of BGN 2,198,314 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 Bank. In 2022, new items in liabilities include loans received from banks, bond loans, and loans received from other customers. These three categories are considered eligible liability instruments under EU Regulation 575/2013 and the Recovery and Resolution of Credit Institutions and Investment Firms Act. The bond loans represent two bond issues that are not traded on a regulated market and are issued in 2022. The loans received from other customers are under products developed for individuals with a term of 3 and 4 years, issued in 2022. In 2023, the carrying value of loans received from banks increased by BGN 11,245 thousand.

LIABILITIES	*31.12.23*	*31.12.22*	*Change*	
Deposits from other customers	2,120,205	1,950,952	8.7%	169,253
Deposits from banks	35,321	24,076	46.7%	11,245
Loans received from banks	21,081	21,081	0.0%	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	5,899	27,395	(78.5%)	(21 496)
Other liabilities	434	-	100.0%	434
Deferred tax liabilities	962	873	10.2%	89
TOTAL LIABILITIES	**2,198,314**	**2,035,951**	**8.0%**	**162,363**

Interest rates on term deposits for households started to rise from the last few months of 2022 and continued throughout 2023, but the offers are currently only from a few banks, with major banks staying aside and some still not offering term deposits at all. Municipal Bank AD has introduced new products with terms of 12, 24, and 36 months in response to customer preferences and interest rate dynamics. The overall growth in funds attracted from households is 10.9%, and typically for a low-interest environment, the bulk of the new funds are through current accounts.

Municipal Bank AD offers individuals standard term deposits with terms ranging from 1 to 36 months in Bulgarian lev and four major foreign currencies – Euro, US Dollars, Swiss Francs, and British Pounds. In the currency structure of household deposits, the Bulgarian Lev dominates with a share of 77.0% (2022: 74.2%).



The Bank's inflows from resident non-financial and other financial corporates at the end of the reporting period were 2.7% lower compared to the end of 2022. Budgetary funds increased by 11.2%, while funds from individuals increased by 11.1%. Deposits attracted from non-residents doubled, reaching 37,982 thousand leva, representing 1.8% of the deposit base.

Deposits from other customers	*31.12.2023*	*31.12.2022*	*Change*	*Change*
RESIDENTS	2,082,223	1,932,746	149,477	7.7%
Individuals	1,131,867	1,019,200	112,667	11.1%
Budget	489,742	440,225	49,517	11.2%
Services	140,276	173,532	(33,256)	(19.2%)
Manufacture	68,279	60,262	8,017	13.3%
Commerce	118,702	113,337	5,365	4.7%
Transport	61,321	43,866	17,455	39.8%
Construction	57,900	64,635	(6,735)	(10.4%)
Finance (other than banks)	6,957	6,141	816	13.3%
Agriculture	7,179	11,548	(4,369)	(37.8%)
NON-RESTIDENTS	37,982	18,206	19,776	108.6%
Total	**2,120,205**	**1,950,952**	**169,253**	**8.7%**

The Bank's other liabilities at the end of 2023 are BGN 5,889 thousand (2022: BGN 27 395 thousand), of which BGN 20,000 thousand are cash received from subscribed contributions for share capital increase. The details of the capital increase are presented in the section "Capital, regulatory capital and capital ratios".

Equity, regulatory capital, and capital ratios

The extraordinary general meeting of shareholders, 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 bank's equity in 2023 increased by BGN 49,657 thousand as a result of the realized annual profit, the increase in share capital by BGN 20,000 thousand, and the growth of other reserves (revaluation reserves of real estate and securities, actuarial losses) by BGN 2,352 thousand.

EQUITY, TBGN	31.12.2023	31.12.2022	Change	Change
Share capital	89,362	69,362	20,000	28.8%
Statutory reserves	39,358	39,358	-	0.0%
Other reserves	16 937	14,955	1,982	13.3%
Uncovered loss	24,077	(3,598)	27,675	(769.2%)
Total equity	**169,734**	**120,077**	**49,657**	**41.4%**

For regulatory purposes, the equity of Municipal Bank AD is entirely composed of Tier 1 capital. The bank does not utilize Tier 2 capital. In 2023, the regulatory capital increased by BGN 37,902 thousand, reaching a total of BGN 148,827 thousand as of December 31, 2023. Risk-weighted assets increased by BGN 120,253 thousand. The majority shareholder follows a consistent strategy to strengthen and develop the capital base. The instruments of this 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, stand at 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 adequacy	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 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 Bank's strategy. The Bank 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 Bank'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.

The credit risk management in the bank is performed at a customer / group level and at the level of a separate portfolio. The Bank manages problem exposures through their timely identification, analysis and taking adequate measures in order to permanently improve the exposures' quality.

The credit risk management and control bodies are Impairment and provisions committee, Management Board and Supervisory Board which performs the functions of Risk Committee in the Bank.

Market risk management objectives are achieved through the allocation of decision-making responsibilities, an information system and system of control limits and a mitigation of this type of risk.

To assess exposure to market types of risk arising from its position in debt and equity instruments, the Bank uses Value at Risk (VaR) model of the Monte Carlo simulation method. VaR is the expected loss in the value of a portfolio compared to a given confidence interval 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, while the daily fluctuation can be expressed by a standard allocation. The Bank applies Value at Risk for a one-day period at a confidence interval of 99% and ten-days holding period.

In addition to the VaR analysis, the bank develops scenarios with a parallel increase in interest rate curves, which give very good and timely information for the market risk of a change in the value of fixed income portfolios.

The Bank measures interest rate risk in a bank portfolio that includes all interest- bearing assets and liabilities other than those held for trading. The effect of different assumptions for adverse changes in interest rates on the bank's income and the economic value of capital is assessed. The assumptions are reviewed regularly to ensure their adequacy and relevance. Analysis of changes in net interest income based on the prepared stress tests for interest rate risk, and hence profits at various assumptions assists management in making timely action to implement in the business plan of the bank.

The Bank maintains its liquidity profile in accordance with the regulatory requirements and internal bank regulations. Prudent liquidity risk management and appropriate control are important elements for the effective management of the bank. The basic method of liquidity management is to maintain the bank balance in the amount, structure and ratios that enable it to meet its obligations in a timely manner at a reasonable price and with minimal risk. Liquidity ratio coverage and net stable funding ratio are way over regulatory thresholds.

Indicators	**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.

The activity of controlling and managing the market risk, the liquidity risk and the interest rate risk shall be reported to the respective internal bank bodies, the Assets and Liabilities Management Committee, Management Board, and the Supervisory Board.

Operational risk management in the bank is carried out through a developed and implemented system for registering operational events by types, groups of activities, business lines, risk factors and structural units, summarizing and analysing the information as well as analysing the information on operational risk and control self-assessment of the bank's structural units.

The Bank's specialized internal body for operational risk management and control is the Operational events Risk Assessment Commission, which is managed by a Chairman - Executive Director/Member of the Management Board.

The Supervisory Board, acting as a Risk Committee, approves the Risk Strategy and determines the risk management framework in the Bank, periodically reviewing and updating it.

Municipal Bank AD continued to work on improving and developing the applied systems for analysis, assessment, and management of 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 rating agency Moody's confirmed in August 2023 the long-term rating of Municipal Bank AD for counterparty risk in local and foreign currency B1 and changed the outlook from stable to positive.

Bank's management

The Bank has a two-tier management structure consisting of a three-member Supervisory Board (SB) and a five-member Management Board (MB). In 2023 no changes in the composition of the SB have occurred. The members of the Supervisory Board as at 31.12.2023 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 PLC, with decisions made in Protocol 10/01.06.2023, dismissed Todor Vanev 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 08.06.2023 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 December 2023 did not hold any shares or bonds of the Bank, nor did they 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 SB and the Board of Directors or persons related to them on the one hand and the Bank on the other hand, which go beyond their ordinary business or deviate significantly 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 Project Synergy Ltd.	Bianor Holding AD
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 EOOD	Management Company Municipal Bank Asset Management EAD

Ecology, social responsibility, and employees

Municipal Bank AD is a socially responsible bank institution that consistently develops and implements practices for sustainable business and environmental protection.

The Bank informs its employees and implements measures for an environmentally friendly working environment in its branches. The Bank's offices use energy-saving appliances, separate waste collection are priorities, recycling toner cartridges. The Bank uses equipment for automatic regulation of 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 slips and vacations, which any employee can use online and further restricts the use of paper and toner.

Municipal Bank AD follows a socially responsible policy, supporting significant public causes, social, cultural, and educational initiatives. The Bank continues its mission to support the development of the regions, supporting a number of municipalities on the territory of Bulgaria.

In the anti-epidemic situation, the Bank reorganizes its activities for customer service and management of internal processes, according to the measures and requirements for protection of the health of its clients and employees. Additionally, air purifiers are installed in the company's premises, which improves the working environment and protects our customers and employees.

The 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 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.

Municipal Bank AD is implementing a Continuity Policy to ensure the development and long-term retention of best practice across the company. The Remuneration Policy at Municipal Bank plc ensures prudent and effective management, avoiding risks and ensuring that the Bank's employees are attracted, retained and motivated to work towards achieving 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 Municipal Bank AD in 2024

Municipal Bank AD is a universal commercial bank. The Bank transformed the business model in several directions with the aim of strengthening viability and efficiency, improving resistance to adverse changes in the macro environment :

- Improving operating performance and profitability - focus on lending and optimising liquidity and investments with long-term balance sheet sustainability. Through this complex of measures, our market share in lending will rise.
- Protect against potentially adverse effects on the debt securities portfolio under the projected macroeconomic developments over the strategic period. The amortized cost management model will guide investments in debt instruments.
- 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 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 consistent with the requirement for a low risk profile for credit and concentration risk. More than half of the new lending will focus on financing renewable energy, healthcare, agriculture and forestry. The industry structure aims at resilience to changes in the economic cycle.

In addition to lending, interest income will increase through optimized liquidity management via more placements in bank deposits and investments in debt securities, utilizing excess reserves and blocked funds in favour of the Monetary Fund at the Bulgarian National Bank (BNB).

The amortized cost management model for debt securities remains 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 capital requirements, creating conditions for full capital utilization and achieving adequate profitability. The trading portfolio will not be of significant volume. The bank remains primarily oriented towards Bulgarian government debt securities, supplemented by a portfolio of short-term prime debt issuances from Eurozone countries.

Tier 1 capital will organically develop through the capitalization of planned annual profits over the strategic period, with no plans for dividend distribution. If necessary, the bank will issue bonds, which serve as instruments for additional Tier 1 capital. A three-year program for the issuance of perpetual unsecured bonds has been approved. Their issuance is planned in several tranches depending on market conditions and the bank's capital needs, with the first tranche scheduled for 2024.

The Bank's funding structure is diversified between funds raised from households and non-financial corporates. The bank has a proven successful track record of managing their sustainable growth with a predictable market price. The Bank will pursue a non-aggressive market strategy with regard to the funds raised. Financing details are presented in the Corporate Banking and Retail Banking sections.

Municipal Bank AD is undertaking a set of actions that address environmental, social and governance (ESG) factors. The Bank's activities and risk management will be guided by their growing societal importance and regulatory developments.

Investment intermediary activities

The Bank provides investment services on account of its customers in compliance with 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 / EU and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets for financial instruments and amending Regulation (EU) 648/2012 (commonly known as MIFID II), as well as the Markets in Financial Instruments Act, Ordinance №38 on the requirements for the activity of investment intermediaries of the Financial Supervision Commission (FSC) , the intra-Community normative acts for the activity of the investment intermediaries and the intra-bank normative acts adopted in connection with them.

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 Bank's licence, including the acceptance and transmission of orders, the execution of orders on behalf of clients, portfolio management, the provision of investment advice, the underwriting of financial instruments, activity as Bond Trustee, the safekeeping and administration of financial instruments on behalf of clients, including depository activities (holding financial and instruments and of clients' money in a depository institution), provision of loans for carrying out transactions with financial instruments, consulting companies on capital structure, industrial strategy and related matters, as well as consulting and services related to transformations and acquisitions of enterprises and other.

In providing its services and activities, the investment firm enters into standard contracts, complying in their conclusion 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 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 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 in accordance with the requirements of the AML Law and other acts relating to the prevention of money laundering and terrorist financing. The 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 Bank.

Information system and financial reporting business processes

The information systems used by the Bank ensure accounting and information support for the various business processes and activities of the Bank. The core banking system comprises multiple modules and applications, automating the Bank's operations. The system is customer oriented, recording customer transactions and providing the information required for the customer at operational level. Most of the accounting entries are processed automatically or through automation and the information provided by the system may be aggregated at different levels. The system provides tools to set parameters for the accounting entries related to customer deals or customer transactions. It ensures the outlining of the Bank's chart of accounts, provides user administration tools, user settings and it is an interface of the package processing launching application. The log files maintained by the application system for the various events of interest to the audit are accessible through the interface of the application. The system provides tools to set the parameters on card products and package processing of card transactions; it automates the Bank's money markets and debt security transactions. For the convenience of users, a system for storing scanned documents - mainly credit agreements - is also used.

The Bank is using specialised systems to automate its activities as investment intermediary; to automate its risk monitoring, assessment, and management activities (using a modular principle utilising data from the accounting system, external sources and directly input data); and the activities related to the international system for exchange of information and financial messages between banks.

The Bank is using applied systems and modules to report its perishable assets and stocks. In order to meet the requirements of the special laws aimed at prevention of the financing of terrorism and money laundering, a specialized application is installed and used in the bank. 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 services for initiating payment, by providing account information and confirmation of the availability of funds on the account. The data is shared through special programming interfaces (APIs) based on the standards of the "Berlin Group" and the national standard BISTRA. Human resources management, calculation, and payment of remuneration under labour and civil contracts and management contracts are automated.

Other information and regulatory requirements

Municipal Bank AD does not carry out research and development activities.

There were no changes in the organizational structure of the bank in 2023.

During the reporting period, no material transactions were carried out falling outside the scope of the Bank's business. Further information regarding share participations, major investments, and the ways to ensure financing, outside the ones provided herein, is contained in the annual separate financial statements (ASFS). Detailed information regarding the Bank's investments in subsidiaries is presented in Notes to the financial statements.

In the ordinary course of its business, the Bank performs bank transactions with its related parties. Related party transactions during the reporting period are disclosed in the Notes to the ASFS.

During the reporting period there have been no transactions deviating from the Bank's normal business or departing materially from the market conditions.

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

Information on off-balance sheet transactions is presented in the Annual Financial Statements and mainly includes trust assets. Detailed information about them can be found in the notes to the Annual 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 ASFS.

In 2023, the 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 Bank 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 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.

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The Bank's management declares that the accompanying financial statements reflect fairly the assets and financial position of the Bank as at 31 December 2023, and the definition of its financial result for the year is in accordance with the legislation in force. Suitable accounting policies have been used and applied consistently. Reasonable and prudent judgments and estimates have been made in the preparation of the annual separate financial statements. Management also confirms that applicable accounting standards have been followed and the annual separate financial statements have been prepared on a going concern basis.

The Bank's management endeavours to maintain an appropriate accounting system that meets the effective accounting standards. The annual separate financial statements reveal the position of the Bank with maximum accuracy.

All measures have been taken for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and violations of the laws in the country and the BNB ordinances on regulating banking activity.

The Declaration of corporate management and the Non-financial declaration form an integral part to the Annual separate activity report.

14 May 2024

Nedelcho Nedelchev
Executive director

ОБЩИНСКА БАНКА АД гр. София ЦУ

Borislav Chilikov
Executive director

Declaration of corporate management

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 Separate 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

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

The management of Municipal Bank AD has adopted the principles of the Organisation for Economic Cooperation and Development (OECD) defining corporate governance as a set of relations between the Bank's management, its shareholders, and other stakeholders.

In accordance with the requirements of the Credit Institutions Act and the internationally recognised practices for improvement in the corporate governance of banks, Municipal Bank AD has adopted and performs periodic reviews of its internal banking documents concerning the areas listed below, and revises them as necessary: the organisational structure of the Bank; the procedure for assignment and delegation of authority and responsibilities to the administrators; the Bank's operational strategy and plan; the risk management and control policy; the procedure for the preparation and the scope of information for management purposes; the organisation of operational control, including the rules and procedures for the approval, execution and reporting of transactions; the internal rules and procedures concerning the risk monitoring and the efficiency of the control systems and reporting of any weaknesses found in the organisation and operation of the Bank's structural units; the money laundering risk prevention systems, etc.

In accordance with the BNB Guidelines on Internal Governance in Banks and the Guidelines for Improving the Corporate Governance of Banks of the Basel Committee on Banking Supervision, the Bank has organized its structure, providing opportunities and means to achieve the set goals and ensuring control over their implementation.

Municipal Bank AD is a joint-stock company, registered in accordance with the Bulgarian legislation. The Bank has a two-tier management system, and its main activity is set out in its Statute. Municipal Bank AD performs its banking activities under license № B 16, issued by the Director of Bulgarian National Bank (BNB) in its capacity as credit institution in accordance with the requirements of the Credit Institutions Act.

The management bodies of the Bank are the General Meeting of Shareholders, the Supervisory Board (SB) and the Management Board (MB). The powers of the three bodies, their responsibilities and interaction are regulated in writing in the Statute 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 obligations of Executive Directors. Municipal Bank AD is not a group of credit institutions and is categorized as a small, local bank without significant systemic importance. The Bank carries out its main activity through 41 branches and 5 offices, built on the territory of the Republic of Bulgaria and 14 separate structural units - directorates, at the level of Central Management. Independent structures have been established, performing the functions of internal control, regulatory compliance and risk management. Each unit - directorate coordinates and reports its activities to a line member of the Management Board and the Executive Director. The activity is subject to supervisory review by the Bulgarian National Bank.

Governance structure

Since its establishment, Municipal Bank AD has introduced a two-tier management system comprising Supervisory and Management Boards. All members of the Supervisory and Management Boards of the Bank meet the statutory requirements to their positions. The functions, duties of the corporate management, their structure and competencies are in accordance with the requirements of the NCGC.

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, with Decision Protocol 10/01.06.2023, relieved Todor Nikolov Vanev from his position as a member of the Management Board of the Bank and elected Stanislav Ganev Bozhkov as a member of the Management Board of the Bank. The change in the composition of the Management Board of Municipal Bank AD was registered on 08.06.2023 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 2023, including expressing an opinion in the auditors' report in accordance with the requirements of art. 37, para 6 of the Accountancy Act, review and expression of audit opinion as to the reliability of the internal control systems in accordance with the requirements of art. 76, para 7 and para 8 of the Credit Institutions Act, Grant Thornton OOD and RSM BG OOD have been appointed.

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

Internal audit and internal control

The 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 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 Bank Audit Directorate - carries out the internal audits, making independent, objective, and impartial assessments of the efficiency of the control systems, the organisation of the operations, as well as the compliance with the relevant laws and regulations. The head of the Internal Audit Unit is appointed and dismissed by the General Meeting of Shareholders. The functioning of the Internal Audit Directorate is stipulated in the Operating rules of the specialised Internal Audit Unit.
- The Risk Directorate is a key part in establishing the risk management framework in the Bank, which covers all its business lines and internal units, based entirely on the economic nature of all its risk exposures. The risk management framework is designed to allow the institution to make fully informed decisions about risk-taking. The Risk Directorate provides independent information, analysis and expert assessments of risk exposures and advice on proposals and solutions for risk, in relation to existing business lines or internal structures, and informs the management body whether they correspond to the risk appetite and risk strategy of the institution. The risk management unit has a duty to make recommendations for improvements of the risk management framework and corrective measures to address breaches of policies, procedures, and restrictions on risk. The Risk Directorate 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 managing authority with all relevant risk-related information that allows it to determine the level of risk appetite of the institution. The risk management unit assesses the reliability and sustainability of the strategy in terms of risk and risk appetite.
- The Compliance Directorate is part of the internal control framework for ensuring adequate identification, measurement and management of risks related to regulatory compliance of the Bank's activities with the applicable regulatory framework. In performing its functions, the Compliance Directorate has the following main responsibilities: achieving compliance of Bank's internal policies and procedures with the legislation in force, internal regulations and good banking practice; analysis of changes in the regulatory environment, related to compliance risk; monitoring compliance with European and international acts governing the activities of credit institutions and investment intermediaries; expressing opinions, recommendations, giving instructions; taking preventive measures to prevent money laundering and terrorist financing and fight fraud; monitoring compliance with the Bank's Code of Ethics and preventing conflicts of interest; providing regular information to the management and the units in the Bank, related to new or amendments to existing normative acts; conducting regular trainings for the bank's staff related to the prevention of money laundering and terrorist financing, protection of personal data and the activity of the investment intermediary; together with the other structural units in the Bank participates in the implementation of changes / creation of internal rules and procedures; participation in tests of new systems and applications, organization and participation in working groups, reports to the Bank's management for identified discrepancies, etc.;

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 "Operational Supervision of the Investment Intermediary", each with specific control functions and responsibilities. In the Compliance Directorate there is a separate individual that performs an independent functions of a personal data protection officer, in accordance with the requirements of the Personal Data Protection Act.

The control functions are independent from the operational business units, which supervise and control, and they are organisationally independent of each other as they are assigned with different functions.

In its capacity as public interest entity, in accordance with the Independent Financial Audit Act, an Audit Committee is operating within the Bank. It oversees the adequacy and efficiency of the processes for financial reporting, risk management and internal control, including internal audit and statutory auditors in compliance with the applicable legislation and good practices. The Audit Committee reports to the General Meeting of Shareholders once a year, together with the approval of the annual financial statements. The operation of the Audit Committee is regulated by the Rules of Business of the Audit Committee of Municipal Bank AD.

Protection of the rights of the shareholders

The corporate management of Municipal Bank AD is aimed at protecting the rights of the shareholders, depositors, and other customers of the Bank, ensuring equal treatment, including of minority shareholders.

The management bodies of Municipal Bank AD ensure regular and timely disclosure of information to the shareholders concerning major corporate events, related to the Bank's operations and position, for the purpose of informed exercising of their rights. No limitation of the rights of individual shareholders holding shares of one and the same class is allowed.

The summoning of the General Meeting is done by written invitation to the shareholders in accordance with the Bank's Statute and is aimed at encouraging their involvement in the General Meeting in a manner that does not make it more difficult or more expensive to vote. The Bank provides to the shareholders timely and sufficient information for the decision-making process, taking into account the scope of competencies of the General Meeting. The invitation, together with the written materials related to the agenda of the General Meeting, are announced in the Commercial Register at the Registry Agency. Upon request, the materials are provided to each shareholder free of charge.

Disclosure of information

Transparency and timely disclosure of information is a key principle of corporate governance. Municipal Bank AD supports an information disclosure system in compliance with the effective regulatory requirements, aimed at ensuring timely, accurate and understandable information regarding any material event, allowing the making of objective and informed decisions, as well as ensuring equality of the recipients of the information and preventing abuse of internal information.

The Internal Rules on the procedure for public disclosure of major bank Information of Municipal Bank AD stipulate the Bank's policy in fulfilment of the key disclosure requirements, by regulating the content of the basic information concerning the bank which is subject to disclosure, the procedure and manner to ensure publicity, the approach to the assessment of the adequacy of the disclosures, their confirmation and frequency.

These Rules take into account the disclosure requirements set out in the provisions of the effective regulations (including Regulation (EU) 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on prudential requirements to credit institutions and investment firms - Basel 3; the Credit Institutions Act; the provisions of Ordinance No 7 of 24 April 2014 on the organisation and risk management at banks; Ordinance No 8 of 24 April 2014 on banks' capital buffers, as well as other ordinances published by the

Bulgarian National Bank, etc.), the International Accounting Standards and the Bank's internal rules.

These rules are an expression of the Bank's management policy aimed at meeting the requirements of Basel III for public disclosure of regulatory data, facilitating the enhancement of the market discipline with a focus both on the requirements under Tier 1 for measurement of credit, market, and operational risks, and on other disclosures of additional information facilitating the early detection of risks at banks.

In the process of disclosure of the information the Bank is guided by the principles of accuracy, availability, equality, timeliness, comprehensiveness, and regularity.

Municipal Bank AD has prepared the accompanying Annual Activity Report subject to review by independent auditors, which contains detailed information regarding its development and competitive position and its financial performance, the attainment of the goals and review by business line, as well information concerning the management structure, corporate management framework and risk management.

The Bank discloses immediately any ad hoc information concerning significant events related to its operations. Such information is published in the News section of the Bank's website.

Municipal Bank AD maintains a website with approved content and scope of the information disclosed thereon. It provides information concerning the Bank's products and services, as well as basic commercial and corporate information about the Bank, including such explaining the shareholding structure, management bodies, financial reporting and activity reports, and other information in accordance with the regulatory requirements.

The scope of the information provided by Municipal Bank AD is beyond the requirements of the national legislation. Furthermore, information regarding the Bank is published in the form of presentations and interviews with the top management, press releases, disclosure of detailed information regarding the products and services offered, the applicable general terms and conditions and tariff, as well as any changes thereto, and information regarding events and initiatives part of the Bank's corporate social responsibility policy.

Stakeholders

Municipal Bank AD applies an information policy to the stakeholders in relation to its activities. Such stakeholders include non-shareholders that have an interest in the economic development of the Bank, such as creditors, bondholders, customers, employees, the public and others.

Periodically, in accordance with the legal requirements and good practices, Municipal Bank AD discloses information of non-financial nature, including such concerning its social responsibility and its involvement in the country's public life.

The Bank provides support to socially important projects and initiatives.

The Bank will continue to implement socially responsible practices in its operations and will continue its programme in support of initiatives, which lead to the resolution of specific problems and enhancement of the quality of life and living standard of the people.

The initiatives and projects supported by Municipal Bank AD are not an insulated act; instead, they are a proof of compassion and commitment for the sustainable economic development of the society. In its policy as a socially responsible institution, Municipal Bank AD strives to show initiative and consistency.

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

Municipal Bank AD creates, maintains, and develops a risk management system, part of its internal management, ensuring the timely detection of the risks that are material for the Bank, their monitoring and measurement, implementation of control measures and risk mitigation actions, as well as regular and comprehensive reporting to the Management and Supervisory Boards.

The Bank is striving to implement the best corporate governance practices, in order to ensure the efficiency of the internal governance framework in accordance with its approved business strategy and risk profile.

According to the internal rules of Municipal Bank AD, the Supervisory Board of the Bank performs the functions of a Risk Committee.

The risk management system is in compliance with the effective regulatory and legal requirements. The Bank implements an internal system of risk management rules, procedures, and guidelines, which outline the overall risk management framework for the detection, measurement, analysis, control, and reporting of the various types of risk the Bank is exposed to, as well as for allocation of the responsibilities and functions.

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

1. Credit risk, incl. concentration risk – the possibility that the Bank may not collect its receivables, fully or partially, as a result of deterioration of the debtor's financial standing or decrease in the collateral value and resp. increase in loss,
2. Market risk - the possibility that the Bank may suffer losses or decrease in capital in case of adverse changes in market conditions such as: interest rates, foreign exchange rates, value of financial instrument portfolios due to fluctuations in their prices.
3. Liquidity risk - the possibility that the Bank may fail to discharge its liabilities or suffer losses on the disposal of its assets, in order to receive highly liquid funds.
4. Interest rate risk in the banking portfolio - 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 portfolio. It also includes the risk of revaluation, the risk of the yield curve and the underlying risk.
5. Operational risk - the possibility that the Bank may suffer loss, as a result of inadequate or ineffective internal processes, people and systems, or external events. Operational risk includes legal (legislative) 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 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 Bank.
- The 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 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 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 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 Bank and is controlled by the risk management unit, according to the internal rules.

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

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

The extraordinary general meeting of shareholders, held on 15.11.2022, decided to increase the bank's capital from BGN 69,362,810 to BGN 89,362,810 by issuing 2,000,000 non-voting shares with a nominal value of 10 leva each and 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 04.01.2023, and on 25.01.2023, permission was obtained from the Bulgarian National Bank for its inclusion in the Tier 1 capital.

The majority owner Novito Opportunities Fund AGmvK holds 8,624,316 shares, representing 96.51% of the share capital of Municipal Bank AD as at 31.12.2023.

Municipal Bank AD 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 Bank's Articles of Association, resolutions of the General Meeting are adopted by a majority of the represented capital, and resolutions in connection with Article 221, items 1, 2 and 3 of the Commerce Act require a majority of 2/3 of the represented capital.

Diversity policy concerning the administrative, management and supervisory bodies

On the grounds of the requirements of the Credit Institutions Act and BNB Ordinance No 20 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 Bank has adopted and approved a Policy for the promotion of diversity within the governing body.

The Supervisory Board acting as the Recruitment Committee of the Bank, adopts specific measures to meet the requirements for diversity of the composition of the Management Board and the Supervisory Board (requirement for a target level of representation by gender, age, education, and professional experience). The diversity policy of the Bank aims at: approval of the aspects of diversity as determining criteria in policy development and determination of a target level by the Bank's Supervisory Board; achieving an optimal combination of personal qualities and diversity between the members of the Management Board, the executive directors and the members of the Supervisory Board of the Bank; increasing the number of persons of the underrepresented sex in the composition of the Management and Supervisory Boards, until reaching the set target level, so as not to allow a significant advantage in favour of either sex, provided there are sufficient candidacies of representatives of the various gender, with a specific target range and indicative timeframe for achieving it; applying a balanced approach to achieving diversity in the composition, as well as with regard to the criteria for holding the respective position; creating opportunities for quality and effective decisions by the members of the boards and providing guarantees that the decisions of the governing body are not influenced by an individual or a small group of persons in a way that harms the Bank's interests.

Diversity policy shall include at least the following aspects of diversity:

1. availability of diverse and applicable to the respective position knowledge and skills, education, and professional experience, including in the field of banking and the provision of financial services, strategic planning, finance, risk management, business and economics, corporate finance, human resources, lending in the field of information technologies;

2. availability of diverse and applicable sufficient experience in a national and / or international financial institutions;

3. availability of various and applicable appropriate qualifications for the performance of the functions of the individual Management Board members and / or of the Executive Directors;

4. maintaining a balanced gender ratio in the composition of the Bank's Management and Supervisory Boards and the Executive Directors of the Bank, so as not to allow a significant advantage in favour of either sex, provided that there are sufficient candidacies of representatives of different genders;

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

6. ensuring diversity of the age groups in the Management Board composition, the Executive Directors, and the Bank's Supervisory Board

7. application of other various quality requirements to the Management Board members, the Executive Directors, and the Supervisory Board of the Bank.

When selecting candidates for members of the managing authority, the Supervisory Board takes into account the set target level in the medium and long term, as well as the deadlines for its implementation.

The Supervisory Board monitors the process of achieving the target level and the deadlines for its implementation and, if necessary, makes a proposal for their updating; monitors the various aspects of the implementation of the diversity policy and compliance with the criteria for ensuring the diversity of the managing authority.

As part of the annual review of this policy, the Management and Supervisory Boards review the Diversity Policy.

To facilitate the selection of a sufficiently diverse group of candidates for management positions, the Bank implements a diversity policy for staff, including career planning aspects and measures to ensure equal treatment and opportunities for employees of different genders.

The result of the implementation of the Diversity Policy is the creation of prerequisites for high quality and efficient decisions by the Management Board and / or the Executive Directors and providing guarantees that the Management Board decisions are not influenced by one individual or by a small group of individuals in a way damaging the Bank's interests, as well as maintenance of a balanced gender ratio within the composition of the Management Board so as to avoid significant predominance of either gender.

14 May 2024

Nedelcho Nedelchev
Executive director

ОБЩИНСКА БАНКА АД
гр. София - ЦУ

Borislav Chilikov
Executive director

Non-financial declaration

In fulfilment of 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 drawing up of the non-financial declaration as part of the contents of the Annual Separate Activity Report of Municipal Bank AD for 2023, the required content and scope of the information in the non-financial declaration was included as follows:

Information on the Bank's understanding of the Bank's development, performance, condition and the impact of its activities, addressing at a minimum environmental, social and employee issues, respect for human rights, anti-corruption and anti-bribery. A description of the policies followed by the Bank with respect to these matters, including the due diligence processes undertaken; the outcome of those policies; the principal risks relating to these matters and relevant to the Bank'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 Bank manages those risks.

Information regarding the Bank's development, performance and condition is disclosed in detail in the "Review of Operations on an Individual Basis" section of the Annual Separate Activity Report.

Ecology, social responsibility and employees

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

The Bank informs its employees and implements measures for an environmentally friendly working environment in its divisions. Energy-saving appliances are being introduced in the Bank's offices, waste separation and the use of recyclable toner cartridges are priorities. The 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 payslips and leave, which any employee can use online and further reduces paper and toner usage.

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

In the post-epidemic situation, the Bank has used 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 our premises, which improves the working environment and protects our customers and employees.

The 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 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.

Municipal Bank AD implements a Continuity Policy that ensures the development and long-term preservation of best practices within the company. The Remuneration Policy at Municipal Bank Plc ensures prudent and effective management, avoiding risks and ensuring that the 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 nature, the Bank 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 Bank works with many educational institutions - schools and kindergartens, and social homes, for which it strives daily to improve and ensure maximum quality and accessibility of the financial products and services used by them.

Improving public health is an ongoing priority for society, the country and globally. In this regard, the 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.

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

The Bank actively offers financing to business customers investing in the construction of photovoltaic installations for the production of 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 guarantees 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 photovoltaic installations of up to one MW for self-consumption in combination with facilities for local storage of the energy produced (batteries).

Municipal Bank AD 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.

To support businesses and customers towards environmentally friendly development, the Bank 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 Bank 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 favor of the Ministry of Environment and Water in connection with their commitments in accordance with the Waste Management Act.

The bank actively participates in improving the urban environment in various municipalities throughout the country by providing financing and other services to specialized companies responsible for waste collection, storage, and composting of household waste. With the support provided, sustainable development is achieved to promote separate waste collection, which in the long term reduces waste accumulation in landfills and their dispersion in nature, preserves resources, protects the environment, and helps address climate issues. In carrying out its activities, Municipal Bank AD adheres to principles related to respecting human rights, combating corruption, and bribery.

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

The Bank'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 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 laws and the institution's corporate values. 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 Bank 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 the interests of customers.

Description of the business model of the Bank

The "Overview of the activity on a separate basis " section, Business Model and Market Position sub-section of the Bank's Annual activity report provides a description of the business model applied.

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

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

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

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

Further to the Global Framework and the 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 compatible assets shows the proportion of environmentally compatible assets to the total value of assets, with information presented in Appendices V and VI of the Regulation. The summarized requirements for environmentally compatible assets are as follows:

- They must meet the conditions for financing permissible economic activities under the taxonomy, and for loans to households, they must contribute to the relevant environmental objectives.
- Exposures to enterprises that are not required to publish non-financial information under Article 19a or 29a of Directive 2013/34/EU concerning 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).

As at 31.12.2023, Municipal Bank AD has reviewed its customers and loan portfolio in compliance with the specified disclosure requirements of the Regulation for disclosure by financial institutions, including the rules defined in Article 7 and Article 8. Exposures that are eligible and ineligible under the economic activity taxonomy have been identified. The Bank's environmentally sustainable investments are those that meet the requirements of Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council., as well as regarding the obligation of the companies to which the Bank has exposure to publish non-financial information. Upon review of the available data on exposures and considering the regulated deadlines for disclosure by the companies, we have established that Municipal Bank AD as of 31.12.2023 does not have assets that meet all the criteria for environmental compatibility within the meaning of the cited regulations.

In conclusion, the disclosed environmentally compatible assets of Municipal Bank AD as of 31.12.2023 are zero.

The Bank's separate annual activity report, together with the non-financial declaration, is available on the Bank's website by 30 September of the following year at https://www.municipalbank.bg/.

14 May 2024

Nedelcho Nedelchev
Executive director

ОБЩИНСКА БАНКА гр. София - ЦУ

Borislav Chilikov
Executive director

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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 Separate Financial Statements

Opinion

We have audited the separate financial statements of Municipal Bank AD (the Bank), which comprise the separate statement of financial position as at 31 December 203 and the separate statement of profit or loss, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, comprising material accounting policy information and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Separate Financial Statements" section of our report. We are independent of the Bank 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and receivables from customers	
Key audit matter	**How this matter was addressed during the audit**
Loans and receivables from customers form 24% of the Bank's assets as at 31 December 2023 with a net carrying amount of BGN 577,260 thousand, consisting of a gross carrying amount of BGN 585,296 thousand and accumulated impairment of BGN 8,036 thousand The Bank applies impairment models based on expected credit losses in accordance with the requirements of IFRS 9 Financial Instruments. The assessment of the expected credit losses from loans and receivables from customers	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 Bank for the models for

Impairment of loans and receivables from customers	
Key audit matter	**How this matter was addressed during the audit**
requires the Bank's management to apply a significant level of judgment in applying accounting estimates in the following areas: - the classification of exposures by impairment stages and identification of 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 the probability of default and the expected loss given default. The input data for the models, calculation methods and their application depend on the assessments of the Bank's management. We have identified the assessment of impairment of loans and receivables from customers of the Bank 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 3.9, 4.2 и 21 to the separate financial statements present the disclosures regarding the assessments and assumptions of the Bank's management in the formation of the expected credit losses from impairment of the provided loans and receivables from the Bank's customers for 2023.	calculating the expected credit losses on loans and receivables from customers; - We have applied test of controls related to the monitoring of the loans granted established and introduced by the Bank, 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 condition 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 Bank's exposure to credit risk.

Information Other than the Separate Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the Annual Activity Report, including the Declaration of corporate management and a non-financial declaration, prepared by Management in accordance with Bulgarian Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or 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 separate financial statements

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 separate 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 separate 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 Activity Report is consistent with the separate financial statements for the same reporting period;
(b) the Separate 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 Bank and the environment in which it operates, we have found no cases of material misrepresentation in the Separate Activity Report;
(d) the 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 non-financial declaration is presented and prepared in accordance with the requirements of the Accountancy Act.

Additional reporting in accordance with *Ordinance No 58/2018 of the Financial Supervision Commission*

Statement Pursuant to Art. 11 of Ordinance No 58/2018 of the Financial Supervision Commission on the requirements for the protection of clients' financial instruments and cash, for the management of products and for granting or receiving remunerations, commissions, other cash or non-cash benefits

Based on our audit procedures and our understanding of the Bank's operations in the context of our audit of the financial statements as a whole, our opinion is that the created organization in relation to the custody of client assets complies with the requirements of Art. 3-10 of Ordinance No. 58 of FSC and Art. 92-95 of the Markets in Financial Instruments Act regarding the Bank's activity as an investment intermediary.

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 Separate 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 separate financial statements of the Bank for the year ended on 31 December 2023 has been made for fifth consecutive year for Grant Thornton OOD and fifth consecutive year for RSM BG OOD.
- In support of our audit opinion, we have provided a description of the most significant assessed risks, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matter" in this report.
- We confirm that our joint audit opinion is consistent with the additional report to the Bank's audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Bank in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Bank in addition to the statutory audit, which have not been disclosed in the activity report or financial statements.

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
Managing partner
Grant Thornton OOD
26, Cherni Vrah Blvd, 1421 Sofia

RSM BG OOD
Audit firm

Tania Kotocheva, PhD.
Registered auditor responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 173
РСМ БГ ООД

Vladislav Mihaylov
Managing partner
RSM BG OOD
9, Fritjof Nansen Str., 1124 Sofia

All amounts are presented in thousand BGN, unless otherwise stated

SEPARATE 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	771	288
Interest expense	6	(3,195)	(4,800)
Net interest income		**52,959**	**17,929**
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	3,929	1,551
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 incomes	10	1,156	1,186
Other operating expenses	11	(493)	(738)
NET OPERATING INCOME		**72,310**	**37,724**
Impairment of financial assets	12	(3,938)	(419)
Reversed/ (Accrued)provisions for the period	13	95	(133)
Administrative expenses	14	(34,777)	(28,874)
Depreciation and amortization	25, 27, 28	(2,957)	(2,854)
PROFIT BEFORE TAX		**30,733**	**5,444**
Income tax expense	15	(3,428)	(18)
PROFIT FOR THE YEAR		**27,305**	**5,426**

Nedelcho Nedelchev
Executive Director
Date:14 May 2024

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

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

Stania Kotocheva, PhD
Registered auditor, responsible for the audit

Vladislav Mihaylov
Managing partner
RSM BG OOD, Audit firm

ОБЩИНСКА БАНКА гр. София

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 173 РСМ БГ ООД

The notes from 1 to 43 are an integral part of these Separate Financial Statements.

All amounts are presented in thousand BGN, unless otherwise stated

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31.12.2023	For the year ended 31.12.2022
PROFIT FOR THE YEAR		**27,305**	**5,426**
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 FOR THE YEAR		**29,287**	**7,850**

Nedelcho Nedelchev
Executive Director
Date:14 May 2024

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Managing partner
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All amounts are presented in thousand BGN, unless otherwise stated

SEPARATE STATEMENT OF FINANCIAL POSITION

	Notes	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	18,997	19,871
Financial assets at fair value through other comprehensive income	18	12,544	11,322
Receivables from banks and other financial institutions	19	169,549	108,357
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	16,806	17,811
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
Investments in subsidiaries	29	350	350
TOTAL ASSETS		**2,368,048**	**2,156,028**
LIABILITIES			
Deposits from other customers	30	2,120,205	1,950,952
Loans received from banks	31	35,321	24,076
Bonds issued	32	21,081	21,081
Loans received from customers	33	8,796	6,293
Lease liabilities	28.2	4,772	4,336
Provisions	13	844	945
Other liabilities	34	5,899	27,395
Current tax liabilities	35.1	434	-
Deferred tax liabilities	35.2	962	873
TOTAL LIABILITIES		**2,198,314**	**2,035,951**
EQUITY			
Share capital	36.1	89,362	69,362
Statutory reserves	36.2	39,358	39,358
Other reserves	36.3	16,937	14,955
Retained earnings/(Accumulated loss)		24,077	(3,598)
TOTAL EQUITY		**169,734**	**120,077**
TOTAL LIABILITIES AND EQUITY		**2,368,048**	**2,156,028**

Nedelcho Nedelchev
Executive Director
Date:14 May 2024

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SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserves	Other reserves	Retained earnings/ (Accumulated loss)	Total
AS AT 1 JANUARY 2022	**69,362**	**39,358**	**12,602**	**(9,093)**	**112,229**
Loss for the year	-	-	-	5,426	5,426
Other comprehensive income	-	-	2,424	-	2,424
Total comprehensive loss	**-**	**-**	**2,424**	**5,426**	**7,850**
Written-off revaluation reserves of PPE	-	-	(69)	69	-
Other transactions	-	-	(2)	-	(2)
AS AT 31 DECEMBER 2022	**69,362**	**39,358**	**14,955**	**(3,598)**	**120,077**
Profit for the year	-	-	-	27,305	27,305
Other comprehensive income	-	-	1,982	-	1,982
Total comprehensive income	**-**	**-**	**1,982**	**27,305**	**29,287**
Increase of share capital	20,000	-	-	-	20,000
Total transactions with owners	**20,000**	**-**	**-**	**-**	**20,000**
Other transactions	-	-	-	370	370
AS AT 31 DECEMBER 2023	**89,362**	**39,358**	**16,937**	**24,077**	**169,734**

Nedelcho Nedelchev
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Date:14 May 2024

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Одиторско дружество София Рег. № 032 Грант Торнтон ООД

Одиторско дружество София Рег. № 173 РСМ БГ ООД

The notes from 1 to 43 are an integral part of these Separate Financial Statements.

All amounts are presented in thousand BGN, unless otherwise stated

SEPARATE STATEMENT OF CASH FLOWS

	Notes	For the year ended 31.12.2023	For the year ended 31.12.2022
OPERATING ACTIVITIES			
Net profit before tax		30,733	5,444
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	419
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	(52,959)	(17,929)
Dividend income		(215)	(233)
Gain/ (loss) on sale of securities	8	-	(4)
Gain on FX trading	8	(3,819)	(2,493)
Net unrealized gain on currency revaluation on securities		(110)	(311)
Net unrealized loss on securities at fair value	8	164	946
Change in fair value of investment property	26	682	(1,509)
		(18,724)	**(12,725)**
(Increase)/Decrease in deposits in banks		(5,031)	363
(Increase) in loans and receivables from customers		(82,734)	(185,945)
(Increase)/decrease in financial assets at fair value through profit or loss, net of reclassifications		4,831	(7,215)
(Increase)/Decrease in other assets, including assets acquired in foreclosure		847	(290)
(Decrease) in deposits from credit institutions		-	(985)
Increase of deposits of customers other than credit institutions		169,370	145,760
Decrease in provisions		-	(129)
Increase in deferred taxes	35.2	65	73
Increase/ (decrease) in other liabilities		(1,752)	2,701
Interest received		44,386	20,292
Interest paid		(603)	(4,269)
Dividend received		215	233
Income tax paid		(2,230)	(370)
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES		**108,640**	**(42,506)**

Nedelcho Nedelchev
Executive Director
Date:14 May 2024

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The notes from 1 to 43 are an integral part of these Separate Financial Statements

All amounts are presented in thousand BGN, unless otherwise stated

SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

	Notes	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 carried at amortised cost		84,384	73,259
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES		**(10,689)**	**(85,788)**
FINANCING ACTIVITY			
Lease payments	39	(1,584)	(1,389)
Proceeds from increase of share capital	34	-	20,000
Issuance of bond loan	39	-	20,702
Loans received from banks	39	11,000	24,000
Loans received from other clients	39	2,500	6,237
Interest paid for financing activity	39	(2,300)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		**9,616**	**69,550**
Net change in the cash and cash equivalents		107,567	(58,744)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,113,434	1,172,178
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	38	**1,221,001**	**1,113,434**

Operating cash flows related to interest and fees	For the year ended 31.12.2023	For the year ended 31.12.2022
Interest received	53,632	20,292
Interest paid	(2,903)	(4,269)
Commission received	18,389	18,228
Commission paid	(3,827)	(3,276)

Nedelcho Nedelchev
Executive Director
Date:14 May 2024

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Chief Accountant

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The notes from 1 to 43 are an integral part of these Separate Financial Statements.

1. Corporate information and main operations

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

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

As at 31 December 2023, the Bank operates through a Head Office and 46 financial centres and external offices.

The general assembly of shareholders made a decision to increase the registered capital on November 15, 2022, for the Bank's capital increase, with the main shareholder Novito Opportunities Fund SICAV transferring the funds for their purchase in December 2022. On January 4, 2023, an increase in the share capital by 2,000,000 ordinary, registered, non-cash, voting shares with a nominal value of 10 BGN each in Municipal Bank AD was registered in the TRRJLNTS. On January 25, 2023, the Bulgarian National Bank (BNB) gave 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, which is 96.51% of the shares of 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, and Stanislav Bozhkov was registered as a new member of the Management Board.

The financial year for the Bank ended on 31 December.

2. Basis for the preparation of Financial Statements and statements of compliance

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

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the European Union (IFRS, as adopted by the EU). The term "IFRS, as adopted by the EU" has the meaning of paragraph 1, subparagraph 8 of the Additional provisions of Bulgarian Accountancy Act, which is 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 separate financial statements. The Bank also prepares consolidated financial statements 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 accordance with IFRS 10 "Consolidated Financial Statements".

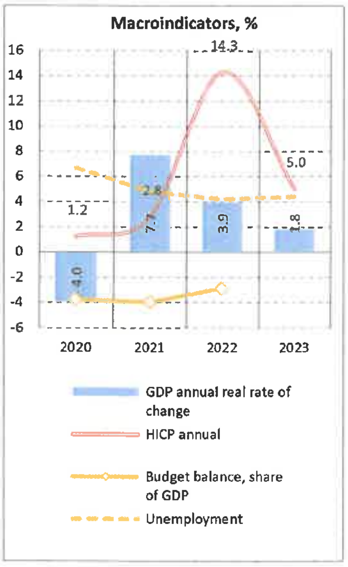
2.2. Basis for preparation

These separate financial statements have been prepared using the fair value method for the financial assets at fair value through profit or loss, financial assets at fair value in other comprehensive income, all derivative contracts. Land and buildings used in by the Bank are presented using the Revaluation model. All other assets and liabilities are reported at amortised or historical cost.

2.3. Macroeconomic framework

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 of EU countries varies – on one hand, there are better data for Southern European countries, where the tourism boom has a tangible positive effect and they are less sensitive to the decline in industrial production and gas prices. On the other hand, Germany is heavily affected by energy prices following sanctions against Russia and the slower growth compared to the previous year of the Chinese economy, one of its important trading partners.

In Bulgaria, the economy began to slow down from mid-2022, but the growth in 2023 remains 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 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) is forecasted by the end of 2024 to 3.1%, although short-term inflationary factors such as strong domestic market demand, low propensity to save, and rising labor 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 labor. The tight labor 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.
Bulgaria's long-term credit rating by S&P Global Ratings is BBB with a stable outlook, affirmed in November 2023. The outlook has been changed to positive due to the actions taken towards joining the Eurozone.

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

Because the situation is highly dynamic, Bank 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 believes that there may be a negative impact. This in turn could result in a change in the carrying values of the Bank's assets, which in the standalone 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. Going concern principle

At the date of preparation of these separate financial statements, management has made an assessment of the Bank's ability to continue as a going concern based on available information for the foreseeable future. After making enquiries, the Board of directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the separate financial statements.

3. Significant accounting policies

3.1. Overall considerations

The Bulgarian lev s the functional currency and the presentation currency in this individual financial statement. All amounts are presented in thousands of leva (thousand BGN), including comparative information for 2022, unless otherwise stated.

The most significant information regarding the accounting policies applied in preparing this individual financial statement is provided below.

The financial statement is prepared in Bulgarian leva, which is the functional currency of the Bank. All amounts are presented in thousands of leva (thousand BGN) (including comparative information for 2022), unless otherwise stated.

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

3.2. Comparative information

The Bank presents comparative information in these separate 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.

3.3. 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;

All amounts are presented in thousand BGN, unless otherwise stated

- Interest from debt instruments at fair value through profit or loss.

The Bank has assets that bear negative interest. The interest paid by the Bank on these assets is presented as interest expenses and disclosed in Note 6.

3.4. Fees and commissions

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

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

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

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

3.5. Net gains/(losses)on currency revaluation

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

Type of currency	31 December 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.

3.6. Net gains/(losses0 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.

3.7. 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.

3.8. Income taxes

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

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

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

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

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

3.9. Financial assets and liabilities

3.9.1. Recognition of financial assets and liabilities

The Bank 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.

3.9.2. Classification of financial assets and liabilities

Cash on hand and in account with the Central Bank

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

Financial assets at fair value through profit or loss

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

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

Debt instruments at amortized cost

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

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

Financial assets at fair value through other comprehensive income

Debt instruments that the Bank 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 Bank 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.

3.9.3. 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 Bank has significantly diversified its financial liabilities.

The Company's financial liabilities include deposits from other customers, issued bond loans, borrowings from other banks and individuals, customers of the Bank, 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.

3.9.4. Expected credit losses of financial assets

For the purpose of applying the requirements for impairment in IFRS 9 the Bank has developed an Impairment Policy in accordance with the requirements of IFRS 9 Financial Instruments in Municipal Bank AD. For the purpose of measuring the impairment of financial instruments carried at amortized cost, the Bank has introduced a model for calculating expected credit losses (ECL). Under the adopted model, impairments for expected credit losses are recognized on an ongoing base and are calculated at each reporting date depending on the risk parameters of the exposures.

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

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

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

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

Purchased or originated credit impaired (POCI) financial assets are financial assets that are impaired at their initial recognition. The Bank 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 Bank 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 Bank 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 Bank, 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 Bank 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 Bank 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 non-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 Bank groups its financial instruments based on similar risk characteristics, both for the purposes of assessing a significant increase in credit risk and for the calculation of collective impairments.

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

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

Measurement of expected credit losses

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

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

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

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

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

3.9.5. Main risk parameters used for the calculation of the ECLs

For the purposes of calculating the expected credit losses (ECL), the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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.

3.9.6. Derecognition of financial assets and liabilities

A financial asset is derecognised on the date when the Bank 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.

3.9.7. 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 Bank has a legally enforceable right to set-off the recognized amounts and the transactions are intended to be settled on a net basis.

3.9.8. 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.

3.9.9. 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 Bank's main market or, in the absence of such a market, on the most favourable market to which the Bank has access as at that date. The fair value of a liability reflects the default risk of the liabilities.

Wherever possible, Bank 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 Bank 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 Bank 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 Bank recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

The Bank 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 bank 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.

3.9.10. Reclassification of financial assets

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

3.10. Investments in subsidiaries

Investments in subsidiaries include equity interests in entities where the Bank exercises control. Under IFRS 10 Consolidated Financial Statements, the Bank 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 Bank 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 Bank's separate 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.

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

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

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

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

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

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

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

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

All amounts are presented in thousand BGN, unless otherwise stated

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

3.12. 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'.

3.13. 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.

The impairment of these assets is calculated in accordance with the Bank's accounting policy based on the expected realization of the collateral assets. Impairment of foreclosed assets is included in the Statement of Profit or Loss. The Bank's Management considers that the carrying amount of the foreclosed assets is the best estimate of their net realizable value as at the date of the Statement of Financial Position. As at 31 December 2023 the impairment of these assets is BGN 0 (2022: BGN 64 thousand) Further information is presented in Note 24.

3.14. 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 Bank 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 Bank 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 Bank participates in a number of ongoing litigations. Based on historical experience and expert reports, the Bank 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 3.15.2.

3.15. Employee benefits

3.15.1. Termination benefits

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

3.15.2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net liability in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, §3 of the Labour Code (LC) in Bulgaria. According to these provisions of the LC, when a labour contract of a bank's employee who has acquired a pension right is ended, the Bank is required to pay them compensations amounting to two gross monthly salaries. In case the employee's length of service in the Bank equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries.

3.15.3. 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 Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Bank 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.

3.16. Leases

3.16.1. The Bank as a lessee

For any new contracts, the Bank 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 Bank 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 Bank 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 Bank has the right to direct the use of the identified asset throughout the period of use.

The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank's incremental borrowing rate.

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

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

3.16.2. Bank as a lessor

As a lessor the Bank 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 Bank and the requirements of IAS 16 Property, Plant and Equipment. The Bank 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 Bank'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 of 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.

3.17. Estimates, significant management judgements and uncertainties in accounting estimates in applying accounting policies

The preparation of financial statements requires Bank's Management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, revenues and expenses for the period and the disclosure of the contingent and irrevocable commitments. These estimates and assumptions are based on the information available at the date of preparation of these separate financial statements, and the future actual results may differ from those estimates.

In the preparation of the presented Separate Financial Statements the significant judgments of the management in applying the accounting policies of the Bank and the main sources of uncertainty of the accounting estimates do not differ from those disclosed in the annual financial statements of the Bank as at 31 December 2022.

Expectations and assumptions are reviewed on an ongoing basis by the management. The revision of accounting estimates is recognized 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 on uncertainty in assumptions and estimates for which there is a significant risk of material adjustments in the following financial year is presented in Note 5 Accounting classification and fair value of financial assets and liabilities.

Revenues from contracts with customers
The Bank is a party in numerous contracts for maintenance and servicing of bank accounts. The fees for the provided services are determined according to the bank's tariff. All services provided are recognized over time. For this reason, management decides when to recognize revenue from the contract for the maintenance and servicing of bank accounts and payment transactions. Additional information regarding the sources of uncertainty is presented in Note 5.

Fair value of financial instruments
When the fair value of the financial assets and liabilities in the Statement of Financial Position cannot be determined based on an active market, it is determined using different valuation methods and techniques that include mathematical models. Wherever possible, the data in these models is derived from market observations, and when this is not appropriate, management uses its own judgment to determine fair value. Further information on sources of uncertainty is presented in Note 5.

Debt instruments measured at amortized cost
The analysis and management's intentions are confirmed by the business model of holding debt instruments, which meet the requirements for receiving payments solely on principal and interest and holding assets until the collection of agreed cash flows from assets classified as debt instruments measured at amortized cost. This decision is in line with the current liquidity and risk appetite of the Bank. Additional information regarding the sources of uncertainty is presented in Note 4.

Measurement of expected credit losses
Credit losses are the difference between all contractual cash flows due to the Bank and all cash flows that the Bank expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Bank's judgment. Expected credit losses are discounted at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or initially created financial assets with credit impairment). Additional information regarding the sources of uncertainty is presented in Note 4.2.

Periodic revaluation of owner occupied land and property
As at 31 December 2023, in accordance with the adopted accounting policy, the Bank has reported the real estate used in the activity at revalued amount, determined by licensed independent appraisers. Additional information is presented Note 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 Bank's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a reliable forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Term of lease contracts
In determining the term of leases, management takes into account all facts and circumstances that create an economic incentive to exercise an option to extend or not to exercise an option to terminate. Renewal options (or periods after termination options) are included in the lease term only if it is sufficiently certain that the lease is extended (or not terminated).

The lease term is revalued if the option is actually exercised (or not exercised) or the Bank undertakes to exercise (or not exercise) it. The reasonable assurance assessment is reviewed only if a significant event or significant change in circumstances occurs that affects that assessment and is under the control of the lessee.

Determination of the appropriate discount rate to measure lease liabilities
When the Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the interest rate that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain Bank-specific estimates.

3.18. New or revised standards or interpretations

3.18.1. New standards, amendments and interpretations to existing standards as at 1 January 2023

The Bank 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 Bank consolidated financial statements for the annual period beginning 1 January 2023, but do not have a significant impact on the Bank's consolidated financial results or consolidated financial 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" and IFRS Practice Statement 2 "Disclosure of accounting policies", effective from 1 January 2023, 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 Two Model Rules", effective from 1 January 2023, adopted by the EU

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

At the date of authorisation of these separate 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 adopted early by the Company. Information on those expected to be relevant to the Company's separate financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

A list of changes 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 with covenants", effective from 1 January 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 1 January 2024, not yet adopted by the EU
- Amendments to IAS 21 "The effects of changes in foreign exchange rates: Lack of exchangeability", effective from 01 January 2025, not yet adopted by the EU

4. Risk management

4.1. Risk Framework

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

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

The following note provides information about the exposures of Municipal Bank AD to the various types of risk, the applicable policies for its identification, measurement, management, and monitoring. The individual types of risk are managed and controlled by the Bank's specialized units in accordance with internal banking rules and risk management policies. The functions of the Risk management committee are performed by the Supervisory Board. The Management Board manages the activities of the Bank 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 Municipal Bank AD has approved a number of internal limits in order to control the risks and to mitigate their impact on the Bank's performance.

4.2. Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet its contractual obligations, which would result in a financial loss for the Bank. The Bank'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 banks (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 Bank's activities, through established internal limits system, control procedures and prevention mechanisms.
The credit risk management activity include:

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

4.2.3. Internal credit ratings

In order to quantify and qualitatively assess the risk profile of borrowers, corporate clients of the Bank, 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 Bank 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 Bank 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 past due more than 30 days and restructuring measures during the probation period;
  - Inclusion 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 bank 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 bank 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 risk 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 Bank 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 Bank 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 presented 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+	14,500	14,963
BBB	48,017	277
BBB-	172	-
Internal rating	-	-
TOTAL EXPOSURE	**123,932**	**74,139**

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

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

	As at 31.12.2023	As at 31.12.2022
Concentration by sector		
Central banks	1,071,251	1,015,853
Bulgarian commercial banks	93,741	34,583
Foreign commercial banks	75,454	73,332
Foreign financial institutions	544	540
	1,240,990	**1,124,308**
Expected credit loss	(190)	(98)
TOTAL	**1,240,800**	**1,124,210**

Concentration by region	As at 31.12.2023	As at 31.12.2022
Europe	1,212,183	1,095,900
America	28,801	28,359
Asia	6	49
	1,240,990	**1,124,308**
Expected credit loss	(190)	(98)
TOTAL	**1,240,800**	**1,124,210**

All amounts are presented in thousand BGN, unless otherwise stated

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 Bank has established internal industry and regional limits - each industry has an individual limit according to the risk appetite and strategy of the Bank, 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 Bank has no investments in high-risk countries.

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

	As at 31.12.2023				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 3 Lifetime ECL	Total	Total
Central banks	1,071,251	-	-	1,071,251	1,015,853
Banks with investment rating	139,289	-	-	139,289	86,166
Banks with non-investment rating	30,450	-	-	30,450	22,289
Total gross carrying amount	**1,240,990**	-	-	**1,240,990**	**1,124,308**
Loss allowance	(190)	-	-	(190)	(98)
Carrying amount	**1,240,800**	-	-	**1,240,800**	**1,124,210**

	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 3 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**

All amounts are presented in thousand BGN, unless otherwise stated

Loan commitments and guarantees	As at 31.12.2023				As at 31.12.2022
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 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**

Debt instruments at amortised cost	As at 31.12.2023				As at 31.12.2022
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 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
Municipal bonds	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**

Receivables from banks and other financial institutions	As at 31.12.2023				As at 31.12.2022
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Nostro accounts with banks	43,753	-	-	43,753	58,939
Deposits granted with banks	79,891	-	-	79,891	14,670
Loans granted to banks	45,551	-	-	45,551	34,306
Guarantee deposits with Mastercard Inc. and Visa	544	-	-	544	540
Total gross carrying amount	**169,739**	**-**	**-**	**169,739**	**108,455**
Loss allowance	(190)	-	-	(190)	(98)
Carrying amount	**169,549**	**-**	**-**	**169,549**	**108,357**

Financial assets at fair value through profit or loss

The maximum exposure to credit risk from investments in securities at fair value through profit or loss is their carrying amount that as at 31 December 2023 is TBGN 18,997. (2022: TBGN 19,871).

The following table summarizes the Loss allowance at the end of the year by type of asset:

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

All amounts are presented in thousand BGN, unless otherwise stated

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	265	(256)	(9)	-
- Transfer to stage 2	(23)	57	(34)	-
- Transfer to stage 3	(8)	(19)	27	-
- Increases due to change in credit risk	15	227	782	1 024
- Decreases due to change in credit risk	(910)	(99)	(141)	(1 150)
- 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**

The other financial assets of the bank 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)
Repayments	78	-	**15**	93
Financial assets originated or purchased during the period	(170)	-	-	(170)
Loss allowance as at 31 December 2023	**141**	-	**25**	**166**

All amounts are presented in thousand BGN, unless otherwise stated

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	223	-	-	223
Financial assets that have been repaid	(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**

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 2023	(2,811)	(133)	(5,092)	(8,036)
Carrying amount as at 31 December 2023	**568,054**	**1,632**	**7,574**	**577,260**

All amounts are presented in thousand BGN, unless otherwise stated

	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.
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.

All amounts are presented in thousand BGN, unless otherwise stated

At 31 December 2023, the net carrying amount of loans and receivables from corporate clients amounting to BGN 408,417 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 Bank utilizes scenarios for the purposes of stress testing, where for all exposures subject to the Program for Guaranteeing Interest-Free Loans in Support of People Unable to Work due to the Covid-19 pandemic, a probability of default is allowed, averaging 12.5% annually based on the balance value for the Base scenario and averaging 25% annually for the Adverse scenario until the end of the stress period. The indicators stressed are Probability of Default and Loss Given Default. Using these indicators, a stress scenario is computed for expected credit losses, upon which the effect on the Bank's capital adequacy is calculated.

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

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

Under this Program, a total of 3,895 loans amounting to BGN 14,835 thousand have been disbursed. As at 31 December 2023, active loans amount to 3,292, with a gross balance value of BGN 6,918 thousand. There are 268 exposures classified as stage 2, totalling BGN 528 thousand. Exposures recognized and impaired in stage 3 amount to BGN 1,988 thousand, formed by 554 exposures.

As at 31 December 2023, loans subject to early repayment, litigation, or court decisions under the Program have a net balance value 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 Bank 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.

All amounts are presented in thousand BGN, unless otherwise stated

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

The Bank does not have direct credit exposures to clients from Russia, Belarus, and Ukraine. Based on the analyses performed, no material direct or indirect effects of the military conflict in Ukraine on the Bank's credit risk have been identified.

4.3. Market risk

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

4.3.1. Currency risk

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

The table below presents the foreign exchange rates risk as at 31 December 2023, including the Bank's assets and liabilities at carrying amount broken down by currency:

	EUR	USD	BGN	Other currencies	Total
Assets					
Cash and balances with central banks	128,143	1,104	967,445	704	1,097,396
Financial assets at fair value through profit or loss	8,819	-	10,178	-	18,997
Financial assets at fair value through other comprehensive income	-	5,542	7,002	-	12,544
Receivables from banks and other financial institutions	12,596	56,520	93,391	7,042	169,549
Receivables from repurchase agreements	-	-	5,006	-	5,006
Loans and receivables from customers	148,032	-	429,228	-	577,260
Debt instruments at amortised cost	87,833	-	298,288	-	386,121
Other assets	524	1	16,281	-	16,806
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
Investment in subsidiaries	-	-	350	-	350
TOTAL ASSESTS	385,947	63,167	1,911,188	7,746	2,368,048
Liabilities					
Deposits from other customers	369,082	61,834	1,681,537	7,752	2,120,205
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	5,459	-	5,899
Current income tax	-	-	434	-	434
Deferred tax liabilities	-	-	962	-	962
TOTAL LIABILITIES	372,861	61,842	1,755,859	7,752	2,198,314

All amounts are presented in thousand BGN, unless otherwise stated

As at 31 December 2023 the Bank'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.

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

	EUR	USD	BGN	Other currencies	Total
Assets					
Cash and balances with central banks	186,313	1,215	851,619	688	1,039,835
Financial assets at fair value through profit or loss	9,801	-	10,068	2	19,871
Financial assets at fair value through other comprehensive income	-	4,377	6,945	-	11,322
Receivables from banks and other financial institutions	2,065	64,888	34,209	7,195	108,357
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	-	16,872	-	17,811
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
Investment in subsidiaries	-	-	350	-	350
TOTAL ASSESTS	378,951	70,480	1,698,712	7,885	2,156,028
Liabilities					
Deposits from other customers	355,455	69,842	1,517,877	7,778	1,950,952
Loans received from banks	-	-	24,076	-	24,076
Bonds issued	-	-	21,081	-	21,081
Loans received from clients	3,346	-	2,947		6,293
Lease liabilities	-	-	4,336	-	4,336
Provisions	-	-	945	-	945
Other liabilities	108	323	26,964	-	27,395
Deferred tax liabilities	-	-	873	-	873
TOTAL LIABILITIES	358,909	70,165	1,599,099	7,778	2,035,951

As at 31 December 2022 the Bank'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 Bank's positions in assets and liabilities denominated in currencies other than BGN and EUR is minimal, which leads to insignificant exposure to the currency risk.

All amounts are presented in thousand BGN, unless otherwise stated

4.3.2. Interest rate risk

Interest rate risk is the risk of losses arising from uncertainty about future interest rates. The Bank'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 Bank 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.

The table below shows the interest-bearing instruments of the Bank 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	-	9,801	9,801
Receivables from banks and other financial institutions	-	169,739	169, 739	-	108,455	108,455
Receivables from repurchase agreements	-	5,006	5,006	-	-	-
Receivables from repurchase agreements	456,732	128,563	585,295	410,811	81,085	491,896
Debt instruments at amortised	25,733	360,721	386,454	47,653	345,559	393,212
Total assets	482,465	672,848	1,155,313	458,464	544,900	1,003,364
Liabilities						
Deposits from other customers	-	2,120,205	2,120,205	-	1,950,952	1,950,952
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	2,185,403	2,190,175	4,336	2,002,402	2,006,738

The change in the annual interest income of the Bank 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 Bank 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 BGN 528 thousand (2022: BGN 712 thousand). The total effect on the financial result is BGN 5,148 thousand (2022: BGN 4,342 thousand) negative change, which is 3.45%(2022:3.92%) of the Bank's capital.

All amounts are presented in thousand BGN, unless otherwise stated

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 bank's capital base. The Bank 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 (banks, non-banking financial institutions or corporations), and the risk level associated with the relevant grade.

The Bank 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 Bank 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%.

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

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

Value at Risk (VaR) – basics

The Bank 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 Bank's market risk management, and the levels and dynamics/trend of VaR indicators determined by the Bank are monitored and analysed dynamically and reported regularly to the Management.

4.3.4. Liquidity risk

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

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

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

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

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

Due to low predictability of the cash inflows/outflows of the budget entities, the Bank 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 Bank 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 bank and internal ones.

1. Idiosyncratic shock (baseline and adverse) due to the deteriorated financial position, risk profile and / or reputation of the bank would lead to a loss of confidence in the stability of the Bank, 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 Bank'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 bank would cease its activities, with a view to taking preventive measures if necessary.

The Bank 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 Bank'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 Bank for a longer time period. Term deposits are usually renewed by depositors at maturity and in practice are also held with the Bank for a longer period.

All amounts are presented 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	18,997	-	-	-	-	18,997
Financial assets at fair value through other comprehensive income	-	-	-	12,544	-	12,544
Receivables from banks and other financial institutions	91,740	31,865	-	45,400	544	169,549
Receivables from repurchase agreements	-	-	5,006	-	-	5,006
Loans and receivables from customers	3,426	27,153	83,437	242,282	220,962	577,260
Debt instruments at amortized cost	-	19,737	41,754	208,253	116,377	386,121
Other assets	-	-	-	-	16,806	16,806
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
Investment in subsidiaries	-	-	-	-	350	350
Total assets	1,211,559	78,755	130,197	508,479	439,058	2,368,048
Liabilities						
Deposits from other clients	1,794,181	121,064	180,559	22,957	1,444	2,120,205
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	5,899	-	-	-	-	5,899
Current tax liabilities	-	-	-	-	434	434
Deferred tax liabilities	-	-	-	-	962	962
Total liabilities	1,800,478	122,258	182,947	89,791	2,840	2,198,314
MATURITY MISMATCH, NET	(588,919)	(45,503)	(52,750)	418,688	436,218	169,734
ACCUMULATED	(588,919)	(632,422)	(685,172)	(266,484)	169,734	

All amounts are presented in thousand BGN, unless otherwise stated

31 December 2022	Up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	1,039,835	-	-	-	-	1,039,835
Financial assets at fair value through profit or loss	19,871	-	-	-	-	19,871
Financial assets at fair value through other comprehensive income	-	-	-	11,322	-	11,322
Receivables from banks and other financial institutions	73,604	-	-	34,213	540	108,357
Loans and receivables from customers	16,902	2,839	58,467	100,577	308,733	487,518
Debt instruments at amortized cost	-	36,724	4,298	184,405	167,625	393,052
Current tax assets	-	-	-	-	370	370
Other assets	-	-	-	-	17,811	17,811
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
Investment in subsidiaries	-	-	-	-	350	350
Total assets	1,150,212	39,563	62,765	330,517	572,971	2,156,028
Liabilities						
Deposits from other customers	1,642,178	112,536	185,294	10,944	-	1,950,952
Deposits from banks	-	-	-	24,076	-	24,076
Bonds	-	-	-	21,081	-	21,081
Deposits from customers	-	-	-	6,293	-	6,293
Lease liabilities	100	299	796	2,978	163	4,336
Provisions	1	15	49	703	177	945
Other liabilities	27,395	-	-	-	-	27,395
Deferred tax liabilities	-	-	-	-	873	873
Total liabilities	1,669,674	112,850	186,139	66,075	1,213	2,035,951
MATURIY MISMATCH, NET	(519,462)	(73,287)	(123,374)	264,442	571,758	120,077
ACCUMULATED	(519,462)	(592,749)	(716,123)	(451,681)	120,077	

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	26,675	80,160

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms and Commission Delegated Regulation (EU) 2015/61 of 10.10.2014 supplementing Regulation (EU) No 575/2013 with regard to liquidity coverage requirements, the Bank maintains liquidity coverage ratios and net stable funding ratios significantly in excess of the regulatory requirement of 100% for both ratios. At all times, the Bank 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 BGN 106,527 thousand (2022: BGN 151,647 thousand);
- Liquidity coverage ratio 828% (2022: 530%);
- Net stable funding ratio 289% (2022: 302%).

All amounts are presented in thousand BGN, unless otherwise stated

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

	2023 Carrying value	2023 Fair value	2022 Carrying value	2022 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	169,549	169,549	108,357	108,357
TOTAL	**1,266,945**	**1,266,945**	**1,148,192**	**1,148,192**

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: BGN 88,342 thousand).

As at 31 December 2023 the Bank 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 Bank 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 Bank is registered as an investment intermediary and performs operations on behalf of its clients in accordance with the requirements of Regulation 38 of the Financial Supervision Commission (FSC). The Bank has an approved policy in relation to management of trust accounts which has been prepared on the basis of the requirements of Ordinance 38 of the FSC. As at 31 December 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 Bank 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 Bank, 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 Bank 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 Bank 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 Bank's operations.

The Bank has developed an "Operational Risk Management Policy" and an "Operational Risk Management Rules". The Bank'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 Banking 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 Bank. 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 Bank is responsible for the organization of the operational risk management system in the Bank.

4.7. Compliance with capital adequacy requirements

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

- Tier 1 capital, being the sum of basic Tier 1 capital and additional Tier 1 capital. As at 31.12.2023, the Tier 1 capital of Municipal Bank AD is composed only of the Common Equity Tier 1 capital, including 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 31.12.2023. The Bank does not have any instruments meeting the requirements of Regulation (EU) No 575/2013 for Tier 2 capital elements.

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

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

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

The 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%;

All amounts are presented in thousand BGN, unless otherwise stated

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 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 presented in thousand BGN, unless otherwise stated

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

Measurement of financial assets and liabilities

The Bank's accounting policy regarding the fair value measurement is presented in Note 3.9.9.
The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments using the following valuation techniques:

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

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

Level 3: techniques that use input information that has a material impact on the reflected fair value that is not based on a observable market data.

The fair value of financial assets and liabilities traded on active markets is based on quoted market prices in stock exchanges or dealer markets. The bank 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	9,248	9,731	18	18,997
Financial instruments at fair value through other comprehensive income	-	5,542	7,002	12,544
Investment properties	-	-	21,381	21,381
Land and buildings, used in the activity	-	-	19,972	19,972
TOTAL	9,248	14,088	48,373	72,894

All amounts are presented in thousand BGN, unless otherwise stated

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	10,146	9,711	14	19,871
Equity instruments at fair value through other comprehensive income	-	4,377	6,945	11,322
TOTAL	10,146	14,088	6,959	31,193

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

	Year ended 31.12.2023	Year ended 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	771	282
Negative interest on interest-bearing assets	-	6
	771	**288**
Total interest income	**56,154**	**22,729**
Interest expenses		
Interest expenses under the effective interest rate method		
Negative interest on interest-bearing assets	-	(3,874)
Interests on deposits from banks	(1,385)	-
Interest on repurchase agreements	(250)	-
Interests on deposits of customers other than credit institutions	(236)	(315)
Interest on issued bonds	(932)	(379)
Interest on other borrowed funds	(231)	(132)
Interest on financial lease	(161)	(100)
Total interest expenses	**(3,195)**	**(4,800)**
NET INTEREST INCOME	**52,959**	**17,929**

The net interest income that the Bank calculates using the effective interest rate for financial assets and liabilities at amortized cost for the year ended 31 December 2023 consist of interest income amounting to BGN 55,383 thousand (2022: BGN 22,441 thousand) and interest expenses amounting to BGN 3,195 thousand (2022: BGN 4,800 thousand).

Interest income that the Bank calculates using the effective interest rate for financial assets at fair value through other comprehensive income for year ended 31 December 2023 are amounting to BGN 0 (2021: BGN 0).

All amounts are presented 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

	The year ended 31.12.2023	The year ended 31.12.2022
Loss on revaluation of securities at fair value through profit or loss	109	(946)
Gain/(loss) from sale of securities at fair value through profit or loss	-	4
Gains on sale of foreign currency	3,820	2,493
TOTAL	**3,929**	**1,551**

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

During the reporting period the Bank has realized a profit from the derecognition of financial assets at amortised cost. In 2022 a gain of BGN 44 thousand was realized on the sale of Bulgarian government bonds.

These 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 Bank's strategy to adjust the maturity structure of its portfolio holdings while maximising returns.

All amounts are presented in thousand BGN, unless otherwise stated

10. Other operating income

	The year ended 31.12.2023	The 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

	The year ended 31.12.2023	The 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)	(26)
TOTAL	**(493)**	**(738)**

12. Net effect of impairment of financial assets

The movement of impairments for non-collectible debts 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)**	**(1)**	**(4,346)**
Impairment accrued for the period	(3,715)	(196)	(22)	(1)	(3,934)
Impairment reintegrated for the period	3,383	117	15	-	3,515
Net impairment	(332)	(79)	(7)	(1)	(419)
Loans written-off on account of impairment	127	-	-	-	127
AS AT 31 DECEMBER 2022	**(4,378)**	**(98)**	**(160)**	**(2)**	**(4,638)**
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)**	**(17)**	**(8,576)**

All amounts are presented in thousand BGN, unless otherwise stated

13. Provisions

The change in provisions during the period is as follows:

	Provisions on loan commitments	Provisions on lawsuits	Pension provisions	Total
AS AT 1 JANUARY 2022	**(136)**	**(268)**	**(513)**	**(917)**
Provisions accrued for the period	(427)	(11)	(87)	(525)
Provisions reintegrated for the period	294	81	122	497
Provisions reintegrated for the period through comprehensive income	-	-	*13*	*13*
Net accrued provisions in "(Accrued)/reintegrated provisions on credit commitments"	*(133)*	-	-	*(133)*
Net accrued provisions recognized in other expense items	-	*70*	*22*	*92*
AS AT 1 JANUARY 2022	**(269)**	**(198)**	**(478)**	**(945)**
Provisions accrued for the period	(356)	-	(123)	(479)
Provisions reintegrated for the period	451	2	121	574
Provisions reintegrated for the period through comprehensive income	-	-	*6*	*6*
Net accrued provisions in "(Accrued)/reintegrated provisions on credit commitments"	*95*	-	-	*95*
Net accrued provisions recognized in other expense items	-	*2*	-	*2*
AS AT 31 DECEMBER 2023	**(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

provisions on lawsuits are recognized when, based on expert judgment, it is found that the Bank is more likely to face these liabilities in the near future. As at 31 December 2023, the Bank assessed the lawsuits filed against the Bank 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 Bank'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. Actuarial gains of about BGN 6 thousand was recognized for the period (2022: actuarial loss BGN 13 thousand).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.

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 2023	14
Net shortage, excluding unforeseen cases	-
% of allocated reserve	**0%**

All amounts are presented in thousand BGN, unless otherwise stated

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

	The year ended 31.12.2023	The year ended 31.12.2022
Employee benefits expense	(18,261)	(15,414)
Information, communication, and technology expenses	(3,272)	(3,352)
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	(2,302)	(1,456)
Expenses on materials and supplies	(905)	(1,009)
Consultancy, auditing, and other professional services	(1,208)	(513)
Rentals of buildings and assets	(156)	(297)
Advertising, marketing, and communications	(277)	(67)
Other expenses	(3,954)	(2,677)
TOTAL	**(34,777)**	**(28,874)**

The number of employees of the Bank as at 31 December 2023 is 510 (2022: 514).

The remuneration for services performed by the registered auditors of the Bank includes independent financial audit amounts to BGN 143 thousand (2022: BGN 132 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).

15. Income tax expense

The income e 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:

	The year ended 31.12.2023	The year ended 31.12.2022
Current tax expense	(3,034)	-
Deferred tax income, related to the occurrence and reversal of deferred taxes	(394)	(18)
TOTAL INCOME TAX EXPENSES	(3,428)	(18)

All amounts are presented in thousand BGN, unless otherwise stated

The Bank'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:

	The year ended 31.12.2023	The year ended 31.12.2022
Profit before tax	30,733	5,426
Tax expense based on the applicable tax rate 10 % for 2022 and 2021	(3,073)	(543)
Tax effect of income /expenses which decrease /increases the taxable profit	39	543
Current tax expense	**(3,034)**	-
Tax income on deferred tax asset, related to the occurrence and reversal	(394)	(18)
TOTAL INCOME TAX EXPENSE	**(3,428)**	**(18)**
Effective tax rate	11.15%	-

In 2023, the Bank recognized a current tax expense in connection with elements of other comprehensive income in the amount of BGN 66 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**

Current accounts with the Central Bank include minimum non-interest-bearing reserves amounting to BGN 196,887 thousand (2022: BGN 152,241 thousand), as well as a guarantee reserve fund in connection with the guarantee mechanism of the Borica Information System amounting to BGN 9,513 thousand (2022: BGN 9,513 thousand) in compliance with the provisions of the Central Bank. There are no restrictions imposed by the Central Bank on the use of minimum reserves. These reserves are determined on the basis of the deposits attracted by the Bank.

From August 2018, the Bank secures the deposit due to budget entities and government institutions through securing this amount in favour of the Ministry of Finance according to Art. 152(6) of the Public Finances Act on a special account opened for this purpose in the Bulgarian National Bank. As per 31 December 2023 the restricted amount is BGN 350,000 thousand (2022: BGN 450, 000 thousand).

All amounts are presented 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	9,731	9,709
Bulgarian corporate bonds	8,819	9,801
Shares in local entities	429	345
Foreign corporate bonds	-	2
Compensatory instruments	18	14
TOTAL	**18,997**	**19,871**

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 9,248 thousand (2022: BGN 10,146 thousand), Level 2 – BGN 9,731 thousand (2022: BGN 9,709 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 institutions

	As at 31.12.2023	As at 31.12.2022
Nostro accounts with banks	43,753	58,939
Deposits due from banks	79,891	14,670
Loans to banks	45,551	34,306
Guarantee deposits with Mastercard Inc. and Visa	544	540
	169,739	**108,455**
Expected credit losses	(190)	(98)
TOTAL	**169,549**	**108,357**

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 with total amount of BGN 11,000 thousand (2022: BGN 34,000 thousand).

All amounts are presented in thousand BGN, unless otherwise stated

20. Receivables from repurchase agreements

As at 31 December 2023, the Bank is a party to a repurchase agreement with a balance value of BGN 5,006 thousand. The collateral coverage ratio for agreements with a reverse repurchase clause secured by 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 31.12.2023			As at 31.12.2022		
	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 2023			
Segment	**Stage**	**Number of transactions**	**Gross carrying amount in TBGN**	**Impairment in TBGN**	**Carrying amount in TBGN**
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 presented 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 uncollectibility**	**Carrying amount**	**Gross carrying amount**	**Impairment for uncollectibility**	**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	1,645	1,248
Current stock of precious metals	360	393
Other receivables from banks	88	105
Materials	150	191
Other assets	182	192
TOTAL	**16,806**	**17,811**

In 2020, the Bank purchased a regularised land parcel adjacent to a property it owns, acquired in foreclosure (presented in note 24), as of 31 December 2023 in the amount of BGN 11,871 thousand (2022: BGN 11,871 thousand). In 2022 it has reviewed the property for impairment and has charged an impairment charge of BGN 234 thousand after a review in 2023 no indication has been established for charging an additional one. The Bank continues to be in negotiations with a buyer who has declared an intention to purchase both properties in their entirety.

All amounts are presented in thousand BGN, unless otherwise stated

24. Assets acquired in foreclosure

Change in assets acquired in foreclosure is as follows:

	Real estate
As at 31 December 2021	**13,468**
Sold	(361)
Impairment	(64)
As at 31 December 2022	**13,043**
Acquisitions	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 was charged impairment in the amount of BGN nil (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 there is no additional one charged, in 2022 an impairment charge has been made on both properties totalling BGN 298 thousand.

All amounts are presented in thousand BGN, unless otherwise stated

25. Property and equipment

	Land and buildings	Office equipment	Vehicles	Fixtures and fittings	Other tangible assets	Assets under constructio n	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 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 presented 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 2021	**20,581**
Sold	(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. As a result, an initial net effect from revaluation in the amount of BGN 751 thousand was realized, which is presented under the line Change in the fair value of investment properties and revaluation for the period of 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 presented 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 2022	**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	1-2 years	2-3 years	3-4 years	4-5 years	After 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 presented in thousand BGN, unless otherwise stated

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

	Minimum lease payments due						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Lease payments 31.12.2022							
Gross lease payments	1,323	1,126	893	725	421	173	4,661
Finance charges	(128)	(89)	(57)	(30)	(11)	(10)	(325)
Net present values	**1,195**	**1,037**	**836**	**695**	**410**	**163**	**4,336**

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

28.3. Lease payments not recognized 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	120	269
Leases of low value assets	36	41
	156	**310**

28.4. Operating lease – Bank as a lessor

	Year ended 31.12.2023	Year ended 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	1-2 years	2-3 years	3-4 years	4-5 years	After 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.

29. Investments in subsidiaries

The Bank owns 100% of the capital of its subsidiary Municipal Bank Asset Management EAD at the amount of BGN 350 thousand.

At the end of each reporting period, the Bank carried out review for the existence of objective evidence of impairment of the carrying amounts of its investments in subsidiaries. As at 31 December 2023 and 2022, there are no indications of impairment.

All amounts are presented in thousand BGN, unless otherwise stated

30. Deposits from other customers

	31 December 2023			31 December 2022		
	BGN	**Foreign currency**	**Total**	**BGN**	**Foreign currency**	**Total**
RESIDENTS	1,679,368	402,855	2,082,223	1,515,328	417,418	1,932,746
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)	5,859	1,098	6,957	5,053	1,088	6,141
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	**1,681,537**	**438,668**	**2,120,205**	**1,517,877**	**433,075**	**1,950,952**

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

31. Deposits 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 received from local banks.

Conditions on Loan 1:
- Principal: BGN 12,000 thousand;
- Interest rate: 4.5% fixed;
- Issue date: November 2022 ;
- Maturity: November 2027

Conditions on Loan 2:
- Principal: BGN 12,000 thousand;
- Interest rate: 5% fixed;
- Issue date: December 2022 ;
- Maturity: December 2026

Conditions on Loan 3:
- Principal: BGN 3,000 thousand;
- Interest rate: 4.5% fixed;
- Issue date: July 2023;
- Maturity: July 2028

All amounts are presented in thousand BGN, unless otherwise stated

Conditions on Loan 4:
- Principal: BGN 5,000 thousand;
- Interest rate: 5% fixed;
- Issue date: August 2023;
- Maturity: August 2028

Conditions on Loan 5:
- Principal: BGN 3,000 thousand;
- Interest rate: 7% fixed;
- Issue date: August 2023;
- Maturity: August 2028

All amounts due are uncollateralised. The amounts were provided to the Bank 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).

32. Bonds issued

	As at 31.12.2023	As at 31.12.2023
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.

All amounts are presented in thousand BGN, unless otherwise stated

33. Loans received from customers

	As at 31.12.2023	As at 31.12.2022
Principal on loans from individuals	6,237	6,237
Principals on loans from non-financial companies	2,500	-
Obligations for interest on loans received from clients	59	56
	8,796	**6,293**

As at 31 December 2023 the Bank received long term loans over 3 or 4 years from individuals and non-financial companies. Loans are received in BGN or EUR. Interest expenses on them amount to BGN 59 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 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).

34. 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	2,344	1,416
TOTAL	**5,899**	**27,395**

As at 31 December 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 will be reflected in an increase in the share capital of the Bank upon their entry in the Commercial Register.
The remainder of the financial liabilities consist mainly of payables to service providers provided to the Bank, which were paid in January 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.

35. Tax assets and liabilities

35.1. 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).

All amounts are presented in thousand BGN, unless otherwise stated

35.2. 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**

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**

All amounts are presented in thousand BGN, unless otherwise stated

36. Equity and reserves

36.1. Share capital

On January 4, 2023, an increase in the share capital of 2,000,000 ordinary, registered, non-cash shares with voting rights with a nominal value of 10 BGN each in Municipal Bank AD was entered in the Commercial Register. 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 95.5% (31.12.2022: 95.5%) interest in the share capital of the Bank.

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

36.2. Statutory reserves

The Bank 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 39,358 thousand (2022: BGN 39,358 thousand).

36.3. Other reserves

The revaluation reserves include:

- Revaluation reserve of real estate includes the revaluation on owner occupier real estate in relation with the revaluation model adopted by the Bank under IAS 16 Property, Plant and Equipment (Note 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 Bank'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)
Total	**16,937**	**14,955**

37. Related parties

As at 31 December 2023 and 2022 Municipal Bank AD is related to key management staff and other entities:

Related party	Type of relationship
Novito Opportunities Fund AGmvK	Major shareholder holding 96.51 % of the registered capital of the Bank
Municipal Bank Asset Management EAD, including the funds managed by it:	Subsidiary of the Bank
MF Municipal Bank – Perspective	
MF Municipal Bank – Balanced	

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:

All amounts are presented in thousand BGN, unless otherwise stated

37.1. Related party transactions

2023	Key management personnel	Subsidiaries	Mutual Funds managed by Municipal Bank Asset Management EAD (Subsidiary)	Major shareholder	Entities related to the major shareholder	Total
Financial assets at fair value through profit or loss	-	-	9,713	-	-	9,713
Loans and receivables	38	-	-	-	-	38
Deposits	1,280	1,397	-	-	-	2,677
Undrawn commitments and issued guarantees	31	-	-	-	-	31

2022	Key management personnel	Subsidiaries	Mutual Funds managed by Municipal Bank Asset Management EAD (Subsidiary)	Major shareholder	Entities related to the major shareholder	Total
Financial assets at fair value through profit or loss	-	-	9,693	-	-	9,693
Loans and receivables	1	-	-	-	-	1
Deposits	1,127	1,340	-	-	-	2,467
Undrawn commitments and issued guarantees	33	-	-	-	-	33

37.2. Related party transactions

2023	Key management personnel	Subsidiaries	Mutual Funds managed by Municipal Bank Asset Management EAD (Subsidiary)	Major shareholder	Entities related to the major shareholder
Net gains on operations with financial assets and liabilities at fair value through profit or loss	-	19	-	-	19
TOTAL	-	19	-	-	19

2022	Key management personnel	Subsidiaries	Mutual Funds managed by Municipal Bank Asset Management EAD (Subsidiary)	Major shareholder	Entities related to the major shareholder
Net gains on operations with financial assets and liabilities at fair value through profit or loss	-	926	-	-	926
TOTAL	-	926	-	-	926

The short-term benefits of the key management personnel of the Bank for the year ended 31 December 2023 amounting to BGN 1,866 thousand (2022: BGN 1,057 thousand).
In the following table is presented information according to the requirements of Art. 70 (6) of the Credit Institutions Act as at 31 December 2023 and do not include consolidation eliminations:

All amounts are presented in thousand BGN, unless otherwise stated

Name	Object of activity	Location	Turnover *	Number of Employees	Profit before tax / (Loss)	Income tax expense	Return on assets	Government funding received
MC Municipal Bank Asset Management EAD	management of the activity of collective investment schemes and of closed-end investment companies; of an individual portfolio of financial instruments at its own discretion, without special orders of the client; administration of units or shares, including legal and accounting services in relation to asset management	Sofia	194	9	66	(7)	4.17%	-
MF Municipal Bank – Balanced	collective investment in transferable securities or other liquid financial assets, cash, raised by a public offering and acts on the principle of risk allocation carried out by the MC	Sofia	33	-	29	-	0.56%	-
MF Municipal Bank – Perspective	collective investment in transferable securities or other liquid financial assets, cash, raised by a public offering and acts on the principle of risk allocation carried out by the MC	Sofia	25	-	(21)	-	(0.45%)	-

38. 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	58,938
Deposits with banks	79,891	14,670
Expected credit losses	(39)	(9)
TOTAL	**1,221,001**	**1,113,434**

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 Bank 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.

39. Reconciliation of liabilities arising from financing activities

The changes in the obligations of the Bank arising from financial 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
Registered 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**

40. Non-cash transactions

During the presented reporting periods the Bank 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 Bank has acquired right-of-use assets in the amount of BGN 1,859 thousand (2022: BGN 2,940 thousand);

41. Contingent and irrecoverable commitments

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

As at 31 December 2023, the Bank 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 Bank has not entered into any forward transactions.

42. 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, except as described below.

43. Approval of separate financial statements

The separate financial statements as at 31 December 2023 (including comparative information) were approved for issue to the Supervisory Board by the Management Board on 14 May 2024.