MUNICIPAL BANK
The Bank of Your Town

MUNICIPAL BANK AD

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

31 December 2025

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

GENERAL INFORMATION

Management Board

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

Supervisory Board

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

Seat and registered office

6, Vrabcha Str.
1000 Sofia
Bulgaria

Register and registration number

UIC 121086224

Joint auditors

Grant Thornton OOD
26, Cherni Vrah Blvd.
1421 Sofia

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

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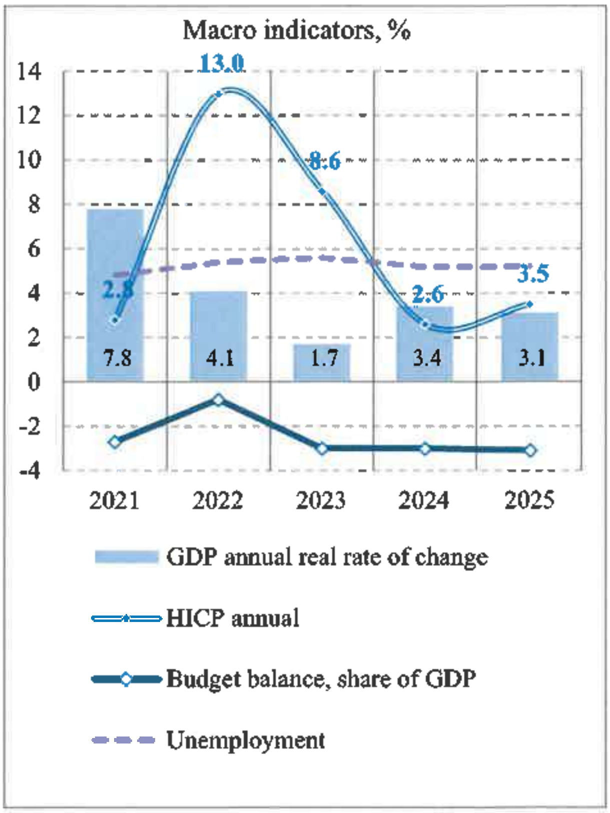
Economic environment

Domestic demand was the key driver of growth in the Bulgarian economy in 2025. According to preliminary data, the annual real growth rate of gross domestic product amounted to 3.1%, indicating a slight slowdown compared to growth of 3.4% in 2024. In recent years, domestic consumption has been the main engine of economic growth, while exports of goods and services have declined and the foreign trade balance has remained negative.



The average annual increase in the consumer price index in 2025 rose from 2.4% to 4.6% after two consecutive years of decline, while inflation measured by the harmonised index increased from 2.6% to 3.5%.

Inflation is highly dependent on energy and fuel prices, which are largely determined at the global level. Domestic pro-inflationary factors include growth in wages (reflecting demand-side pressures and supply-side effects in the form of higher production costs), while credit activity continues to stimulate consumption, supported by low deposit interest rates, which remain negative in real terms.

The volume index of individual consumption increased by 8.2% in 2025. High employment levels have led to rising incomes, including in real terms, which in turn has stimulated individual consumption. In view of the ageing population, there is an increasing need for the inflow of workers, particularly for lower-skilled jobs.

The government's spending programme, with a cash-basis budget deficit of 3.1%, can be described as expansionary, with the deficit also having a pro-inflationary effect.

In 2025, the best-performing economic sectors were construction, real estate activities, and healthcare and education. Growth in construction was driven by residential development as well as infrastructure projects financed through public expenditure under the Recovery and Resilience Plan. Industry recorded a decline amid weakening external demand, particularly from Germany.

Bulgaria's sovereign credit rating was upgraded in 2025, reflecting the country's accession to the Eurozone, which is of key importance for the national economy. Bulgaria remains among the countries with a low, albeit increasing, level of public debt. During the year, the government debt-to-GDP ratio rose from 23.3% to 28.0%. Key challenges in recent years have included controlling fiscal expenditure and the budget deficit, as well as managing domestic inflationary pressures.

In terms of purchasing power parity, GDP per capita in Bulgaria has been gradually converging toward the EU average. Over the past ten years, Bulgaria's indicator increased from 50% of the EU average in 2016 to 68% in 2025, reaching the level of Greece. While Bulgaria continues to rank last among EU Member States, the improvement is significant. In nominal terms, GDP per capita amounts to only 44% of the EU average, suggesting expected increases in prices and incomes in the coming years.

Economic growth in the European Union and the Eurozone in 2025, amounting to 1.5% and 1.4% respectively, remains weak, albeit with an improvement compared to the previous year. Structural challenges and high energy costs continue to weigh heavily on industrial production, with Germany being the most affected, recording GDP growth of only 0.2%. Examples of stronger economic performance include smaller countries such as Ireland, Malta and Cyprus, while among the larger economies Poland stood out with growth of 3.6%.

Inflation in the Eurozone in 2025 stabilised around the ECB's target level of 2%. Services remained the main source of inflationary pressure, driven by rising wages. From mid-2024, the ECB began easing its monetary policy, implementing a series of cuts to its key interest rates from 4.00% to 2.00% by mid-2025. Against the backdrop of the war in the Middle East and the subsequent surge in energy prices, inflation expectations for 2026 have been revised upwards to 2.6%, while the forecast for annual economic growth has been lowered to 0.9%.

Banks in Bulgaria

The banking sector's profit in 2025 declined by 1.8%, reflecting slower growth in net operating income compared with the increase in administrative expenses and impairment costs. Along with the decline in profit, return on equity decreased from 17.1% to 13.7%, while return on assets fell from 2.0% to 1.7%. For banks, the overall business environment in Bulgaria remained favourable, characterised by increased economic activity, moderate inflation, rising real household incomes and low unemployment. However, the downward phase of the interest rate cycle constrained the growth of net interest income.

Income statement, BGN million	*2023*	*2024*	*2025*	*Change*		
				2024	*2025*	
Total operating income, net:	6,916	7,867	8,061	13.7%	2.5%	194
Net interest income	4,846	5,566	5,638	14.9%	1.3%	73
Fees and commissions income, net	1,474	1,620	1,783	9.9%	10.1%	164
Dividend income	182	289	189	58.8%	(34.6%)	(100)
From derecognition of FA not measured at fair value	37	(2)	43	(104.3%)	(2,850.8%)	45
Net gains from FA and hedging	(5)	242	(91)	-	(137.6%)	(333)
Net foreign exchange gains	300	54	337	(82.0%)	524.2%	283
Write-off of non-financial assets	14	40	18	176.7%	(54.3%)	(21)
Other operating income, net	64	77	150	19.4%	95.4%	73
Administrative expenses	2,200	2,465	2,632	12.1%	6.8%	167
Contributions to the Claims and Deposits Insuarance Fund and the Bank Resolution Fund	206	221	159	7.0%	(28.1%)	(62)
Depreciation and amortisation	300	321	331	7.2%	3.0%	10
Impairment (FA, Non FA, IS)	427	659	753	54.3%	14.2%	93
Provision expense, net	17	(47)	(12)	(376.7%)	(5.1%)	35
Negative reputation	3,417	3,695	3,628	8.1%	(1.8%)	(67)

Source: BNB

In 2025, net interest income increased by only 1.3%, compared to growth of 14.9% in 2024. High liquidity levels did not necessitate intense competition among banks for deposits, and average interest rates on attracted funds remained broadly unchanged. Changes in interest expenses on household deposits followed movements in deposit balances, while a slight increase was observed for non-financial corporations.

On the asset side, the ECB's policy of lowering key interest rates was directly transmitted to interest rates on loans linked to market reference rates, as well as to bond yields and interbank deposits. Notably, interest income from loans and advances (including those to credit institutions) in 2025 remained at the level of 2024, despite a 20.1% increase in their volumes, of which loans to customers grew by 15.0%.

The structure of banks' net operating income in 2025 was influenced by market interest-rate dynamics, with the share of net interest income declining by 0.8 percentage points to 69.9%, in favour of net fee and commission income. The combination of a higher number of transactions and increased prices for certain services resulted in a 10.1% annual increase in net fee and commission income, even though fee and commission expenses grew at a faster pace.

Unlike the previous year, net gains from financial assets and liabilities held for trading declined sharply in 2025, while losses from non-trading financial assets nearly doubled.

Rising prices and low unemployment necessitated indexation of staff costs, which increased by 10.1%, while total administrative expenses rose by 6.8%. Banks benefited in 2025 from a 28.1% reduction in cash contributions to the Bulgarian Deposit Insurance Fund and the resolution fund.

Impairment expenses on loans and advances to customers amounted to BGN 3,393 million during the year (+3.3% compared to 2024). The share of non-performing loans stood at 3.1% at the end of 2025, down from 3.4% at the end of 2024.

Banks' total assets increased by 18.5% in 2025, significantly surpassing the growth recorded in the previous year (11.4%), driven by an inflow of BGN-denominated savings previously held outside the banking system during the final quarter ahead of the adoption of the euro.

Balance sheet items, BGN million	*2023*	*2024*	*2025*	*Change*		
				2024	*2025*	
Total assets	172,075	191,611	227,036	11.4%	18.5%	35,424
Cash	36,267	34,055	39,998	(6.1%)	17.4%	5,942
Debt securities	25,960	33,116	37,502	27.6%	13.2%	4,386
Loans and advances (gross), incl.	106,295	120,628	144,895	13.5%	20.1%	24,268
Financial institutions	8,900	10,018	17,642	12.6%	76.1%	7,623
Government	1,049	851	1,535	(18.8%)	80.3%	684
Corporate	56,873	61,766	67,289	8.6%	8.9%	5,523
Retail	39,473	47,992	58,430	21.6%	21.7%	10,438
Impairment of loans and advances	(3,127)	(3,285)	(3,393)	5.1%	3.3%	(108)
Investments in subsidiaries and associates	531	497	502	(6.5%)	1.1%	5
Tangible, intangible, and other assets	5,058	5,321	6,448	5.2%	21.2%	1,127
Attracted funds, total	147,307	162,962	190,467	10.6%	16.9%	27,505
Financial institutions	10,539	14,027	17,421	33.1%	24.2%	3,394
Government	3,782	3,131	3,621	(17.2%)	15.6%	490
Corporate	50,372	53,547	58,302	6.3%	8.9%	4,756
Retail	82,614	92,257	111,123	11.7%	20.4%	18,865
Equity	20,019	23,155	29,702	15.7%	28.3%	6,547

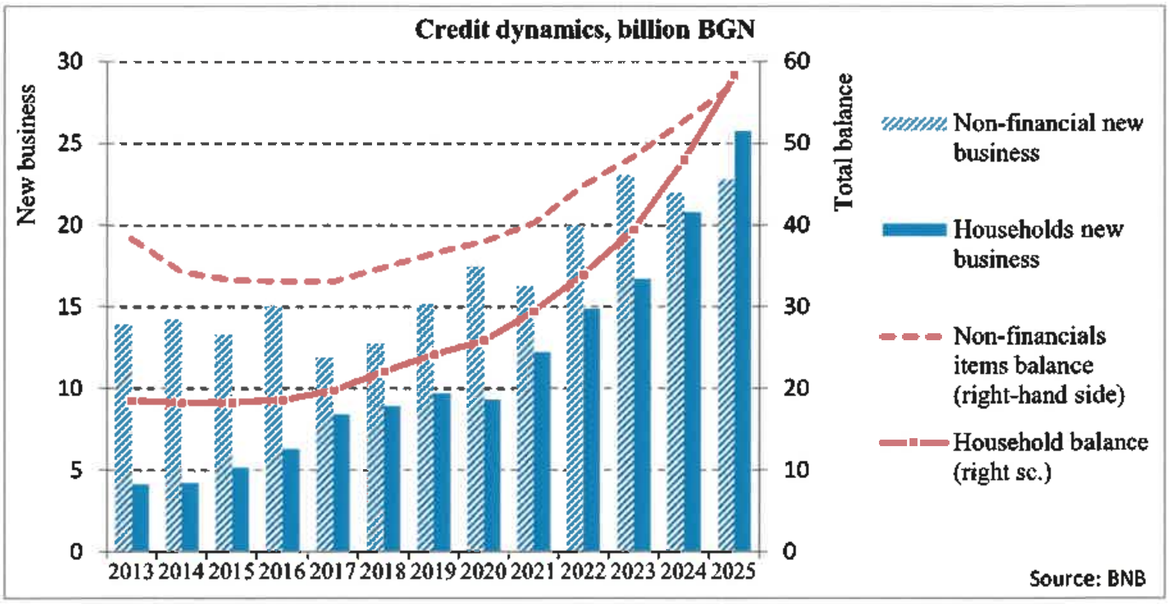
Source: BNB

The specific characteristics of deposit growth and the preparations for the adoption of the euro were the main factors behind the increased share and balance of cash in the asset structure at year-end. The loans-to-deposits ratio in a narrow definition (excluding credit institutions) declined from 74.3% to 73.5%.

In 2025, banks attracted funding from households at an average interest rate of 0.2%. The deposit base of non-financial corporations is approximately half that of households; however, the average interest rate on corporate time deposits (1.56%) is four times higher than that on time deposits in retail banking.

In 2025, liquidity positions strengthened, driven by the inflow of a large volume of new deposits, which led to an increase in banks' cash balances by the end of the year. As a result, the liquidity coverage ratio (LCR) increased to 281% (2024: 241%).

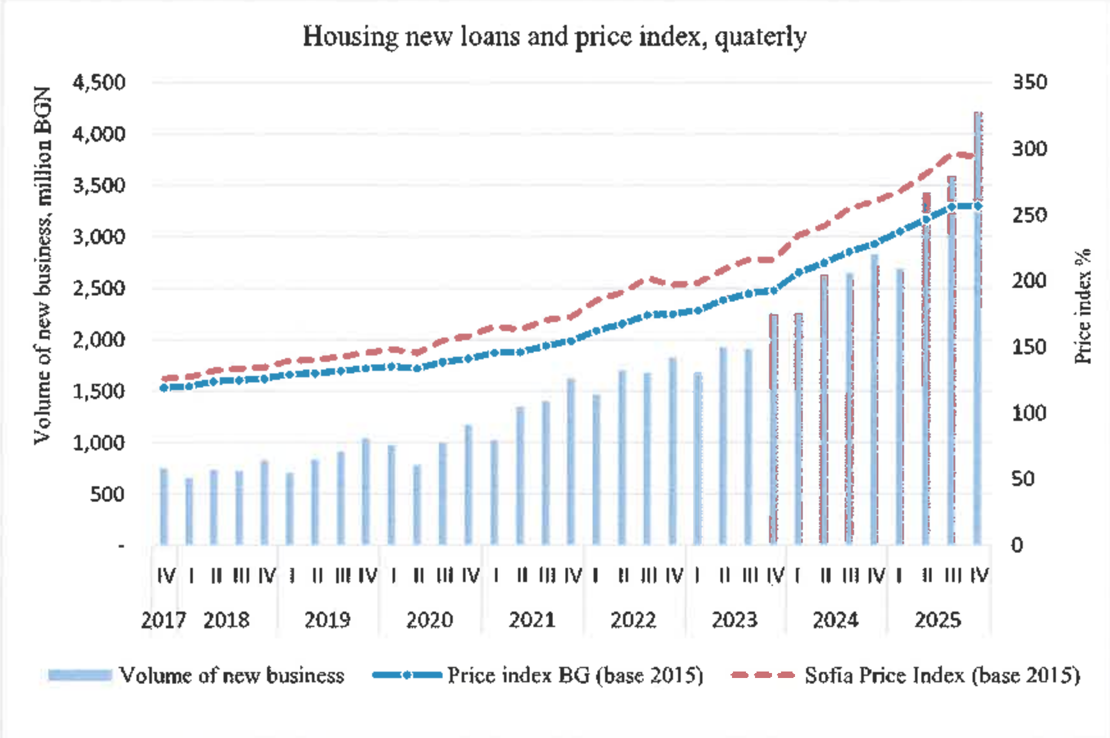
The banking system remains very well capitalised, with total capital adequacy reaching 26.56% at the end of 2025 (2024: 22.70%). The aggregate ratio was boosted by a BGN 4 billion increase in the capital of the Bulgarian Development Bank; excluding this effect, the ratio would have amounted to 22.69%.



Strong household demand for housing and consumer loans continued in 2025, with annual growth rates of 29.8% and 13.5%, respectively. Corporate lending maintained an annual growth rate of 8.9%. In 2025, for the first time, the volume of new household loans exceeded that of new loans to non-financial corporations, and total exposure to households slightly surpassed exposure to non-financial corporations.

Interest in housing loans reached record levels in the final quarter of 2025. Measured by the volume of new business, it amounted to BGN 4.2 billion, which is 30% higher than the average of the previous three quarters. Compared to 2024, new mortgage lending in 2025 increased by 34%. At the same time, the house price index rose by 12.6% nationwide and by 12.7% in Sofia. According to NSI data, the pace of house price growth slowed in 2025 compared to 2024 (18.3% nationwide and 20.5% in Sofia), while in the fourth quarter prices in Sofia declined by 0.8% quarter-on-quarter.

Since 2009, mortgage interest rates have followed a downward trend, and by the end of 2025 the average rate on new housing loans stood at 2.47%, representing a decline of 0.07 percentage points compared to the 2024 average. Interest rates on household loans were not affected by the ECB's interest rate policy, as they are linked to interest rates on customer deposits in Bulgaria.


Housing new loans and price index, quaterly
Volume of new business, million BGN
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
Price index %
350
300
250
200
150
100
50
0
2017
2018
2019
2020
2021
2022
2023
2024
2025
Volume of new business
Price index BG (base 2015)
Sofia Price Index (base 2015)

Overview of the activity on a separate basis

Genera information

Municipal Bank AD is a legal entity incorporated as a joint stock company under the Commerce Act with a full operations 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 96.51% share of the issued capital as of 31.12.2025.

Joint auditors of the bank for 2025 are Grant Thornton OOD and RSM BG OOD, elected by a decision of the General Meeting Assembly of Shareholders of Municipal Bank AD.

Municipal Bank AD has developed correspondent relationships with first-class foreign financial institutions in Europe, North America and Asia.

Business model and market position

Municipal Bank AD is a universal commercial bank, ranking 13th by total assets with a market share of 1.37% (2024: 1.30%) among 23 banks and branches of foreign banks operating in the country as at 31 December 2025.

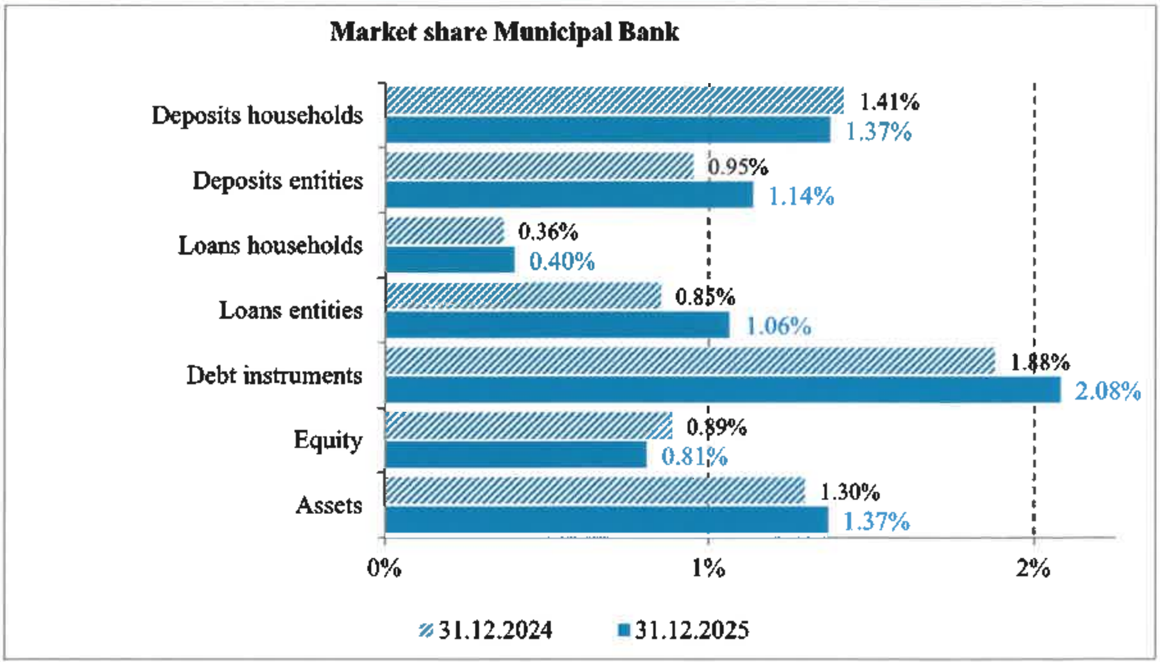
In Bulgaria, the five largest banks account for 76.3% of total banking sector assets. As direct competitors in universal banking activities and target markets, the Bank considers institutions from the second tier, with a scale and business profile relatively close to its own.

The Bank's strategic objective is focused on strengthening and expanding its market presence in lending. In 2025, the market share of loans increased from 0.85% to 1.06% in the corporate banking segment and from 0.36% to 0.40% in retail banking.

Market position of MB AD	2025	2024
Assets	13	14
Equity	15	15
Profit	15	16
Debt instruments	9	8
Loans government	10	7
Enterprise loans	15	15
Household loans	13	13
Deposits companies	17	17
Household deposits	11	10
Number of banks	*23*	*23*

Municipal financing constitutes a distinct segment within the Bank's business model, complementing the other two segments – retail and corporate banking – in its universal banking profile. In the Public Sector segment, the Bank ranks third by the volume of serviced deposits and tenth by the volume of loans granted.

Municipal Bank AD operates under market conditions and pursues an appropriate, non-aggressive interest rate policy. Competition among banks in lending is strong and is expected to remain so, while competition for funding remains low for the time being, given the accumulated liquidity in the system. At the end of 2025, the Bank's market share of household deposits amounted to 1.37%. The market share of corporate deposits increased from 0.95% to 1.14%.



Key indicators

Financial indicators	2025	2024	Change
Net interest income	64,489	63,223	2.0%
Net fees and commission income	18,091	15,354	17.8%
Net gains on securities transactions	3,217	5,447	-40.9%
Net operating income	90,618	85,826	5.6%
Administrative costs	(47,937)	(40,581)	18.1%
Impairment	(1,370)	(3,171)	-56.8%
Profit for the year	33,649	34,526	-2.5%
Balance sheet indicators			
Assets	3,114,141	2,483,091	25.4%
Receivables from banks	121,718	249,025	-51.1%
Securities	805,707	646,724	24.6%
Loans and receivables from customers	937,140	690,401	35.7%
Deposits from clients	2,535,491	2,162,188	17.3%
Share capital	244,935	205,276	19.3%
Basis ratios			
Return on Equity (ROE)*	15.15%	18.22%	-3.07%
Return on assets (ROA)*	1.22%	1.37%	-0.15%
Total capital adequacy	18.28%	21.87%	-3.59%
Leverage ratio	7.36%	7.79%	-0.43%
Liquidity coverage ratio (LCR)	407.25%	1581.07%	-1173.82%
Net stable funding ratio	227.18%	265.37%	-38.19%
Cost income ratio (CIR)**	57.53%	51.24%	6.29%
Gross loans/deposits net of government sector	44.43%	39.51%	4.92%

* Based on average daily balance.

Financial result

Municipal Bank AD reported net profit after tax of BGN 33,649 thousand, resulting in a return on equity of 15.15% and a return on assets of 1.22%. As in 2024, the return on equity in 2025 remained above the average for banks in the country (13.2%).

Net operating income of Municipal Bank AD increased by 5.6% in 2025 to BGN 90,618 thousand. The main components of operating income comprise net interest income and net fee and commission income, which increased year-on-year by 2.0% and 17.8%, respectively. The faster annual growth of net fee and commission income compared to net interest income altered the structure of operating income, with the share of net interest income declining from 73.6% to 71.2%.

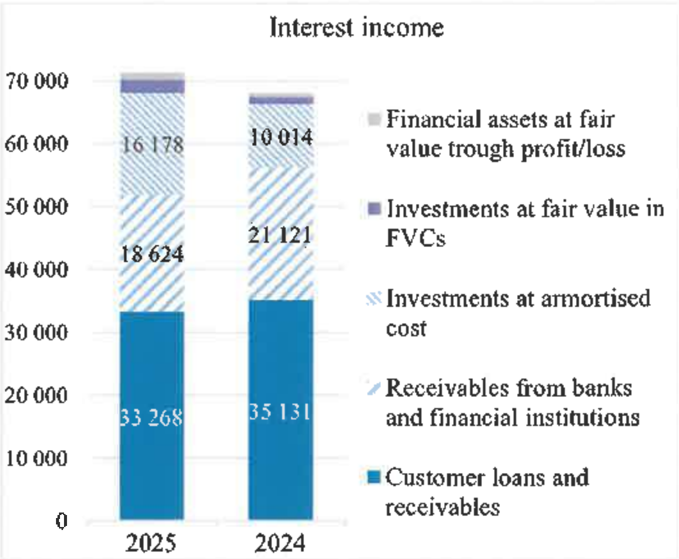
Separate Statement of Profit or Loss, BGN thousand	*31.12.25*	*31.12.24*	*Change*	*Change*
Interest income calculated using the effective interest method	70,137	67,430	4.0%	2,707
Other interest income	1,173	643	82.4%	530
Interest expenses	(6,821)	(4,850)	40.6%	(1,971)
Net interest income	64,489	63,223	2.0%	1,266
Dividend income	434	277	56.7%	157
Fees and commissions income	25,182	20,602	22.2%	4,580
Fees and commissions expenses	(7,091)	(5,248)	35.1%	(1,843)
Net fee and commission income	18,091	15,354	17.8%	2,737
Net gains from operations with financial assets at fair value through profit and loss	3,217	5,447	-40.9%	(2,230)
Net gains on foreign exchange revaluation	(109)	180	-160.6%	(289)
Gains from sale of non-current assets	2,980	312	855.1%	2,668
Change in fair value of investment properties	61	(246)	-124.8%	307
Other operating income	1,841	1,768	4.1%	73
Other operating expenses	(386)	(489)	-21.1%	103
NET OPERATING INCOME	**90,618**	**85,826**	**5.6%**	**4,792**
Impairment of financial assets	(1,370)	(3,171)	-56.8%	1,801
Reversed/(accrued) provisions for credit commitments	101	(228)	-144.3%	329
Administrative expense	(47,937)	(40,581)	18.1%	(7,356)
Depreciation and amortization	(4,196)	(3,398)	23.5%	(798)
PROFIT BEFORE TAX	**37,216**	**38,448**	**-3.2%**	**(1,232)**
Income tax expense	(3,567)	(3,922)	-9.1%	355
PROFIT FOR THE YEAR	**33,649**	**34,526**	**-2.5%**	**(877)**

Interest income of Municipal Bank AD increased by 4.8%, net interest income by 2.0%, while the net interest margin declined from 3.50% to 2.85%. Changes in the asset structure in 2025 were aimed at expanding the base of interest-bearing instruments. The average balances of interest-bearing assets (loans, bonds, interbank deposits, and receivables from repo transactions) accounted for 82.3% of total assets compared to 71.5% in 2024, with their balances increasing by 25.9%.

Net gains from operations with financial assets measured at fair value through profit or loss amounted to BGN 3,217 thousand. This result includes gains from foreign currency sales (BGN 2,279 thousand), gains from the sale of securities measured at fair value through profit or loss (BGN 803 thousand), and gains from the revaluation of securities (BGN 135 thousand). Gains from the sale of securities in the current year compared to the previous year were limited due to a change in investment strategy. Short-term zero-coupon bonds, which were the main source of profit in 2024, were replaced with coupon-bearing bonds, respectively increasing interest income from them.

Lending occupies a leading position in the Bank's interest income with a share of 47% (2024: 52%) and an amount of BGN 33,268 thousand. Interest income from loans decreased by 5.3%, despite the increased loan volume during the year. The interest bases of the predominant portion of loans are floating market indices such as EURIBOR and the BNB base interest rate, which declined in 2025. To limit potential negative effects, minimum interest rate floors have been set in corporate loan agreements.

Market interest rate levels had a direct impact on the yields of money market deposits; accordingly, interest income from receivables from banks and financial institutions decreased by 11.8%, despite a 21% increase in deposit volumes and a 42% increase in repo receivables. Interest income from investments measured at amortized cost reached BGN 16,178 thousand, representing an increase of 61.6% compared to 2024, as a result of the growing bond portfolio.



Total interest expenses in 2025 amounted to BGN 6,821 thousand and increased by 40.6% compared to the previous year, driven by the attraction of eligible liabilities for the purposes of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) in connection with business growth.

Interest expenses	*2025*	*2024*	*Change*	*Change*
Interest on loans from banks	(3,263)	(1,910)	71.6%	(1,353)
Interest on repurchase agreements	(138)	(479)	-71.2%	341
Interest on deposits, other than credit institutions	(746)	(559)	30.8%	(187)
Interest on bonds issued	(932)	(934)	-0.2%	2
Interest on other borrowed funds	(1,599)	(785)	103.7%	(814)
Interest on leases	(143)	(164)	-12.8%	21
Interest on other liabilities	-	(19)	-	19
Total	(6,821)	(4,850)	40.6%	(1,971)

The increased interest expenses on household deposits follow the growth in attracted funds. A slight increase in the average interest rate on term deposits has been observed. For the Bank's corporate clients, as well as for banks in general, there has been an increase in interest rates on term deposits. Accumulated liquidity has kept interest rates on funds attracted from households low. Liquidity was further supplemented by savings in Bulgarian levs that were deposited in banks in the months preceding the adoption of the euro.

Loans received from banks bear fixed interest rates. In 2025, new loans were contracted, which led to an increase in expenses. The interest coupon on the issued bonds is fixed.

Fees and commissions income	*2025*	*2024*	*Change*	*Change*
Servicing and maintenance of accounts	5,184	4,288	20.9%	896
Card operations	6,120	5,285	15.8%	835
Transfer operations	2,891	2,919	-1.0%	(28)
Cash and arbitration operations	3,313	3,079	7.6%	234
Documentary operations	1,664	1,034	60.9%	630
Other	6,010	3,997	50.4%	2,013
Total fees and commissions income	**25,182**	**20,602**	**22.2%**	**4,580**
Fees and commissions expense				
Card operations	(4,720)	(3,248)	45.3%	(1,472)
Transfer operations	(1,854)	(1,631)	13.7%	(223)
Other	(517)	(369)	40.1%	(148)
Total fees and commissions expense	**(7,091)**	**(5,248)**	**35.1%**	**(1,843)**
FEES AND COMISSIONS INCOME, NET	**18,091**	**15,354**	**17.8%**	**2,737**

Net fee and commission income increased by 17.8% to BGN 18,091 thousand and accounted for 20.0% of total operating income (the average share for the banking system is 22.1%). The change in fee and commission income is driven by the following factors: the transformation of assets (through an increase in the volume and share of loans), respectively higher loan-related fees (reflected under Other), and a significant contribution from documentary operations; increasing penetration of card transactions among clients, with revenues growing by 15.8%; and a 1.0% decline in transfer-related income due to customers' preference for digital channels, where transaction fees are lower.

Fee and commission expenses amounted to BGN 7,091 thousand, with card operation expenses holding the largest share.

Profit from the sale of non-current assets amounted to BGN 2,980 thousand and is significantly higher compared to the previous year.

The fair value of the Bank's investment properties increased by BGN 61 thousand in 2025, whereas in 2024 it decreased by BGN 246 thousand.

The net impairment effect on financial assets amounted to a charge of BGN 1,370 thousand (2024: a charge of BGN 3,171 thousand), or 56.8% lower. For provisions on loan commitments, there was a net reversal of BGN 101 thousand.

During the reporting period, administrative expenses increased to BGN 47,937 thousand, mainly as a result of salary indexation, business expansion, and costs related to the introduction of the euro. Business expansion also includes advertising expenses aimed at increasing market penetration and strengthening the corporate identity. Information, communication, and technology expenses decreased by BGN 1,204 thousand, as did the contribution to the Bank Deposit Guarantee Fund by BGN 885 thousand.

At the end of the period, the ratio of administrative expenses and depreciation to net operating income was 57.5% (2024: 51.2%). The impact of inflation from the previous period on operating expenses and the reduced interest spread was largely, but not fully, offset by business growth.

Administrative expenses	*2025*	*2024*	*Change*	*Change*
Employee expenses	(27,386)	(22,803)	20.1%	(4,583)
Information, communication and technology costs	(1,480)	(2,684)	-44.9%	1,204
Security and collection costs	(2,217)	(1,938)	14.4%	(279)

Administrative expenses	*2025*	*2024*	*Change*	*Change*
Contribution to the Bulgarian Deposit Insurance Fund	(1,759)	(2,644)	-33.5%	885
Supplies and other external services	(3,556)	(2,459)	44.6%	(1,097)
Expenditure on consumables and materials	(1,251)	(912)	37.2%	(339)
Consulting, auditing and other professional services	(1,692)	(1,299)	30.3%	(393)
Rentals of buildings and assets	(174)	(146)	19.2%	(28)
Advertising, marketing and communications	(2,099)	(1,191)	76.2%	(908)
Other administrative expenses	(6,323)	(4,505)	40.4%	(1,818)
TOTAL	**(47,937)**	**(40,581)**	**18.1%**	**(7,356)**

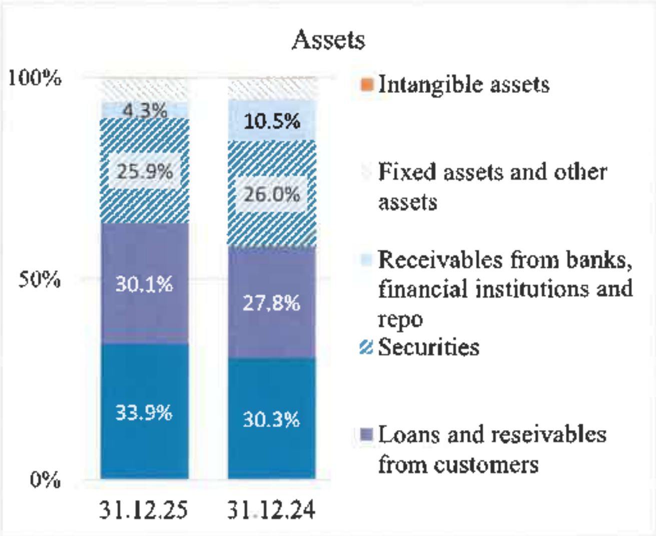
Assets

The assets of Municipal Bank AD grew by 25.4% (BGN 631,050 thousand) in 2025, reaching BGN 3,114,141 thousand. The main interest-bearing items on the balance sheet are loans and advances to customers and debt instruments measured at amortized cost, which increased by 35.7% and 24.0%, respectively, over the period. At year-end, there was an increased level of cash holdings and balances with the central bank as part of the preparation for the forthcoming adoption of the euro as the national currency, at the expense of a reduced volume of claims on banks.

ASSETS	*31.12.25*	*31.12.24*	*Change*	
Cash on hand and cash balances with the Central Bank	1,054,256	751,986	40.2%	302,270
Financial assets at fair value through profit or loss	32,156	18,174	76.9%	13,982
Financial assets at fair value through other comprehensive income	73,230	63,735	14.9%	9,495
Receivables from banks	121,718	249,025	-51.1%	(127,307)
Receivables from repurchase agreements	12,153	12,203	-0.4%	(50)
Loans and receivables from customers	937,140	690,401	35.7%	246,739
Debt instruments at amortised cost	700,321	564,815	24.0%	135,506
Current tax assets	7,260	101	-	7,159
Other assets	21,405	17,685	21.0%	3,720
Foreclosed assets	12,971	12,974	0.0%	(3)
Property and equipment	92,262	63,908	44.4%	28,354
Investment property	38,725	29,139	32.9%	9,586
Intangible assets	6,555	4,087	60.4%	2,468
Right-of-use assets	3,639	4,508	-19.3%	(869)
Investments in subsidiaries	350	350	0.0%	-
Total assets	**3,114,141**	**2,483,091**	**25.4%**	**631,050**

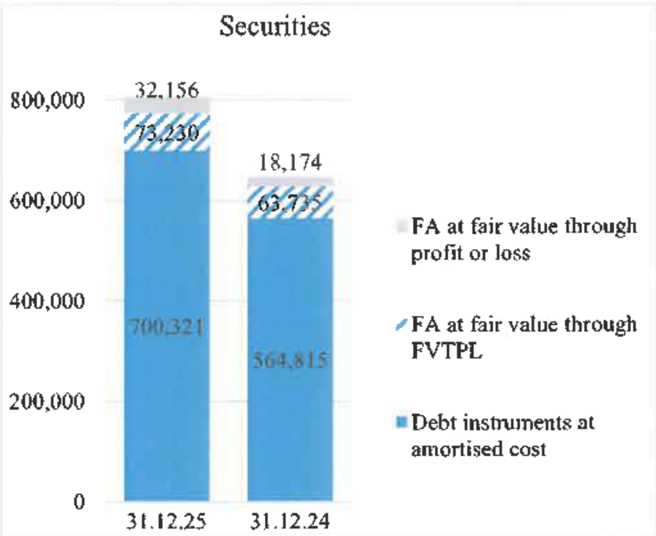
The strategic trend in the asset structure is focused on lending. The share of loans in 2025 increased from 27.8% to 30.1%. Securities recorded solid balance sheet growth, but maintained their share in the asset structure at 25.9%

Municipal Bank AD is among the leading banks in the financial servicing of municipalities in Bulgaria. In recent years, the Bank has been undergoing a transformation, with the strategic focus shifting toward a universal banking profile. The share of funds attracted from the public sector budget in the customer deposit base declined to 15.8% at the end of 2025, compared to 18.0% at the end of 2024. The Bank's role in the financial servicing of municipalities determines the high share of government securities and cash holdings in its assets, which, in



accordance with the Public Finance Act, fully secure the funds attracted from budgetary organizations.

Investments in securities as of 31 December 2025 amounted to BGN 805,707 thousand, representing year-on-year growth of 24.6%. They are allocated across three categories: financial assets measured at fair value through profit or loss; financial assets measured at fair value through other comprehensive income; and debt instruments measured at amortized cost. Bonds measured at amortized cost hold a leading position in the investment strategy. Their carrying amount at the end of 2025 was BGN 700,321 thousand, reflecting annual growth of 24.0%.



Government securities issued by the Bulgarian government predominate in the securities portfolios, followed by sovereign bonds of Eurozone countries, Bulgarian municipal bonds, and a small volume of equity instruments. Bulgarian government securities and cash balances with the Bulgarian National Bank are used to secure the funds attracted from the public sector.

Interest income from the three debt securities portfolios amounted to BGN 19,418 thousand during the period, representing year-on-year growth of 64.3%. In 2025, debt securities ranked second in the structure of interest income after lending, surpassing interest income from claims on banks and financial institutions.

Claims on banks and other financial institutions, including deposits, loans, and repo transactions, amounted to BGN 133,871 thousand at the end of the period. The Bank places short-term deposits on the money market domestically and abroad. The yield on these instruments declined in 2025 in line with the reductions in the ECB's key interest rates.

Municipal Bank AD was among the dynamically performing banks in lending in 2025. Over the period, the loan portfolio increased by 35.4%, reaching BGN 948,865 thousand. The Bank successfully achieved its strategic lending objectives in 2025, and the loans-to-deposits ratio excluding budget funds rose from 39.5% to 44.4%. Market share in the non-financial corporations segment increased from 0.85% to 1.06%, while in the household segment it rose from 0.36% to 0.40%.

Municipal Bank AD consistently adheres to a policy of high-quality and sustainable loan growth. At the end of 2025, the share of non-performing loans in the narrow scope (i.e. excluding credit institutions) stood at 1.1%, declining compared to 2024 (1.4%). In the broad scope, the non-performing loan ratio was 1.0%. On average for the banking sector in the country, the share of non-performing loans also declined, reaching 3.1% in the narrow scope and 2.7% in the broad scope at the end of 2025.

The Bank's exposure to households accounts for 24.4% of the loan portfolio, with mortgage loans recording significantly higher growth in 2025 compared to consumer loans. The share of mortgage lending in total household lending increased from 48.6% to 57.2% in 2025, compared to a banking system average of 61.3%. This shift contributed to achieving a better balance in the risk structure of household lending.

Gross carrying amount	*31.12.25*	*31.12.24*	*Change*	*Change*
Individuals	231,809	174,535	57,274	32.8%
Mortgages	132,505	84,743	47,762	56.4%
Consumer loans	98,469	89,026	9,443	10.6%
Credit cards	835	766	69	9.0%
Companies	670,795	474,270	196,525	41.4%
Government entities	18,768	13,376	5,392	40.3%
Non-banking financial institutions	27,493	38,697	(11,204)	-29.0%
TOTAL	**948,865**	**700,878**	**247,987**	**35.4%**

The Bank has a lower loans-to-deposits ratio compared to the average for the banking system and, with the objective of optimizing this ratio, maintains an accelerated growth pace. In the corporate segment, annual growth at the Bank reached 41.4% for non-financial enterprises, while growth for financial and non-financial enterprises combined amounted to 36.1%. In 2025, a special focus was placed on lending to micro and small enterprises, and this activity was structured as a separate directorate. Municipal Bank AD maintains personalized business relationships with its clients, providing them with specialized products and tailored solutions.

Within the sectoral structure of the portfolio over the period, the share of the Services, Trade, and Government entities sectors increased.

Gross carrying amount	*31.12.25*	*31.12.24*	*Change*	*Change*
Individuals	231,809	174,535	57,274	32.8%
Manufacture	73,654	81,180	(7,526)	-9.3%
Services	395,267	243,541	151,726	62.3%
Commerce	122,682	61,681	61,001	98.9%
Government entities	18,768	13,376	5,392	40.3%
Construction	36,329	38,947	(2,618)	-6.7%
Transport	35,625	39,959	(4,334)	-10.8%
Agriculture	7,238	8,962	(1,724)	-19.2%
Financial and insurance operations	27,493	38,697	(11,204)	-29.0%
TOTAL	**948,865**	**700,878**	**247,987**	**35.4%**

Liabilities

Municipal Bank AD is funded primarily through deposits from non-bank clients, while deposits from credit institutions and liabilities under repurchase agreements play a supplementary role.

Loans received from banks, bond loans, and loans received from clients constitute instruments of eligible liabilities within the meaning of EU Regulation No. 575/2013 and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms. The bond loans comprise two bond issues that are not traded on a regulated market and were issued in 2022. Loans received from other clients are based on developed products for non-bank clients with maturities of 3 and 4 years.

LIABILITIES	*31.12.25*	*31.12.24*	*Change*	
Deposits from credit institutions	39,122	-	-	39,122
Deposits from customers	2,535,491	2,162,188	17.3%	373,303
Liabilities under repurchase agreements	131,846	-	-	131,846
Loans received from banks	76,873	45,990	67.2%	30,883
Bonds issued	21,081	21,081	0.0%	-
Loans received from customers	48,188	34,892	38.1%	13,296
Lease liabilities	3,798	4,687	-19.0%	(889)
Provisions	1,408	1,256	12.1%	152
Other liabilities	9,541	6,399	49.1%	3,142
Deferred tax liabilities	1,858	1,322	40.5%	536
TOTAL LIABILITIES	**2,869,206**	**2,277,815**	**26.0%**	**591,391**

Liabilities as of 31 December 2025 amounted to BGN 2,896,206 thousand, representing an increase of 26.0% compared to the previous year. The largest contribution to the annual growth of the deposit base came from resident households, amounting to BGN 210,062 thousand, or 16.6%. A specific feature of 2025 was the placement of accumulated savings in Bulgarian levs into banks, including Municipal Bank AD, ahead of the adoption of the euro. As a result, the share of the lev component in the deposit base of individuals increased from 79.2% to 81.7% in 2025.

Average interest rates on term deposits from individuals remained unchanged over the period, while their share declined from 45.9% to 43.2%. In addition to standard term deposits with maturities of up to 12 months, Municipal Bank AD offers longer-term deposits with maturities from 1 to 3 years for clients who prefer higher-yield products. The Bank also offers various package programs with a fixed monthly fee that include core banking services—standard current accounts, debit cards, online and mobile banking, bank transfers, and utility payments.

The structure and changes over the period of the deposit base by residency and by sectors are presented in the following table:

Deposits	*31.12.25*	*31.12.24*	*Change*	*Change*
RESIDENTS	2,511,543	2,140,232	371,311	17.3%
Individuals	1,477,219	1,267,157	210,062	16.6%
Government entities	399,781	388,221	11,560	3.0%
Services	225,016	184,553	40,463	21.9%
Manufacture	118,418	76,413	42,005	55.0%
Commerce	55,936	58,078	(2,142)	-3.7%
Transport	128,902	89,193	39,709	44.5%
Construction	92,644	65,031	27,613	42.5%
Finance (other than banks)	9,160	5,092	4,068	79.9%
Agriculture	4,467	6,494	(2,027)	-31.2%
NON-RESIDENTS	23,948	21,956	1,992	9.1%
TOTAL	**2,535,491**	**2,162,188**	**373,303**	**17.3%**

Balance sheet capital, regulatory capital and capital ratios

Equity increased by BGN 39,659 thousand over the period, reaching BGN 244,935 thousand. In 2025, the General Meeting of Shareholders decided not to distribute a dividend, and the profit realized in the previous year was allocated to statutory reserves. Other reserves, which reflect the revaluation reserve for real estate, the revaluation reserve for securities, and actuarial gains, increased by BGN 6,003 thousand.

EQUITY	*31.12.25*	*31.12.24*	*Change*	
Share capital	89,362	89,362	0.0%	-
Statutory reserves	97,591	63,065	54.7%	34,526
Other reserves	24,240	18,237	32.9%	6,003
Retained earnings – previous years	33,742	34,612	-2.5%	(870)
Total equity	244,935	205,276	19.3%	39,659
Total liabilities and share capital	**3,114,141**	**2,483,091**	**25.4%**	**631,050**

The regulatory own funds of Municipal Bank AD are composed entirely of Common Equity Tier 1 capital. The Bank does not use Tier 2 capital. In 2025, regulatory capital increased by BGN 34,232 thousand (a change of 17.5%), reaching BGN 229,310 thousand as of 31 December 2025.

Risk-weighted assets increased by BGN 362,397 thousand (40.6%). The change in risk-weighted assets resulted from the expansion of the Bank's business, supplemented by more stringent capital requirements. Amendments to Regulation (EU) No. 575/2013 effective from the beginning of 2025 introduced new rules for credit risk and a new model—the standardized approach to operational risk.

The total capital adequacy ratio and the Tier 1 capital adequacy ratio as of 31 December 2025 stood at 18.28% (2024: 21.87%).

Regulatory capital and ratios	*31.12.25*	*31.12.24*	*Changes*	*Changes*
Share capital	229,310	195,078	34,232	17.5%
Tier 1 Capital	229,310	195,078	34,232	17.5%
Total Risk Exposure	1,254,269	891,872	362,397	40.6%
Tier 1 Capital Ratio	18.28%	21.87%	-3.59%	
Total Capital Adequacy Ratio	18.28%	21.87%	-3.59%	

Capital Buffers

In accordance with the regulatory framework, Municipal Bank AD maintains four capital buffers – a capital conservation buffer, a systemic risk buffer, a countercyclical buffer, and an additional buffer.

The capital conservation buffer and the systemic risk buffer are applied to all banks in the country at a uniform level determined by the Bulgarian National Bank (BNB). The capital conservation buffer consists of Common Equity Tier 1 capital amounting to 2.5% of the total risk exposure amount.

The systemic risk buffer, made up of Common Equity Tier 1 capital, amounts to 3.00% of the risk exposures in Bulgaria and is aimed at preventing and mitigating the effects of long-term non-cyclical systemic or macroprudential risks that are not covered by Regulation (EU) No 575/2013.

The level of the countercyclical capital buffer is determined by the BNB for all banks on a quarterly basis, and the applicable level for 2025 is 2.0%.

Leverage

The Bank calculates and monitors the leverage ratio in compliance with Commission Delegated Regulation (EU) 2015/62. The leverage ratio represents the relationship between Tier 1 capital and the Bank's total exposure measure under the Regulation, without risk weighting. As of 31 December 2025, the leverage ratio of Municipal Bank AD is 7.36% (2024: 7.79%), compared to a minimum regulatory requirement of 3.00%.

Minimum Requirement for Own Funds and Eligible Liabilities

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is determined on the basis of, and expressed as a percentage of, the total risk exposure amount and the total exposure measure (the total exposure for the calculation of the leverage ratio) under Regulation (EU) No 575/2013 and the Act on Recovery and Resolution of Credit Institutions and Investment Firms. The Bank is required to meet the required levels under both measures simultaneously.

The MREL ratios set by the Bulgarian National Bank for Municipal Bank AD as of 31 December 2025 are 21.18% under the total risk exposure measure and 7.91% under the total exposure measure. As of 31 December 2025, the reported MREL ratios are 22.10% under the total risk exposure measure and 11.83% under the total exposure measure.

Risk Management

Municipal Bank AD maintains and further develops its internal risk management framework related to the identification, assessment, and management of risks inherent in its activities. This framework is based on rules, procedures, and limits and is aligned with applicable legal and regulatory requirements. The Bank follows a moderately conservative policy and acceptable levels of risk-taking. The principal objective is to achieve sustainable profitability by maintaining an optimal balance sheet structure and preserving a competitive market position in the country.

Risk management activities are reported to the Supervisory Board (performing the functions of a Risk Committee) and to the Management Board.

The identification, measurement, monitoring, and reporting of risks are carried out on a regular basis in accordance with the effective internal rules, procedures, and guidelines of the Bank.

The Bank's main objectives in relation to risk management are:

- Compliance with applicable regulatory and legal requirements;
- Alignment of the business plan with the Bank's risk strategy and risk appetite;
- Maintaining a moderate level of risk consistent with the risk strategy and risk appetite;
- Preservation of shareholders' capital and alignment of the Bank's business with the size and structure of capital;
- Achieving optimal diversification of invested funds in line with funding sources and the business model;
- Maintaining systems and internal controls to limit risk.

To manage and mitigate credit risk, the Bank applies the following main techniques:

- Diversification through the application of approved limits, which are reviewed and updated periodically, but not less frequently than once a year (including sectoral limits, etc.);

- Ongoing monitoring and management of the credit portfolio, including control over the emergence of early warning signals, requirements for the existence of cash flows, and collateralization of exposures;
- Periodic preparation, analysis, and reporting of the results of stress tests conducted on the Bank's credit portfolio.

Credit risk management in the Bank is carried out at the level of individual clients/groups and at the level of individual portfolios. The Bank manages non-performing exposures through their timely identification and analysis and by undertaking adequate measures aimed at the sustainable recovery of such exposures.

The governing and control bodies for credit risk management are the Impairments and Provisions Committee, the Management Board, and the Supervisory Board, which performs the functions of a Risk Committee.

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

To assess exposure to market risks arising from positions in debt and equity instruments, the Bank uses a Value at Risk (VaR) model based on the Monte Carlo simulation method. Value at Risk represents the expected loss in the value of a given portfolio over a specified confidence interval and time horizon. The assessment is based on statistical parameters derived from historical data for the assets, assuming that key market factors such as interest rates, foreign exchange rates, and securities prices vary randomly, with daily fluctuations expressed through a normal distribution. The Bank applies a VaR confidence level of 99% with a 1-day and a 10-day holding period.

In addition to the VaR analysis, the Bank develops scenarios involving shifts in interest rate curves, under which the market risk from changes in the value of fixed-income securities portfolios is assessed.

The Bank measures interest rate risk in the banking book, which includes all interest-sensitive assets, liabilities, and off-balance-sheet commitments other than those held for trading. The impact of various assumptions regarding adverse changes in interest rate levels on the Bank's income and the economic value of capital is assessed. These assumptions are reviewed regularly to ensure their relevance and adequacy. The analysis of changes in net interest income based on interest rate risk stress tests, as well as the economic value of capital under different assumptions, supports management decisions related to the implementation of the Bank's business plan.

The Bank maintains its liquidity profile in compliance with regulatory requirements and internal policies. Sound liquidity risk management and appropriate controls are key elements of effective bank management. The primary method of liquidity management is maintaining the Bank's balance sheet in terms of size, structure, and ratios that ensure the timely fulfilment of obligations at a reasonable cost and with minimal risk. The liquidity coverage ratio and the net stable funding ratio are maintained well above the regulatory thresholds.

Indicators	*2025*	*2024*
Liquidity Coverage Ratio (LCR)	407%	1,581%
Net Stable Funding Ratio (NSFR)	227%	265%

Liquidity management includes assessment and analysis of:

- the liquidity assets ratio (liquid assets / total liabilities) and the Net Stable Funding Ratio (NSFR);
- the Liquidity Coverage Ratio in accordance with Regulation (EU) No 575/2013;
- analysis of changes and concentration in attracted funds;
- conducting stress tests and analyzing the need to increase the liquidity buffer.

Activities related to the control and management of market risk, liquidity risk, and interest rate risk are reported to the relevant internal governing bodies, including the Asset and Liability Management Committee (ALCO), the Management Board, and the Supervisory Board.

Operational risk management at the Bank is carried out through a developed and implemented system for recording operational events by type, activity group, business line, risk factors, and organizational units, as well as through the aggregation and analysis of information and the analysis of risk control self-assessment data provided by the Bank's structural units.

A specialized internal body responsible for the management and control of operational risk is the Risk Events Assessment Committee, chaired by a member of the Management Board and composed of committee members.

The Supervisory Board, performing the functions of a Risk Committee, approves the Risk Strategy and defines the risk management framework of the Bank, periodically reviewing and updating it.

Municipal Bank AD continuously enhances and develops the systems applied for risk analysis, assessment, and management in line with the applicable regulatory and legal framework and sound banking practices.

Credit Rating

In July 2025, the credit rating agency Moody's Ratings upgraded the long-term deposit rating of Municipal Bank AD from Ba3 to Ba2. The outlook for the deposit rating is stable. The long-term Counterparty Risk Rating was upgraded from Ba2 to Ba1.

The agency highlights the Bank's sustainable financial performance, strong profit-generating capacity, significant improvement in profitability, and solid capital and liquidity indicators as key drivers behind the rating upgrade. In its assessment, Moody's Ratings also notes the improved macroeconomic environment in Bulgaria, including the positive effects of the country's expected accession to the Eurozone in 2026.

Intangible Resources and Explanation of How the Business Model Depends on Them and How These Resources Create Value for the Bank

The intangible resources of Municipal Bank AD play an important role in the implementation of the Bank's business strategy. The Bank consistently develops its intangible resources in several key areas with the aim of achieving sustainable growth, a stable competitive position, a strong corporate identity, and trusted customer relationships.

The Bank's corporate identity represents its market position as a recognizable and reliable financial partner for corporates, households, public sector entities, and non-profit organizations. At the same time, the Bank supports numerous social causes, public initiatives, and environmentally responsible practices.

Customer relationships focus on building and maintaining personalized business relationships with clients, providing tailored solutions, and ensuring a high level of trust and security.

In addition to trusted customer relationships, and in order to ensure more convenient and comprehensive service, the Bank develops technological functional solutions that provide secure online access to a wide range of financial products and services. Technological solutions supporting internal processes are of essential importance for the Bank's efficiency and competitive position.

Intellectual resources, sound corporate governance, and strong corporate ethics are mandatory elements for achieving the Bank's business objectives. The Bank strategically invests in the long-term training of its employees and in the continuous improvement of management processes.

This disclosure is made in accordance with Article 39, paragraph 2 of the Accountancy Act.

Bank Governance

The Bank has a two-tier governance structure consisting of a three-member Supervisory Board (SB) and a five-member Management Board (MB).

There were no changes in the composition of the Supervisory Board during 2025. As of 31 December 2025, the members of the Supervisory Board are:

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

There were no changes in the composition of the Management Board during 2025. As of 31 December 2025, the members of the Management Board are:

- Nedelcho Nedelchev – Chair of the Management Board and Executive Director
- Borislav Chilikov – Member of the Management Board and Executive Director
- Vladimir Kotlarski – Deputy Chair of the Management Board
- Stanislav Bozhkov – Member of the Management Board
- Ivaylo Ivanov – Member of the Management Board

The participation, within the meaning of Article 247, paragraph 2, item 4 of the Commercial Act, of members of the Supervisory Board and the Management Board in commercial companies as unlimited liability partners, ownership of more than 25% of the capital of another company, as well as participation in the management of other commercial companies or cooperatives as procurators, managers, or board members, is as follows:

Participation in management of the Bank as at 31.12.2025	*Holding of more than 25% of capital in:*	*Participation in management of:*
Stefan Lazarov Nenov, Chair of the Supervisory Board	MUR Bulgaria Audit OOD	MUR Bulgaria Audit OOD
Nedelcho Vasilev Nedelchev, Chair of the Management Board and Executive Director	Medical Center Neovetro OOD, Project Synergy OOD	BORICA AD
Borislav Yavorov Chilikov, Member of the Management Board and Executive Director	-	Municipal Bank Asset Management EAD
Vladimir Georgiev Kotlarski, Deputy Chair of the Management Board	Kotlarski Law Firm	Kotlarski Law Firm, Municipal Bank Asset Management EAD
Stanislav Ganev Bozhkov, Member of the Management Board	*Larior EOOD*	Municipal Bank Asset Management EAD

The remuneration of the members of the governing and supervisory bodies of Municipal Bank AD is determined in accordance with the approved "Policy for Determining the Rules and Procedures for Remuneration of a Defined Category of Employees in line with the requirements of Ordinance No. 4 of the Bulgarian National Bank," which establishes objective principles for the formation of remuneration. The remuneration paid to members of the Supervisory Board and the Management Board during 2025 amounted to BGN 3,557 thousand (2024: BGN 1,899 thousand).

During the year, the members of both boards did not acquire or transfer, and as of 31 December 2025 did not hold, shares or bonds of the Bank, nor did they have any special rights to acquire shares or bonds of Municipal Bank AD (information pursuant to Article 187d of the Commercial Act).

There are no contracts concluded within the meaning of Article 240b of the Commercial Act between members of the Supervisory Board and the Management Board, or related parties thereto, on the one hand, and the Bank, on the other hand, which fall outside the scope of the Bank's ordinary activities or materially deviate from market conditions.

Environment, Social Responsibility, and Employees

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

The Bank informs its employees and applies measures aimed at creating an environmentally friendly working environment across its branches. Energy-efficient appliances are introduced in the Bank's offices, while priorities include separate waste collection and the use of recyclable toner cartridges. The Bank utilizes equipment for automatic regulation of heating supply outside working hours. An electronic document management system has been implemented, significantly reducing the use of printed documents. An electronic self-service portal has also been introduced—an online information system for payslips and leave management—which can be used by every employee and further limits the consumption of paper and toner.

Municipal Bank AD pursues a socially responsible policy by supporting socially significant causes, as well as social, cultural, and educational initiatives. The Bank continues its mission to support regional development by assisting a number of municipalities across Bulgaria.

The Bank carries out online projects and remote qualification and training programs aimed at developing and motivating employees through increased operational efficiency of work processes and enhancement of expert competencies.

The core information system optimizes numerous processes and practices in support of building a sustainable business and reducing the Bank's carbon footprint.

Municipal Bank AD applies a Succession Policy that ensures the long-term development and preservation of best practices within the organization. The Bank's Remuneration Policy provides for sound and effective management, avoiding excessive risk-taking, and ensures the attraction, retention, and motivation of employees working towards the achievement of the institution's objectives. The policy is aligned with the requirements of Ordinance No. 4 of the Bulgarian National Bank and the guidelines of the European Banking Authority and complies with all regulatory requirements related to remuneration and its allocation.

Within the Bank's credit policy, a key focus is placed on projects supporting the development of the green economy, financing business initiatives related to energy efficiency and renewable energy sources, as well as projects in the field of environmental protection.

The Bank works with numerous educational institutions—schools and kindergartens—as well as social care homes, striving to continuously improve and provide maximum quality and accessibility of the financial products and services they use.

Improving public health is a continuous priority for the Bank. In this area, the Bank provides comprehensive banking services and financing to hospitals and healthcare institutions through the provision of financial resources, installation of POS terminals and ATMs in suitable and convenient locations, and offering preferential and competitive pricing of financial products and services.

Municipal Bank AD finances initiatives in the field of the green economy and sustainable development. The Bank supports companies operating in this area and, in the financing process of such projects, uses additional instruments to improve the collateral structure of credit transactions through cooperation with the National Guarantee Fund.

The Bank offers financing to business clients investing in the construction of photovoltaic installations for electricity generation from renewable energy sources for both own consumption and sale. Sun, water, and land are resources that are always available, and their optimal use protects the environment and guarantees lower costs for consumers.

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

Investment loans are provided for the construction of new photovoltaic installations of up to 1 MW for own consumption, combined with facilities for local energy storage (batteries).

Municipal Bank AD supports companies in the transport sector that invest in the acquisition and use of environmentally friendly vehicles and operate in accordance with policies aimed at reducing the carbon footprint.

In support of environmentally sustainable business development, the Bank actively supports companies (including recycling organizations) engaged in the collection, processing, and recycling of waste, including ferrous and non-ferrous metals, end-of-life vehicles, packaging waste, batteries, accumulators, and others. In this regard, the Bank works with numerous clients performing such activities, providing not only comprehensive banking services but also support through the issuance of bank guarantees on their behalf in favour of the Ministry of Environment and Water, in connection with their obligations under the Waste Management Act.

The Bank actively participates in improving the urban environment in various municipalities across the country by providing financing and other services to specialized companies responsible for waste collection, storage, and composting of municipal waste. Through this support, sustainable development is achieved, encouraging separate waste collection, which in the long term reduces landfill accumulation and waste dispersion in nature, preserves resources, protects the environment, and contributes to addressing climate challenges.

In carrying out its activities, Municipal Bank AD adheres to principles related to the respect for human rights and the fight against corruption and bribery.

The governing body of the Bank has developed, adopted, observes, and promotes high ethical and professional standards aimed at respecting human rights, non-discrimination, and gender neutrality. Municipal Bank AD has clear and documented policies and rules governing the implementation of these standards. The supervisory body conducts periodic reviews of their application and ensures their accurate and ethical enforcement.

The governing body of the Bank has also developed, adopted, observes, and promotes high ethical and professional standards aimed at avoiding and managing conflicts of interest, as well as preventing corruption and bribery. The relevant policies and rules define the guiding principles and provide examples of acceptable and unacceptable behavior. Employees are reminded that all activities of the institution must be carried out in compliance with applicable legislation and the Bank's corporate values. Employees are also informed of the possible internal and external disciplinary measures, legal actions, and sanctions that may be imposed in cases of inappropriate or unacceptable conduct. Employees are provided with and guaranteed the opportunity to submit reports in cases of suspected or identified misconduct by another employee, including members of senior management, with anonymity ensured.

The Bank has adopted and applies effective policies aimed at identifying, assessing, managing, reducing, or preventing existing and potential conflicts of interest at the institutional level. Adequate measures have also been implemented to mitigate conflicts of interest that could adversely affect clients' interests.

Expected and planned development of Municipal Bank AD in 2026

Municipal Bank AD is a universal commercial bank. Its business model focuses on several key areas aimed at improving profitability and efficiency, as well as enhancing adaptability and resilience to changes in the macroeconomic environment, including potential adverse developments.

To improve operational income and profitability, the Bank plans to:

- Expand lending activities in the retail banking and small and medium-sized enterprise (SME) segments, leading to an increase in market share, customer base, and a higher proportion of the loan portfolio within the Bank's total assets;

- Achieve higher returns from short-term liquidity management;
- Maintain a market-oriented, non-aggressive interest rate policy on attracted funds.

The Bank seeks protection against potential adverse effects on its debt securities portfolio arising from the projected macroeconomic developments over the strategic period. The amortized cost management model will remain the leading approach for investments in debt instruments.

Capital plan:

- Optimized use of capital resources and effective management of the risk profile;
- Development of capital capacity through organic growth by capitalizing profits; no dividend distribution is planned;
- Maintenance of adequate management buffers.

Digitalization is a key element of the Bank's development strategy. The program aims to increase the efficiency of internal processes and to offer an even broader range of services through digital channels.

Efforts will also be directed toward increasing brand recognition and renewing the corporate identity.

Financial services to municipalities represent a distinct segment within the Bank's business model. Specific requirements under the Public Finance Act apply to securing funds attracted from budgetary organizations through the blocking of Bulgarian government securities and/or cash funds at the Bulgarian National Bank in favor of the Ministry of Finance.

The business model is aligned with the Risk Strategy and the Risk Appetite Framework.

Municipal Bank AD is implementing a program of actions focused on environmental, social, and governance (ESG) factors. In its operations and risk management, the Bank will be guided by the growing societal significance of ESG considerations and the ongoing development of the regulatory framework.

Investment intermediary activity

The Bank provides investment services for the account of clients in compliance with Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments, amending Directive 2002/92/EC and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments, amending Regulation (EU) No 648/2012 (commonly referred to as MiFID II), as well as the Markets in Financial Instruments Act, Ordinance No. 38 on the requirements for the activity of investment intermediaries issued by the Financial Supervision Commission (FSC), relevant EU legislation governing investment intermediaries, and the related internal regulations adopted by the Bank.

Municipal Bank AD provides various types of investment services and activities, as well as ancillary services, in accordance with the Markets in Financial Instruments Act and the Bank's license. These include, among others: receipt and transmission of orders, execution of orders on behalf of clients, portfolio management, provision of investment advice, underwriting of financial instruments, acting as bondholders' trustee, safekeeping and administration of financial instruments on behalf of clients, including custodial services (holding clients' financial instruments and funds with a depositary institution), granting loans for transactions in financial instruments, advisory services to companies on capital structure, industrial strategy, and related matters, as well as advisory services and activities related to mergers, acquisitions, and other corporate transactions.

In providing its services and activities, the investment intermediary concludes standard agreements, fully complying with the applicable regulatory requirements, the Personal Data Protection Act, and the Anti-Money Laundering Act.

Prior to concluding any agreement, the Bank, in its capacity as an investment intermediary, informs potential clients of the General Terms and Conditions, all specific features, and the financial commitments related to the requested service, notifies them of the associated risks, performs an assessment of the appropriate investment service, and categorizes the client. The Bank retains all documentation related to the conclusion of client agreements and the execution of client orders, including all documents ensuring client identification and verification in accordance with the requirements of the Anti-Money Laundering Act and other legislation related to the prevention of money laundering and terrorist financing. The Bank also retains all documents related to the safekeeping of clients' financial instruments in a manner that guarantees their segregation from financial instruments owned by the Bank.

Information system and business processes in financial reporting

The application information systems used by the Bank provide accounting and information support for the various business processes in its operations. The core system comprises multiple modules and applications that automate banking activities. The system is client-oriented, as it records transactions with clients and provides operationally necessary customer information. Accounting entries are predominantly automatic or automated, and the information generated by the system can be aggregated at different levels.

The system provides tools for parameterizing accounting entries related to client transactions and operations. It supports the creation and maintenance of the Bank's chart of accounts, offers functionality for user administration and user-specific settings, and includes a user interface for the execution of batch processing tasks. Through the application interface, log files maintained by the system for various events of audit relevance are accessible.

The system enables parameterization of card products and batch processing of card transactions, automates the Bank's money market operations and securities transactions. For user convenience, a document management system for storing scanned documents—primarily loan agreements—is also utilized.

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

The Bank also uses application systems and modules for the accounting of low-value assets and inventory balances. To comply with specific legislation related to the prevention of terrorist financing and money laundering, a specialized application has been implemented and is in use.

In order to meet the requirements of Directive (EU) 2015/2366 (PSD2), Municipal Bank AD provides open interfaces that enable individual and corporate clients to securely share their data with banks and third-party providers offering payment initiation services, account information services, and confirmation of funds availability. Data is shared through dedicated application programming interfaces (APIs) based on the standards of the Berlin Group and the national BISTRA standard.

Processes related to human resources management, as well as the calculation and payment of remuneration under employment contracts, civil contracts, and management contracts, are fully automated.

Other information and regulatory requirements

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

The changes in the organizational structure of the Bank during 2025 are as follows:

- A new Micro and Small Enterprise Lending Directorate was established within the structure of the Head Office;
- A new Methodology Directorate was established within the structure of the Head Office;
- New departments were added within the structure of some existing directorates;
- Seven business centers were established within the structure of the Branch Network Management Directorate, with seven branches of the network being transformed into business centers.

The Methodology Directorate assumes responsibility for organizing and coordinating the preparation of internal regulatory documents in order to ensure a unified process for their development, coordination, approval, and publication. This approach guarantees the sustainability of the Bank's activities and a clear allocation of responsibilities among organizational units.

The establishment of Business Centres aims to support branches in the development of corporate business for the respective regional segments.

During the reporting period, no significant transactions were concluded that fall outside the ordinary activities of Municipal Bank AD. Additional information, beyond that presented in this report, on equity interests, major investments, and financing methods is included in the Annual Financial Statements (AFS). Detailed information on investments in the Bank's subsidiaries is disclosed in the notes to the AFS.

In the ordinary course of business, the Bank also enters into banking transactions with related parties. Transactions with related parties during the reporting period are disclosed in the notes to the AFS.

During the reporting period, there were no transactions outside the Bank's ordinary activities or that materially deviate from market terms.

There were no unusual events during the reporting period that had a material impact on the Bank's operations, revenues, or expenses.

Information on off-balance-sheet transactions is presented in the AFS and mainly includes assets under custody. Detailed information can be found in the notes to the AFS and in the liquidity risk section. As of 31 December 2025, the total amount of client assets under custody entrusted to the Bank amounts to BGN 39,198 thousand (2024: BGN 35,045 thousand).

Additional information on loans received and granted by Municipal Bank AD is disclosed in the notes to the AFS.

Municipal Bank AD did not acquire or dispose of treasury shares during 2025 and did not hold any treasury shares as of 31 December 2025.

In 2025, the Bank did not issue bonds.

The Bank does not publish forecasts of its financial results.

Municipal Bank AD has no information on arrangements that could result in future changes in the relative ownership of shares or bonds held by current shareholders or bondholders.

Information on judicial, administrative, or arbitration proceedings relating to liabilities or receivables amounting to at least 10% of the Bank's equity is presented in the AFS. As of 31 December 2025 and the date of approval of this report, no significant legal proceedings have been initiated against Municipal Bank AD. Provisions related to legal proceedings as of 31 December 2025 amount to BGN 187 thousand (31 December 2024: BGN 187 thousand).

Municipal Bank AD is not a public company within the meaning of the Public Offering of Securities Act and therefore:

- does not have an investor relations officer;
- does not have shares traded on a regulated market;
- the requirements of Annex 11 to Ordinance No. 2 of the Financial Supervision Commission do not apply.

The Bank's exposure to price risk, credit risk, liquidity risk, and cash flow risk is presented in detail in the AFS.

The audit firms auditing the Bank's annual financial statements (individual and consolidated) additionally issue a Report of Factual Findings regarding the reliability of internal control systems pursuant to Article 76(7)(1) of the Credit Institutions Act and Article 5 of Ordinance No. 14 concerning the content of the auditor's report for supervisory purposes as of 31 December 2025.

A key focus of the credit policy is projects for the development of the green economy, financing business initiatives related to energy efficiency and renewable energy sources, as well as projects in the field of environmental protection.

The Bank cooperates with numerous educational institutions—schools and kindergartens—as well as social care homes, striving on a daily basis to improve and ensure high quality and accessibility of the financial products and services they use.

Improving public health remains an ongoing priority for the Bank. In this area, the Bank provides comprehensive banking services and financing to hospitals and medical institutions through financial resources, installation of POS terminals and ATMs in convenient locations, and preferential and competitive pricing of financial products and services.

Municipal Bank AD continues to strengthen its position as a supporter of initiatives in the field of the green economy and sustainable development. The Bank supports companies in this sector and, in the financing of such projects, uses additional instruments to improve the collateral structure of credit transactions through cooperation with the National Guarantee Fund.

The Bank actively offers financing to business clients investing in the construction of photovoltaic installations for electricity generation from renewable energy sources for own consumption and sale. Sun, water, and land are resources that are always available, and their optimal use protects the environment and guarantees lower costs for consumers.

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

Investment loans are granted for the construction of new photovoltaic installations of up to 1 MW for own consumption, combined with facilities for local energy storage (batteries).

Municipal Bank AD supports companies in the transport sector that invest in environmentally friendly vehicles and operate in accordance with policies aimed at reducing carbon emissions.

In support of environmentally sustainable business development, the Bank actively supports companies (including recycling organizations) involved in the collection, processing, and recycling of waste such as ferrous and non-ferrous metals, end-of-life vehicles, packaging waste, batteries, accumulators, and others. In this context, the Bank provides comprehensive banking services and issues bank guarantees on behalf of such clients in favor of the Ministry of Environment and Water, in accordance with the Waste Management Act.

The Bank actively contributes to improving the urban environment in municipalities across the country by financing and supporting specialized companies engaged in waste collection, storage, and composting of municipal waste. This support promotes sustainable development and encourages separate waste collection, reducing landfill volumes, protecting natural resources, and contributing to climate change mitigation.

In its operations, Municipal Bank AD adheres to principles related to the respect of human rights and the prevention of corruption and bribery.

The governing body of the Bank has developed, adopted, and promotes high ethical and professional standards aimed at respecting human rights, non-discrimination, and gender neutrality. Clear and documented policies ensure their implementation, which is periodically reviewed by the supervisory body.

The governing body has also established and enforces high ethical and professional standards aimed at preventing and managing conflicts of interest, corruption, and bribery. Employees are informed about acceptable and unacceptable conduct, applicable legislation, possible disciplinary measures, and are provided with secure and anonymous whistleblowing mechanisms.

Effective policies have been adopted and implemented to identify, assess, manage, and mitigate existing and potential conflicts of interest at the institutional level, including measures to protect clients' interests.

Disclosures under Commission Delegated Regulation (EU) 2021/2178 on Environmentally Sustainable Economic Activities

Municipal Bank AD recognizes the significant public importance of environmental protection and climate risk mitigation, which are integrated into its risk management framework. The Bank supports environmentally sustainable financial activities by providing credit aligned with green financing objectives and supports clients in their transition to sustainable practices.

In line with Regulation (EU) 2020/852 establishing the EU Taxonomy framework, Commission Delegated Regulation (EU) 2021/2178 specifies the content and presentation of information on environmentally sustainable economic activities. Credit institutions disclose such information from 1 January 2022, and from 1 January 2024 disclose key performance indicators, including the Green Asset Ratio (GAR).

The Green Asset Ratio reflects the share of environmentally sustainable assets in total assets, based on disclosures under Annexes V and VI of the Regulation. General eligibility requirements include:

- Alignment with taxonomy-eligible economic activities or, for household exposures, loans contributing to environmental objectives;

- Exclusion from the numerator of exposures to enterprises not subject to non-financial disclosure requirements under Articles 19a or 29a of Directive 2013/34/EU.

Municipal Bank AD reviewed its clients and assets as of 31 December 2025 in accordance with Articles 7 and 8 of the Regulation. Based on the available data and applicable disclosure timelines, the Bank determined that as of 31 December 2025 it has no assets meeting all criteria for environmental sustainability under the relevant regulations.

Consequently, the disclosed value of environmentally sustainable assets of Municipal Bank AD as of 31 December 2025 is zero.

Events after the reporting period

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

According to the Act on the Introduction of the Euro in the Republic of Bulgaria, as of 1 January 2026, the official monetary unit and legal tender in the Republic of Bulgaria is the euro. The fixed exchange rate is BGN 1.95583 for EUR 1. The introduction of the euro as the official currency of the Republic of Bulgaria represents a change in functional currency, which will be accounted for prospectively and does not constitute an adjusting event after the reporting date.

Pursuant to Article 33 of the Act on the Introduction of the Euro in the Republic of Bulgaria, the amount of share capital of commercial companies registered in the Commercial Register, as well as the nominal value of shares in joint-stock companies, is automatically converted into euro and euro cents. The conversion is performed ex officio by the Registry Agency. As of 1 January 2026, the registered capital of the Bank was converted into EUR 45,664,395.91, distributed into 8,936,281 ordinary, registered, dematerialized, freely transferable shares, all carrying voting rights and with a nominal value of EUR 5.11 per share.

From the end of February 2026, a significant escalation of geopolitical tensions in the Middle East has been observed, including an intensification of the conflict related to Iran, leading to increased uncertainty at both regional and global levels. These developments have been accompanied by heightened volatility in energy and financial markets, as well as increased uncertainty regarding the macroeconomic environment and future economic conditions.

The Bank's management closely monitors the development of the situation and has taken into account the information available as of the date of preparation of the financial statements when forming accounting estimates and assumptions. As of the reporting date, no need has been identified for adjustments to recognized assets and liabilities or changes to the accounting policies applied, beyond the disclosures made. However, given the dynamic nature of the geopolitical environment, future developments may have an impact on the Bank's operating results, financial position, and cash flows in subsequent reporting periods.

The Bank's management declares that the attached annual separate financial statements present fairly the financial position and financial performance of the Bank as of 31 December 2025, and that the determination of the financial result for the year is in compliance with applicable legislation. Appropriate accounting policies have been applied consistently. The necessary judgments have been made in accordance with the principle of prudence in the preparation of the annual separate financial statements. Management consistently applies the applicable accounting standards, and the annual separate financial statements have been prepared on a going concern basis.

The Bank's management makes continuous efforts to maintain an appropriate accounting system that complies with applicable accounting standards. The annual separate financial statements disclose the Bank's financial position with the highest possible degree of accuracy.

All necessary measures have been taken to safeguard the Bank's assets, prevent fraud, and ensure compliance with the laws of the country and the regulations of the Bulgarian National Bank governing banking activity www.municipalbank.bg.

16.04.2026

Nedelcho Nedelchev	Borislav Chilikov
Executive Director	Executive Director

Corporate governance statement

This Corporate Governance Statement is presented in the form of a standalone report pursuant to Articles 39 and 40, paragraph 2 of the Accountancy Act and forms part of the Annual Activity Report of Municipal Bank AD.

Pursuant to Article 100n, paragraph 8 of the Public Offering of Securities Act (POSA), Municipal Bank AD informs that, as a non-public company, it has no statutory obligation to comply with the National Corporate Governance Code (NCGC) approved by the Deputy Chairperson of the Financial Supervision Commission (FSC) (with Decision No. 850-NCGC/25.11.2021, the Deputy Chairperson of the FSC supervising "Investment Activity Supervision" approved the NCGC as a corporate governance code under Article 100n, paragraph 7, item 1 in conjunction with paragraph 8, item 1 of the POSA), nor with any other corporate governance code.

Corporate governance framework

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

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

In accordance with the requirements of the Credit Institutions Act and internationally recognized practices for improving bank governance, Municipal Bank AD has adopted internal policies and regulations, which are periodically reviewed and updated as necessary, covering:

- the organizational structure of the Bank;
- the procedures for determining and delegating powers and responsibilities of administrators;
- the Bank's strategy and business plan;
- risk management and control policies;
- the preparation and scope of management information;
- the organization of operational control, including rules and procedures for approval, execution, and reporting of transactions;
- internal rules and procedures for monitoring risk and the effectiveness of control systems, and for reporting identified weaknesses in organizational units;
- systems for the prevention of money laundering and other related risks.

In line with the Bulgarian National Bank's Guidelines on Internal Governance in Banks and the Basel Committee on Banking Supervision's principles for enhancing corporate governance, the Bank has organized its structure to ensure the achievement of its objectives and effective control over their implementation.

Municipal Bank AD is a joint-stock company incorporated under Bulgarian law with a two-tier governance system, with its scope of activities defined in its Articles of Association. The Bank carries out banking activities under License No. B 16 issued by the Governor of the Bulgarian National Bank, acting as a credit institution pursuant to the Credit Institutions Act.

The Bank's governing bodies are the General Meeting of Shareholders, the Supervisory Board (SB), and the Management Board (MB). The competences, responsibilities, and interaction of these bodies are regulated in writing in the Articles of Association of Municipal Bank AD, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, and the mandates and duties of the Executive Directors.

Municipal Bank AD is not part of a group of credit institutions and is classified as a small, local bank with no systemic significance. The Bank conducts its core activities through 7 business centres, 34 branches, and 5 offices across the Republic of Bulgaria, supported by 22 structural units (directorates) within the Head Office. Independent units responsible for internal control, regulatory compliance, and risk management have been established.

Each directorate coordinates and reports its activity to a designated member of the Management Board and an Executive Director. The Bank's activities are subject to supervisory review by the Bulgarian National Bank.

Management structure

Municipal Bank AD applies a two-tier management structure consisting of a Supervisory Board and a Management Board. All members of both boards meet the statutory requirements for holding their respective positions. The functions, responsibilities, structure, and competencies of the governing bodies comply with corporate governance requirements

Supervisory board

The Articles of Association of Municipal Bank AD stipulate that the Supervisory Board consists of three members who are elected and dismissed by the General Meeting of Shareholders. Members may be re-elected without limitation.

As of 31 December 2025, the Supervisory Board comprises:

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

The personal and professional qualities and experience of Supervisory Board members are subject to review by the Bulgarian National Bank. Appointment to the Supervisory Board requires prior approval by the BNB.

Members of the Supervisory Board possess good reputation, appropriate knowledge, skills, diversified experience, integrity, and suitability in accordance with the Credit Institutions Act, Ordinance No. 20 of the BNB dated 24 April 2019, the EBA Guidelines on the suitability of members of the management body and key function holders, and the EBA Guidelines on Internal Governance.

The composition of the Supervisory Board is structured to ensure independence and impartiality in decision-making. This is evidenced by the inclusion of only independent members, exceeding the minimum requirements of national legislation.

Members of the Supervisory Board perform their duties honestly, with integrity and independence, and devote sufficient time to their responsibilities. Supervisory Board meetings are held at least once every three months, though it is standard practice for meetings to be conducted on a monthly basis.

The remuneration of Supervisory Board members is determined by the General Meeting of Shareholders. Remuneration is commensurate with their duties and responsibilities and is not linked to the Bank's performance. Compensation is fixed in nature, and Supervisory Board members do not receive any additional remuneration from the Bank.

No compensation in the form of shares or share options is provided for Supervisory Board members. Disclosure of remuneration information complies with statutory requirements and the Bank's internal regulations.

Competence and functions of the supervisory board

The Supervisory Board is a permanently operating collective body that exercises overall control over the legality and expediency of the activities of the Management Board and, through it, over the Bank's overall operations.

The Supervisory Board of Municipal Bank AD exercises supervision and, where necessary, advises the Management Board. It oversees the Bank's overall activities, including the approval of and supervision over the Bank's strategic objectives, corporate governance framework, and corporate culture.

In accordance with the EBA Guidelines on Internal Governance (EBA/GL/2017/11), the Supervisory Board performs the functions of the Nomination Committee (selection and proposal of candidates for members of the Management Board and the Supervisory Board), the Remuneration Committee, and the Risk Management and Control Committee.

The Supervisory Board has the authority to appoint and dismiss members of the Management Board and Executive Directors, as well as to approve the appointment of the Chair and Deputy Chair of the Management Board. It selects and proposes candidates for membership in the Management Board and the Supervisory Board, ensuring that the Bank's interests are safeguarded and that, to the greatest extent possible, the decision-making process is not influenced by a single individual or a group of individuals to the detriment of the Bank.

The Supervisory Board develops and proposes to the Management Board for approval a policy aimed at increasing the representation of the underrepresented gender within the boards in order to achieve diversity in the governing bodies.

The Supervisory Board is responsible for the adoption and oversight of the Bank's Remuneration Policy. It directly monitors, determines and/or oversees the remuneration of senior staff members with independent control functions, including risk management, compliance, and internal audit. It ensures the effective application of the remuneration policy with the aim of attracting, retaining, and motivating employees to contribute to the achievement of the Bank's objectives, while limiting excessive risk-taking and ensuring prudent management. The Supervisory Board verifies whether incentives under the remuneration system adequately reflect risks, capital, liquidity, the likelihood of achieving planned revenues, and their allocation over time.

In exercising supervision over the Management Board, the Supervisory Board takes into account the achievement of objectives, strategy, and risks of the Bank's activities, as well as the structure and functioning of internal risk management and control systems. It monitors the Bank's risk appetite and current risk exposure. It exercises oversight over the implementation of strategies for capital and liquidity management and for the management of all inherent risks of the Bank, assesses their compliance with the approved risk strategy, and, where necessary, provides recommendations to the Management Board on adjustments to the Bank's risk strategy. The Supervisory Board approves and periodically reviews risk strategies and policies and ensures the consistent application of the Bank's risk culture.

Approval of the Supervisory Board is required for the Management Board's decisions relating to:

1. The appointment and dismissal of procurators and commercial agents of the Bank who, by virtue of a power of attorney, are granted joint representation rights together with any Executive Director to enter into all types of transactions in accordance with the Bank's license (Order No. RD 22-0851/07.05.2007 of the Governor of the BNB);
2. The Bank's strategy and policies;
3. The Bank's business plans;
4. The Rules of Procedure of the Management Board;
5. Participation of the Bank in companies and termination of such participation if, as a result of a specific transaction, the Bank acquires or terminates control within the meaning of the Credit Institutions Act, or if the amount of the investment exceeds 5% of the Bank's equity;
6. Changes in the Bank's activities if such changes are related to amendments to the license issued by the Bulgarian National Bank;
7. Organizational changes, including the internal organization and the organizational and territorial structure of the Bank;
8. Decisions regarding the acquisition and disposal of real estate owned by the Bank and in rem rights thereto;
9. Rules adopted by the Management Board for the operation of the specialized internal audit unit and its annual activity plan;
10. The Recovery Plan, containing actions and measures that the Bank may undertake to restore its financial position in the event of financial distress;
11. As of 21 December 2017, the provision of prior approval before submission to the Management Board for the establishment of exposures and for changes in the terms of exposures to persons under Article 45(1) of the Credit Institutions Act, where the amount of the exposure exceeds the limits set out in Article 45(3) of the same Act;
12. Other decisions stipulated in the Bank's Articles of Association and the Rules of Procedure of the Management Board.

Approval by the Supervisory Board is not required for Management Board decisions under items 5 and 8 where such participations and/or properties are acquired in exchange for the Bank's receivables from loans or as a result of enforcement proceedings on such loans and are subsequently disposed of.

Management board

The Articles of Association of Municipal Bank AD stipulate that the Bank is managed and represented by a Management Board consisting of five to seven members, elected by the Supervisory Board for a term of five years.

As of 31 December 2025, the Management Board of Municipal Bank AD consists of five members, two of whom perform executive functions in their capacity as Executive Directors of the Bank, elected by the Supervisory Board following a procedure subject to approval by the Bulgarian National Bank (BNB). Members of the Management Board are proposed by the Supervisory Board in accordance with the Policy on Selection, Succession, and Suitability Assessment of Members of the Management Body and Key Function Holders (the *Policy*).

The Policy defines the key principles and rules for the identification, monitoring, and control of the systems and practices in Municipal Bank AD relating to the selection and assessment of the suitability of candidates and serving members of the Management Board and the Supervisory Board, as well as of persons holding key positions. It also ensures compliance with applicable regulatory requirements concerning their induction and training.

The Policy sets out criteria in line with the requirements of the Credit Institutions Act, BNB Ordinance No. 20 of 24 April 2019 on the approval of members of the management and supervisory bodies of credit institutions, the EBA Guidelines on the suitability of members of the management body and key function holders, the EBA Guidelines on Internal Governance, and other applicable regulations.

As of 31 December 2025, the composition of the Management Board is as follows:

- Nedelcho Vasilev Nedelchev – Chair of the Management Board and Executive Director
- Borislav Yavorov Chilikov – Member of the Management Board and Executive Director
- Vladimir Georgiev Kotlarski – Deputy Chair of the Management Board
- Stanislav Ganev Bozhkov – Member of the Management Board
- Ivaylo Rumenov Ivanov – Member of the Management Board

The members of the Management Board are experienced professionals with proven leadership qualities, which constitute a strong foundation for achieving the Bank's objectives.

The composition of the Management Board is structured to ensure effective management of the Bank's operations in compliance with generally accepted principles of managerial and professional competence.

Members of the Management Board of Municipal Bank AD perform their duties honestly and with integrity, in line with the Bank's approved strategy, policies, and risk appetite. They devote sufficient time to fulfilling their responsibilities: meetings of the Management Board are held on a weekly basis, and its members are present on a daily basis at the Bank's Head Office, where they directly monitor and control the activities of the organizational units assigned to them.

Members of the Management Board apply the "knowledge of the organization" principle, demonstrating an understanding of the Bank's operational structure and managing its development in accordance with the Bank's strategy and long-term plan. This ensures a transparent and appropriate organizational structure that avoids unnecessary or excessive complexity.

The Management Board carries out its activities in compliance with the Commercial Act, the Credit Institutions Act, and other applicable legislation, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders and the Supervisory Board, the Rules of Procedure of the Management Board, the powers and duties of the Executive Directors, and other internal regulatory documents of the Bank.

The remuneration of the members of the Management Board is determined by the Supervisory Board and is commensurate with their functions and responsibilities.

It is not envisaged that members of the Management Board shall be compensated for their activities with shares or share options.

Competence and functions of the Management board

The Management Board of Municipal Bank AD is the body that manages the Bank independently and responsibly in accordance with the established mission, objectives, and strategies. The Management Board operates in line with its Rules of Procedure approved by the Supervisory Board. Its principal function is to organize, manage, and control the Bank's activities in all matters except those falling within the competence of the General Meeting of Shareholders or the Supervisory Board.

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

In accordance with the Bank's internal regulations, certain decisions of the Management Board are subject to approval by the Supervisory Board, while others do not require such approval.

Powers of the Management Board:

1. Determines the Bank's strategy and business plan, taking into account its long-term financial interests and solvency.
2. Adopts, amends, and supplements internal regulatory documents governing the Bank's activities.
3. Decides on the opening and closing of branches, financial centres, representative offices, or offices.
4. Selects, appoints, and dismisses persons holding key positions.
5. Adopts the organizational and territorial structure of the Bank, approves the staffing schedule, defines the tasks and functions of individual units, and establishes the relationships between them and the governing bodies, as well as the decision-making procedures.
6. Decides on additional material incentives.
7. Ensures the annual closing of the financial year and the audit of the annual individual and consolidated financial statements.
8. Reviews reports and acts prepared as a result of inspections and audits conducted by the specialized internal control unit and adopts decisions based on their findings.
9. Decides on granting:

   a) loans to persons under Article 45 of the Credit Institutions Act. As of 21 December 2017, with the prior approval of the Supervisory Board, the Management Board unanimously decides on the establishment of exposures or changes in exposure terms to persons under Article 45 of the Credit Institutions Act where the exposure exceeds the limits under Article 45(3);

   b) directly or indirectly, loans, credit facilities, or guarantees in the amounts specified under Article 44 of the Credit Institutions Act to one or economically related persons.
10. Establishes, as necessary, auxiliary and advisory specialized collective bodies.
11. Decides on the acquisition of real estate, in rem rights, and other tangible assets in settlement of the Bank's outstanding receivables and disposes of such assets.

12. Convenes General Meetings of Shareholders and prepares the materials related to the agenda, ensuring implementation of the adopted resolutions.
13. Discusses and approves the quarterly, semi-annual, nine-month, and annual activity reports of the Bank.
14. Adopts and applies rules for the organization and management of the Bank, which include at least:
a) a detailed description of the managerial and organizational structure of the Bank, with clear allocation of functions and responsibilities, interrelations between units, and decision-making procedures;
b) the Bank's strategy and business plan reflecting long-term financial interests and solvency;
c) the risk management and control policy and structure, including the determination of risk appetite;
d) procedures for the preparation and scope of management information;
e) appropriate and reliable accounting and financial reporting systems, including effective financial and operational controls;
f) an effective internal control framework, including independent risk management, compliance, and internal audit functions;
g) policies for selection, appointment, induction, training, and evaluation of members of governing and supervisory bodies and persons holding key positions, including the promotion of diversity;
h) a policy for identifying, managing, and preventing conflicts of interest;
i) a whistleblowing procedure for reporting violations by employees;
j) a code of ethical conduct for administrators and employees, incorporating high ethical and professional standards appropriate to the Bank;
k) a system for training, assessment, and incentivization of senior management and staff performing control functions.

The Management Board adopts internal rules and an annual activity plan for the Compliance Directorate and the Internal Audit Directorate.

In line with the principles of good corporate governance, an open dialogue is maintained between the Supervisory Board and the Management Board of Municipal Bank AD. In addition to regular reports on performance and activities, joint meetings are held. The Management Board informs the Supervisory Board of all matters material to the Bank and provides timely information regarding business strategy, achievement of objectives, risk limits, compliance-related rules, the internal control system, and compliance with regulatory requirements and the external environment. Members of the Supervisory Board are entitled to direct contact with the Bank's management and employees.

The activities of the Management Board are supported by the Asset and Liability Management Committee, Credit Committees, the Risk Events Assessment Committee, and other internal bodies, which operate in accordance with competencies, rights, and responsibilities defined by the Bank's internal regulations.

General meeting of shareholders

The General Meeting of Shareholders of Municipal Bank AD is the highest governing body, enabling shareholders to take decisions on key matters concerning the existence and operations of the Bank. In particular, the General Meeting decides on amendments and supplements to the Bank's Articles of Association, increases and reductions of share capital, as well as the transformation or dissolution of the Bank. The General Meeting has the authority to elect and dismiss the members of the Supervisory Board and the management of the Specialized Internal Audit Unit of the Bank, to approve the annual financial statements following audit by the selected independent audit firm, to decide on the distribution of profit, the issuance of bonds, to grant discharge from liability to members of the Supervisory Board and the Management Board, and to decide on all other matters in accordance with the Bank's Articles of Association and the applicable legislation.

Audit committee

By resolution of the General Meeting of Shareholders in 2016, pursuant to Article 221, item 11 of the Commercial Act, in conjunction with Article 40e, paragraph 2 of the Independent Financial Audit Act (repealed), an Audit Committee of Municipal Bank AD was established, consisting of three members.
In compliance with the applicable regulatory requirements and pursuant to Article 107, paragraph 7 of the Independent Financial Audit Act, the Statute of the Audit Committee of Municipal Bank AD was approved at the regular Annual General Meeting of Shareholders in 2017.

As of 31 December 2025, the members of the Audit Committee are Katerina Krasimirova Shopova, Stefan Lazarov Nenov, and Yordan Vasilev Tonchev.

The legal framework governing the structure and functions of audit committees is set out in the Independent Financial Audit Act, Regulation (EU) No 537/2014, and the EBA Guidelines on Internal Governance (EBA/GL/2017/11).

The Audit Committee is a permanent, specialized, advisory, and independent body of Municipal Bank AD. It monitors the adequacy and effectiveness of financial reporting, risk management, and internal control processes, including internal audit and the work of registered statutory auditors, in compliance with applicable legislation and good practices. Members of the Audit Committee are elected and dismissed by the General Meeting of Shareholders upon a proposal from the Chair of the Management Board or the Supervisory Board. The activity of the Audit Committee is governed by the Rules of Procedure of the Audit Committee of Municipal Bank AD.

The Audit Committee has the following responsibilities:

1. Informs the Management Board and the Supervisory Board of the results of the statutory audit and explains how the statutory audit contributed to the reliability of financial reporting, as well as the role of the Audit Committee in this process;
2. Monitors the financial reporting process and provides recommendations and proposals to ensure its effectiveness;
3. Monitors the effectiveness of the internal control system, the risk management system, and the internal audit function with regard to financial reporting;
4. Oversees the statutory audit of the annual financial statements, taking into account the findings and conclusions of the Commission for Public Oversight of Registered Auditors in connection with Article 26(6) of Regulation (EU) No 537/2014;
5. Reviews and monitors the independence of the registered statutory auditors in accordance with Chapters Six and Seven of the Independent Financial Audit Act and Article 6 of Regulation (EU) No 537/2014, including the appropriateness of providing non-audit services under Article 5 of the same Regulation;

6. Is responsible for the procedure for selecting statutory auditors and recommends their appointment;
7. Notifies the Commission for Public Oversight of Registered Auditors, as well as the Management Board and the Supervisory Board, of any approvals granted under Articles 64(3) and 66(3) of the Independent Financial Audit Act within seven days of the decision;
8. Reports annually on its activities to the General Meeting of Shareholders together with the adoption of the annual financial statements;
9. Prepares and submits an annual activity report to the Commission for Public Oversight of Registered Auditors by 31 May.

As part of the auditor selection procedure for the statutory audit of the 2025 annual separate and consolidated financial statements of Municipal Bank AD—including the audit opinion under Article 37(6) of the Accountancy Act and the review and opinion regarding the reliability of internal control systems pursuant to Article 76(7) and (8) of the Credit Institutions Act—Grant Thornton OOD, jointly with RSM BG OOD, were selected as external auditors.

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

Internal audit and internal control framework

The Bank develops and continuously enhances a reliable and comprehensive framework for effective internal governance and internal control. This framework includes a clear organizational structure and well-functioning independent units for risk management, compliance, and internal audit, which are granted sufficient authority, status, and resources to perform their functions.

In accordance with applicable legislation and the EBA Guidelines on Internal Governance, the following independent organizational units have been established within the Bank:

- The Internal Audit Directorate performs internal audit activities by providing independent, objective, and impartial assessments of the effectiveness of control systems, operational organization, and compliance with applicable laws and regulations. The Head of Internal Audit is elected and dismissed by the General Meeting of Shareholders. The activities of the internal audit function are governed by the Rules of Procedure of the Specialized Internal Audit Unit.
- The Risk Directorate plays a central role in developing the Bank's risk management framework, covering all business lines and internal units, based entirely on the economic substance of the Bank's risk exposures. The framework enables fully informed decision-making regarding risk-taking. The Risk Directorate provides independent information, analyses, and expert opinions on risk exposures and advises on risk-related proposals and decisions concerning existing business lines and internal structures. It informs the management body whether such proposals comply with the Bank's risk appetite and risk strategy. The unit recommends improvements to the risk management framework and corrective measures where breaches of risk limits, policies, or procedures are identified. It actively contributes to the development of the Bank's risk strategy and ensures that effective risk management processes are in place.
- The Compliance Directorate forms part of the internal control framework, ensuring the adequate identification, measurement, and management of compliance-related risks. Its

key responsibilities include: ensuring alignment of internal rules with applicable legislation, internal regulations, and good banking practice; analyzing regulatory changes and associated risks; monitoring compliance with European and international regulations governing credit institutions and investment intermediaries; providing opinions, recommendations, and guidance; implementing preventive measures against money laundering, terrorist financing, and fraud; monitoring compliance with the Bank's Code of Ethics and preventing conflicts of interest; regularly informing management and staff about regulatory changes; conducting staff training on AML/CFT, data protection, and investment intermediary activities; participating in the development and amendment of internal rules and procedures; participating in testing new systems and applications, working groups, and reporting identified non-compliance to management.

Within the Compliance Directorate, four specialized departments operate independently: Regulatory Compliance and Complaints, Anti-Money Laundering and Counter-Terrorist Financing, Classified Information, and Operational Supervision of the Investment Intermediary, each with specific control functions. An independent Data Protection Officer function is also established within the Directorate.

Control functions are independent from the operational business units they oversee and are organizationally independent from one another, as they perform distinct roles.

As a public-interest entity under the Independent Financial Audit Act, the Bank operates an Audit Committee responsible for overseeing the effectiveness of financial reporting, risk management, and internal control processes, including internal audit and statutory auditors. The Audit Committee reports annually to the General Meeting of Shareholders together with the adoption of the annual financial statements. Its activities are regulated by the Rules of Procedure of the Audit Committee of Municipal Bank AD.

Protection of shareholders' rights

The corporate governance of Municipal Bank AD protects the rights of shareholders, depositors, and other clients of the Bank by ensuring equal treatment of all shareholders, including minority shareholders.

The governing bodies of Municipal Bank AD ensure regular and timely disclosure to shareholders of information regarding major corporate events related to the Bank's activities and financial condition, enabling the informed exercise of shareholders' rights. No restrictions are imposed on the rights of individual shareholders holding shares of the same class.

The convening of the General Meeting of Shareholders is carried out by written invitation to the shareholders in accordance with the Bank's Articles of Association, with the aim of encouraging shareholder participation in the General Meeting and in a manner that does not unnecessarily hinder or increase the cost of voting. The Bank provides shareholders with timely and sufficient information to support decision-making, taking into account the scope of the General Meeting's competencies. The invitation, together with the written materials related to the agenda of the General Meeting, is published in the Commercial Register with the Registry Agency. Upon request, the materials are provided to any shareholder free of charge.

Disclosure of information

Transparency and timely disclosure of information are key principles of corporate governance. Municipal Bank AD maintains a disclosure system in line with applicable regulatory requirements, aimed at providing timely, accurate, and comprehensible information on material events. This enables objective and informed decision-making, ensures equal treatment of information users, and prevents misuse of inside information.

The Internal Rules on the Procedure for Public Disclosure of Core Banking Information of Municipal Bank AD define the Bank's disclosure policy by regulating the content of core information subject to disclosure, the methods and procedures for ensuring publicity, the approach to assessing the adequacy of disclosures, their verification, and their frequency.

These rules are aligned with the disclosure requirements set out in the applicable regulatory framework (including Regulation (EU) No 575/2013, Directive 2013/36/EU (CRD IV / Basel III), the Credit Institutions Act, BNB Ordinance No. 7 of 24 April 2014 on the Organization and Management of Risks in Banks, BNB Ordinance No. 8 of 24 April 2014 on Capital Buffers, as well as other regulations issued by the Bulgarian National Bank), the International Financial Reporting Standards, and the Bank's internal regulations.

The rules reflect management's policy to comply with the Basel III public disclosure requirements for regulatory data, thereby supporting improved market discipline. Their focus covers both Pillar 1 requirements for measuring credit, market, and operational risks and additional disclosures that support the early identification of risks in banks.

In disclosing information, the Bank adheres to the principles of accuracy, accessibility, equal treatment, timeliness, completeness, and regularity.

Municipal Bank AD prepares this Annual Activity Report, which is subject to review by an independent external auditor and contains detailed information on the Bank's development, competitive position, financial results, achievement of objectives, business review by activity segments, as well as information on the management structure, the corporate governance framework, and risk management.

The Bank promptly discloses ad hoc information on significant events related to its activities. Such information is also published on the Bank's website in the "News" section.

Municipal Bank AD maintains a corporate website with established content and scope of disclosed information. The website provides information on the Bank's products and services, as well as key commercial and corporate information, including details on shareholding structure, governing bodies, financial statements, activity reports, and other information required under regulatory obligations.

The scope of information disclosed by Municipal Bank AD exceeds the requirements of national legislation. In addition, the Bank publishes information in the form of presentations and interviews with senior management, press releases, detailed information on its products and services, applicable general terms and conditions and tariffs, as well as any amendments thereto, and information on events and initiatives forming part of the Bank's corporate social responsibility policy.

Stakeholders

Municipal Bank AD applies a policy of transparency and engagement toward stakeholders related to its activities. These include parties who are not shareholders but have an interest in the Bank's economic development, such as creditors, bondholders, clients, employees, the public, and others.

Periodically, in compliance with legal requirements and good practices, Municipal Bank AD discloses non-financial information, including information related to the Bank's social responsibility and its participation in the public life of the country.

The Bank supports socially significant projects and initiatives.

Municipal Bank AD will continue to apply socially responsible practices in its operations and will further develop its program to support initiatives that contribute to solving specific problems and improving the quality of life and living standards of the population.

The initiatives and projects supported by Municipal Bank AD are not one-off actions but reflect long-term commitment and engagement with the sustainable economic development of society. As a socially responsible institution, the Bank strives for proactivity and consistency in its actions.

Description of the Main Characteristics of the Internal Control Systems for Risk Management Related to the Financial Reporting Process

Municipal Bank AD establishes, maintains, and develops a risk management system as part of its internal governance framework. This system ensures timely identification of risks material to the Bank, their monitoring and measurement, the implementation of control measures and risk mitigation activities, as well as regular and comprehensive reporting to the Management Board and the Supervisory Board.

The Bank aims to apply best practices in corporate governance to ensure the effectiveness of its internal governance framework in line with its approved business and risk strategy.

In accordance with the Bank's internal rules, the Supervisory Board performs the functions of a Risk Committee.

The risk management system complies with applicable regulatory and legal requirements. The Bank applies internal rules, procedures, and methodologies for risk management that define a comprehensive framework for identifying, measuring, analysing, controlling, and reporting the various types of risks to which the Bank is exposed, as well as clearly allocating responsibilities and functions.

The following risk categories are identified in the Bank's activities:

1. Credit risk, including concentration risk – the risk that the Bank will fail to collect, in whole or in part, its receivables due to a deterioration in the creditworthiness of the borrower or a decrease in the value of collateral, and the resulting increase in losses in cases of individual or sectoral concentration.
2. Market risk – the risk of losses or capital reduction resulting from adverse changes in risk factors such as interest rates, foreign exchange rates, and the value of financial instrument portfolios due to price movements.
3. Liquidity risk – the risk that the Bank may be unable to meet its obligations in a timely manner or may incur significant losses from the sale of assets in order to obtain liquid funds.
4. Interest rate risk in the banking book – the current or prospective risk to earnings (net interest income) and capital arising from adverse movements in interest rates affecting positions in the banking book, including repricing risk, yield curve risk, and basis risk.
5. Operational risk – the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events, including legal risk.

In risk measurement, the Bank distinguishes between and assesses specific (idiosyncratic) and general (systematic) risks:

- Specific (idiosyncratic) risks relate to individual exposures and are measurable. They are covered through pricing premiums and the allocation of provisions and impairments as inherent operating costs and can be managed through diversification or reduced at exposure level by requiring adequate liquid collateral.
- General (systematic) risks are probabilistic, relate to a large group or all exposures, and are associated with variations in market variables (prices, exchange rates, interest rates, etc.). These risks are covered by the Bank's risk reserves and may be managed through hedging or partially through diversification across asset classes.

The Bank's risk management policy defines the main objectives and principles of risk management, regulates the core framework of risk management activities, and is aligned with the Bank's strategic plan.

Key risk management objectives of the Bank include:

- Compliance with applicable regulatory and legal requirements;
- Alignment with the Bank's strategic plan;
- Preservation of shareholders' capital and ensuring its adequacy in relation to the scale and structure of the Bank's business;
- Achieving optimal diversification of funding sources and appropriate diversification of invested funds in line with the business model;
- Maintaining reliable systems and internal controls to limit risk.

Risk management is based on the following principles:

- Establishment of an adequate risk management framework, with regular review and updating in line with changes in the Bank's business model and strategy;
- Risk management applies to all core banking activities and operations;
- Risk management is embedded as a fundamental professional approach across all structural units of the Bank;
- Dynamic assessment of risk factor developments based on historical data and forward-looking analysis to enable timely responses to internal and external changes.

The primary responsibility for identifying, measuring, and controlling general risks lies with the Risk Management function, which works in close cooperation with other directorates and bodies and provides the Management Board and the Supervisory Board with an integrated overview of the main risks. Risk management activities are regularly reported to both boards, which oversee the Bank's risk level.

The management of specific risks inherent to particular activities is primarily carried out by the Bank's operational units and is controlled by the Risk Management function in accordance with internal rules.

An additional independent and ex-post control over risk management is carried out by the Internal Audit Directorate, which reviews and assesses the effectiveness of risk management and the overall control environment.

Disclosures pursuant to Article 10 of Directive 2004/25/EU

As of 31 December 2025, the majority shareholder Novito Opportunities Fund AGmvK holds 8,624,316 shares, representing 96.51% of the share capital of Municipal Bank AD. There were no changes in the share capital of the Bank during 2025.

Municipal Bank AD has not issued securities carrying special control rights. Shareholdings in Municipal Bank AD are not subject to restrictions on voting rights. In accordance with the provisions of the Bank's Articles of Association, resolutions of the General Meeting of Shareholders are adopted by a majority of the represented share capital, while resolutions under Article 221, items 1, 2, and 3 of the Commercial Act require a two-thirds (2/3) majority of the represented share capital.

Diversity Policy Applied to Members of the Management Body

Pursuant to the requirements of the Credit Institutions Act and BNB Ordinance No. 20 on the approval of members of the management and supervisory bodies of credit institutions and the requirements related to the performance of their functions, Municipal Bank AD has adopted and approved a Diversity Policy applicable to the members of its management body.

The Supervisory Board, acting as the Bank's Nomination Committee, adopts specific measures to meet diversity requirements for the composition of the Management Board and the Supervisory Board, including target levels relating to gender, age, education, and professional experience.

The objectives of the Bank's Diversity Policy include:

- establishing diversity aspects as key criteria in policy development and setting target levels by the Supervisory Board;
- achieving an optimal combination of personal qualities and diversity among members of the Management Board, Executive Directors, and the Supervisory Board;
- increasing the number of persons from the underrepresented gender within the Management Board and Supervisory Board, until the defined target level is reached, so that no substantial advantage is granted to either gender, provided that sufficient candidates are available; a specific target range and indicative timeframe for achievement are defined;
- applying a balanced approach to achieving diversity in board composition and in appointment criteria;
- enabling high-quality and effective decision-making by board members and ensuring that decisions of the management body are not influenced by any individual or small group of persons to the detriment of the Bank.

The Diversity Policy covers, at a minimum, the following aspects:

1. A broad and appropriate mix of knowledge, skills, education, and professional experience relevant to the position, including banking, financial services, strategic planning, finance, risk management, business and economics, corporate finance, human resources, lending, and information technology;
2. Sufficient and diverse experience in national and/or international financial institutions;
3. Appropriate and diverse qualifications for performing the functions of members of the Management Board and/or Executive Directors;
4. Maintaining a balanced gender representation within the Management Board, the Supervisory Board, and among the Executive Directors, so that no substantial advantage is given to either gender, subject to the availability of candidates;
5. Equal treatment and opportunities for staff of different genders;

6. Ensuring diversity across age groups within the Management Board, Executive Directors, and the Supervisory Board;
7. Application of additional qualitative diversity requirements to members of the Management Board, Executive Directors, and the Supervisory Board.

When selecting candidates for membership in the management body, the Supervisory Board takes into account the defined medium- and long-term target levels and the applicable timelines for achieving them.

The Supervisory Board monitors the progress toward achieving the diversity targets and timelines and, where necessary, proposes updates. It oversees the implementation of the Diversity Policy and compliance with the criteria for board diversity.

As part of the annual review process, both the Management Board and the Supervisory Board review the Diversity Policy.

To facilitate the selection of a sufficiently diverse pool of candidates for positions within the management body, the Bank also applies a diversity policy at staff level, including career planning measures and actions to ensure equal treatment and opportunities for employees of different genders.

The outcome of implementing the Diversity Policy is the creation of conditions for high-quality and effective decision-making by the Management Board and/or Executive Directors, assurance that management decisions are not influenced by any individual or small group to the detriment of the Bank, and the maintenance of a balanced gender representation within the Management Board, avoiding any significant advantage for either gender.

16.04.2026

Nedelcho Nedelchev	Borislav Chilikov
Executive Director	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 Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Municipal Bank AD (the Parent Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2025 and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2025 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS accounting standards (IFRS), as adopted by the EU and Bulgarian legislation.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and receivables from customers	
Key audit matter	**How this matter was addressed during the audit**
30Loans and receivables from customers as at 31 December 2025 represent 30% of the Group's assets with a net book value of BGN 937,140 thousand consisting of a gross book value of BGN 948,865 thousand and accumulated impairment of BGN 11,725 thousand. The Group applies impairment models based on expected credit losses in accordance with the requirements of IFRS 9 Financial Instruments. The assessment of expected credit losses from impairment of loans and receivables from customers requires the Group's management to apply a significant level of judgment in applying accounting estimates in the following areas:	We have analysed 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 Group to classify and subsequently account for loans and advances to and receivables from customers and verifying that these criteria comply with the requirements of IFRS 9 Financial Instruments; - We have reviewed and assessed the policies and procedures developed by the Group for the models for calculating the expected credit losses on loans and receivables from customers; - We have applied test of controls related to the monitoring of the loans granted established and

Impairment of loans and receivables from customers	
Key audit matter	**How this matter was addressed during the audit**
- the classification of exposures by impairment stages and identification of exposures with deterioration in credit quality; - the assumptions included in the risk parameters of the models for determining the expected credit losses, with input data obtained from internal and external sources; - the factors involved and the expected scenarios, influenced by the wide range of potential economic consequences of the negative macroeconomic development, which may have an impact on the expected credit losses. The models used are based on probability of default and expected loss given default. The model inputs, calculation methods and their application are subject to the judgement of the Group's management. We have identified the determination of impairment of the Group's loans and receivables from customers as a key audit matter due to the following factors: - the value and the moment of recognition of the impairments on the provided credits and receivables from clients; - the high degree of uncertainty in accounting estimates related to the calculation models used to measure expected credit losses. Notes 3.10, 4.2 and 21 to the consolidated financial statements provide disclosures about the judgements and assumptions made by the Group's management in arriving at the expected credit losses from impairment of the Group's loans and receivables from customers for 2025.	introduced by the Group, as well as an assessment of their operational efficiency; - We have reviewed and assessed the processes for classifying loans and determined necessary impairment on a collective basis, including changes to these processes related to regulatory changes; - We have reviewed a sample of loans and receivables from the loan portfolio and performed test of details as part of substantive procedures on the classification and value of loans and receivables from customers; - We have analysed the financial position of borrowers and examined whether there are deviations in compliance with contractual terms, taking into account the impact of macroeconomic conditions on the industries concerned, the valuation of assets provided as collateral and other factors that may affect the collectability of loans and receivables, verified on a sample basis; - for exposures impaired on a collective basis, we applied professional judgement to analyse and evaluate the key assumptions used in the application of the expected credit loss and impairment models for originated loans and customer receivables and the impact of the macroeconomic indicators and scenarios used; - Sampling analysis: the reliability and timeliness of the assessment of borrowers' credit quality; we considered the impact of economic conditions, the valuation of assets pledged as collateral, and other factors that may affect the collectability of loans and receivables from customers; and we assessed the impairments calculated by analysing the underlying assumptions; - We have prepared an assessment of the adequacy of the disclosures in the individual financial statements, including disclosures of key assumptions and judgements related to the IFRS 9 requirements for classification and impairment of financial assets and the Group's exposure to credit risk.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the Annual Consolidated Activity Report, including the Consolidated Declaration for Corporate Management, prepared by Management in accordance with Bulgarian Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Report on Other Legal and Regulatory Requirements
In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the consolidated financial statements and Auditor's Report Thereon", regarding the Annual Consolidated Activity Report, including the Declaration for corporate management, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Bulgarian Public Offering of Securities Act, applicable in Bulgaria.

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

(a) the information in the Annual Consolidated Activity Report is consistent with the consolidated financial statements for the same reporting period;
(b) the Annual Consolidated Activity Report is prepared in accordance with the applicable legal requirements;
(c) as a result of the acquired knowledge and understanding of the activities of the Group and the environment in which it operates, we have found no cases of material misrepresentation in the Annual Consolidated Activity Report;
(d) the Consolidated declaration for corporate management 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;

Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit and Assurance of Sustainability Reporting Act in relation to Article 10 of Regulation (EC) № 537/2014
In accordance with the requirements of Bulgarian Independent Financial Audit and Assurance of Sustainability Reporting Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

- Grant Thornton OOD and RSM BG OOD were appointed as joint auditors of the financial statements of Municipal Bank AD for the year ended on 31 December 2025 by the general meeting of shareholders, held on 26 June 2025, for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended on 31 December 2025 has been made for seventh consecutive year for Grant Thornton OOD and seventh 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 and Assurance of Sustainability Reporting Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit and Sustainability Assurance Act were not provided.

- We confirm that we remained independent of the Group in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Group in addition to the statutory audit, which have not been disclosed in the activity report or financial statements.

07 May 2026
Sofia, Bulgaria

Grant Thornton OOD
Audit firm, reg. No 032

Georgi Stoyanov
Registered auditor, responsible for the audit

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

RSM BG OOD
Audit firm, reg. No 173

Vladislav Mihaylov.
Registered auditor responsible for the audit

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

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	For the year ended 31.12.2025	For the year ended 31.12.2024
Interest income accounted under effective interest method	6	70,137	67,430
Other interest income	6	1,237	703
Interest expense	6	(6,821)	(4,850)
Net Interest income		**64,553**	**63,283**
Dividend income		434	277
Fees and commissions income	7	25,182	20,602
Fees and commissions expenses	7	(7,091)	(5,248)
Net fees and commissions income		**18,091**	**15,354**
Net profit on financial assets at fair value through profit or loss	8	3,355	5,614
Net gains on foreign exchange revaluation		(109)	180
Gains on sale of non-current assets	9	2,980	312
Change in fair value of investment property	26	61	(246)
Other operating income	10	1,841	1,768
Other operating expenses	11	(386)	(489)
NET OPERATING INCOME		**90,820**	**86,053**
Impairment of financial assets	12	(1,370)	(3,161)
Reversed/ (Accrued) provisions for the period	13	101	(228)
Administrative expenses	14	(48,138)	(40,759)
Depreciation and amortization	25, 27, 28	(4,196)	(3,398)
PROFIT BEFORE TAX		**37,217**	**38,507**
Income tax expense	15	(3,569)	(3,927)
PROFIT FOR THE YEAR		**33,648**	**34,580**

Nedelcho Nedelchev
Executive Director
Date: 07.05.2026

Borislav Chilikov
Executive Director

Marieta Vacheva
Chief Accountant

Audited according to auditors' report dated 07.05.2026:

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Registered auditor, responsible for the audit

Mariy Apostolov
Managing partner
Grant Thornton OOD, Audit firm, reg. No 032

Vladislav Mihaylov
Registered auditor, responsible for the audit

Vladislav Mihaylov
Managing partner
RSM BG OOD, Audit firm, Reg. № 173

Notes 1 to 44 form an integral part of these consolidated financial statements.

All amounts are presented in thousand BGN, unless otherwise stated

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended 31.12.2025	For the year ended 31.12.2024
PROFIT FOR THE YEAR		**33,648**	**34,580**
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*	1,187	1,386
Net change in the fair value of owner-occupied property		5,382	132
Revaluations of liabilities on defined benefit plans	*13.3*	9	(88)
Change in deferred taxes related to components of other comprehensive income, which will not be reclassified subsequently to profit or loss		(538)	(13)
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of debt instruments at fair value through other comprehensive income		(30)	4
Other comprehensive income for the year, net of tax		**6,010**	**1,421**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**39,658**	**36,001**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31.12.2025	As at 31.12.2024
ASSETS			
Cash on hand and cash balances with the Central Bank	16	1,054,256	751,986
Financial assets at fair value through profit or loss	17	25,221	11,906
Financial assets at fair value through other comprehensive income	18	73,230	63,735
Receivables from banks	19	128,727	255,386
Receivables from repurchase agreements	20	12,153	12,203
Loans and receivables from customers	21	937,140	690,401
Debt instruments at amortised cost	22	700,321	564,815
Current tax assets	15	7,260	101
Other assets	23	21,407	17,686
Assets acquired in foreclosure	24	12,971	12,974
Property and equipment	25	92,262	63,908
Investment property	26	38,725	29,139
Intangible assets	27	6,555	4,087
Right-of-use assets	28	3,639	4,508
TOTAL ASSETS		**3,113,867**	**2,482,835**
LIABILITIES			
Deposits from banks	29	39,122	-
Deposits from customers	30	2,534,036	2,160,750
Liabilities under repurchase agreements	31	131,846	-
Bonds issued	33	21,081	21,081
Loans from banks	32	76,873	45,990
Other loans received	34	48,188	34,892
Lease liabilities	28.2	3,798	4,687
Other liabilities	35	9,573	6,428
Current tax liabilities	15	2	5
Deferred tax liabilities	36.2	1,858	1,322
Provisions	13	1,408	1,256
TOTAL LIABILITIES		**2,867,785**	**2,276,411**
EQUITY			
Share capital	37.1	89,362	89,362
Statutory reserves	37.2	102,964	68,398
Other reserves	37.3	24,240	18,237
Retained earnings		29,516	30,427
TOTAL EQUITY		**246,082**	**206,424**
TOTAL LIABILITIES AND EQUITY		**3,113,867**	**2,482,835**

Nedelcho Nedelchev
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserves	Other reserves	Retained earnings	Total
AS AT 1 JANUARY 20234	**89,362**	**44,632**	**16,937**	**19,897**	**170,828**
Profit for the year	-	-	-	34,580	34,580
Other comprehensive income for the period, net of taxes	-	-	1,421	-	1,421
Total comprehensive income	**-**	**-**	**1,421**	**34,580**	**36,001**
Increase in statutory reserves	-	23,766	-	(23,766)	-
Derecognised revaluation reserves of non-financial assets	-	-	(121)	121	-
Other movements	-	-	-	(405)	(405)
AS AT 31 DECEMBER 2024	**89,362**	**68,398**	**18,237**	**30,427**	**206,424**
Profit for the year	-	-	-	33,648	33,648
Other comprehensive income, net of tax	-	-	6,010	-	6,010
Total comprehensive income	**-**	**-**	**6,010**	**33,648**	**39,658**
Increase in statutory reserves	-	34,566	-	(34,566)	-
Derecognised revaluation reserves of non-financial assets	-	-	(7)	7	-
AS AT 31 DECEMBER 2025	**89,362**	**102,964**	**24,240**	**29,516**	**246,082**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended 31.12.2025	For the year ended 31.12.2024
OPERATING ACTIVITIES			
Net profit before tax		37,217	38,507
Adjustments to offset net profit with net cash flows from operating activities:			
Depreciation and amortisation	25, 27, 28	4,196	3,398
Net effect of impairment of financial assets	12	1,370	3,161
Provisions for credit liabilities	13	(101)	228
Net interest income	6	(64,553)	(63,283)
Dividend income		(434)	(277)
Gain/ (loss) on sale of securities	8	(803)	(2,032)
Gain on FX trading	8	(2,279)	(3,452)
Net unrealized gain on currency revaluation on assets	8	(273)	(130)
Net unrealized loss on securities at fair value		(798)	(449)
Change in fair value of investment property	26	(61)	246
		(26,519)	**(24,083)**
Decrease/(increase) in short-term receivables from banks		160	(7,238)
(Increase) in loans and receivables from customers		(247,664)	(115,878)
Increase in deposits in banks		39,117	-
(Increase)/decrease in financial assets at fair value through profit or loss, net of reclassifications		(16,774)	5,588
(Increase) in other assets, including foreclosed assets		(3,702)	(336)
Increase of liabilities from repurchase agreements		131,823	-
Increase of deposits from customers other than credit institutions		372,858	41,634
Increase in provisions		262	77
Increase in deferred taxes	36.2	538	13
Increase in other liabilities		3,358	585
Interest received from operating activities		70,478	62,608
Interest paid from operating activities		(428)	(730)
Dividend received		434	277
Income tax paid		(10,733)	(4,521)
NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITIES		**313,208**	**(42,004)**

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CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Note	For the year ended 31.12.2025	For the year ended 31.12.2024
INVESTMENT ACTIVITY			
Cash payments for acquisition of financial assets at fair value through other comprehensive income		(6,810)	(48,342)
Cash payments for acquisition of tangible assets		(27,454)	(24,850)
Cash payments for acquisition of intangible assets		(3,380)	(919)
Cash payments for purchase of investment property		(24,176)	(8,004)
Proceeds from sale of tangible assets		2,056	471
Proceeds from sale of investment property		14,651	-
Cash payments for acquisition of financial assets at amortized cost		(404,572)	(331,599)
Loans granted to banks		(29,947)	(10,500)
Proceeds from matured and sold financial assets at amortized cost		274,716	156,799
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES		**(204,916)**	**(266,944)**
FINANCING ACTIVITY			
Lease payments	40	(1,765)	(1,686)
Loans received from banks	40	29,950	10,500
Other loans received	40	14,907	25,655
Repayment of other loans	40	(1,859)	-
Interest paid for financing activity	40	(4,613)	(3,019)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**36,620**	**31,450**
Net change in cash and cash equivalents		144,912	(277,498)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**950,713**	**1,228,211**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	39	**1,095,625**	**950,713**

Operating cash flows related to interest and fees and commissions	For the year ended 31.12.2025	For the year ended 31.12.2024
Interest received	70,414	62,608
Interest paid	(5,041)	(3,749)
Commission received	25,182	20,602
Commission paid	(7,091)	(5,248)

Nedelcho Nedelchev
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Notes 1 to 44 form an integral part of these consolidated financial statements.

1. Corporate information and main operations

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

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

As of 31 December 2025, the Parent Bank operates through a Head Office and 46 financial centres and external offices. The number of employees of the Parent Bank as of 31 December 2025 is 560 (2024: 534).

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

The financial year for the Group ends on 31 December.

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

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

The consolidated financial statements of the Group have been prepared in accordance with IFRS accounting standards as issued by the International Accounting Standards Board (IASB) and adopted 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 consolidated financial statements.

2.2. Basis for preparation

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

2.3. Macroeconomic framework

Gross domestic product increased by 3.1% in 2025, reflecting a slight slowdown compared to growth of 3.4% in 2024. In recent years, domestic consumption has been the main driver of the economy, while exports of goods and services have declined and the foreign trade balance has remained negative. Inflation (average annual change in the consumer price index) rose from 2.4% to 4.5% in 2025, following two consecutive years of decline. High employment levels supported an increase in household incomes, including in real terms, thereby stimulating private consumption.

Bulgaria's sovereign credit rating was upgraded in 2025, reflecting the country's accession to the Eurozone, which is of key importance for the economy. Bulgaria remains among the countries with a low, albeit gradually increasing, level of public debt. Challenges in recent years have included the containment of fiscal expenditure, the budget deficit and domestic inflationary pressures.

The Bulgarian banking system is resilient – funding conditions remain favourable with low interest rates, credit activity is strong, although a gradual slowdown is expected.

The European economy continues to grow, albeit at a slow pace – by 1.5% in 2025 and 1.1% in 2024, particularly among major economies such as Germany, France and Italy. Difficulties persist in narrowing the productivity gap relative to other major economic regions. Global trade tensions and military conflicts remain significant sources of uncertainty for economic activity.

Starting in mid-2024, the ECB began easing its monetary policy, implementing a series of cuts to its key interest rates from 4.00% to 2.00% by mid-2025. Against the backdrop of the war in the Middle East and the subsequent surge in energy prices, inflation expectations for 2026 have been revised upwards to 2.6%, while the forecast for annual economic growth has been lowered to 0.9%.

2.4. Going concern principle

As of the date of preparation of these consolidated financial statements, management has made an assessment of the Group'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 Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

3. Significant information about accounting policies

3.1. Overall considerations

The Bulgarian lev is the functional currency and the presentation currency in these consolidated financial statements. All amounts are presented in thousands of BGN (thousand BGN), including the comparative information for 2024, unless otherwise stated.

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

The consolidated financial statements are prepared in Bulgarian BGN, which is the Group's functional currency. All amounts are presented in thousands of BGN (thousand BGN) (including the comparative information for 2024), unless stated otherwise.

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

3.2. Consolidation principles

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

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

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

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

The companies consolidated in the financial statements of the Group as at 31.12.2025 and 31.12.2024, are:

Name of the Company	31.12.2025	31.12.2024	Consolidation method
	(%) ownership	(%) ownership	
Municipal Bank Asset Management EAD, including the funds managed by it:	100%	100%	Full consolidation
Mutual Fund "Municipal Bank – Perspective"	100%	100%	Full consolidation
Mutual Fund "Municipal Bank – Balanced"	100%	100%	Full consolidation

3.3. Comparative information

The Group presents comparative information in these consolidated financial statements for the previous year.

Where necessary, comparative data is reclassified (and recalculated) to achieve comparability with changes in performance in the current year.

3.4. Interest income and expenses

Interest income and interest expense are recognized in proportion to the time basis using the effective interest method and applying the accrual basis. Interest income and interest expenses include amortisation 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 Consolidated Statement of Profit or Loss include:

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

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

3.5. Fees and commissions

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

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

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

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

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

3.6. Net gains/(losses) on currency revaluation

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

Type of currency	31 December 2025	31 December 2024
USD	1.66355	1.88260
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.

In accordance with the amendments to IAS 21 issued by the International Accounting Standards Board in August 2023, a currency is considered to be convertible when the Group is able to obtain the other currency within a reasonable administrative timeframe and through a market or exchange mechanism in which the transaction gives rise to enforceable rights and obligations. Based on the assessment performed, the Group has concluded that, as at the respective reporting dates, it does not have material exposures to currencies for which a lack of exchangeability exists.

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

Net gains/(losses) on financial assets and liabilities at fair value through profit or loss include gains and losses on sale or changes in the fair value of those assets, exchange differences resulting from the revaluation of those assets and liabilities denominated in foreign currency, as well as the net gains from foreign exchange trading. Further information is disclosed in Note 8.

3.8. Dividends

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

3.9. Income taxes

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

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

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

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

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

3.10. Financial assets and liabilities

3.10.1. Recognition of financial assets and liabilities

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

3.10.2. Classification of financial assets

Cash on hand and in account with the Central Bank

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

Financial assets at fair value through profit or loss

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

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

Debt instruments at amortized cost

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

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

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

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

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

Purchased or originated credit impaired financial assets (POCI)
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. Loss allowances on those assets are recognized or released insofar as there is a subsequent change in the expected credit loss on the asset.

3.10.3. Classification of financial liabilities
In order to meet the minimum requirements for own funds and eligible liabilities pursuant to Articles 72a-72b of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on requirements for credit institutions and amending Regulation (EU) No 648/2012, in conjunction with Article 69a, par. 11 of the Act on the Recovery and Resolution of Credit Institutions and Investment Firms (CRRIIF), in 2025 the Group has significantly diversified its financial liabilities.

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

Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs, unless the Group 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 Consolidated Statement of profit and loss.

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

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

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

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

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

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

Default definition

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

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

- The borrower has been in financial difficulty and is unable to pay its obligations without the realization of collateral, regardless of the availability of overdue amounts and days past due;
- There is a breach of contract and the exposure is categorized as “in default“;

- The Group, for economic or contractual reasons related to the deteriorating financial condition of the client, has provided discounts that it would not have made in other circumstances;
- There is a probability that the borrower will become insolvent.

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

Restructuring measures
A concession granted to a borrower due to a deterioration in their financial condition, where any of their exposures are more than 30 days past due but less than 90 days past due, is considered a significant increase in credit risk, and the exposure is therefore classified in Stage 2.

Transfer from Stage 2 to Stage 1
A financial asset that is classified in Stage 2 due to a significant increase in credit risk is reallocated to Stage 1 when it no longer meets the allocation criteria for Stage 2. A financial asset is transferred from Stage 2 to Stage 1 once the following conditions are met:
- twenty-four months after the month in which it was restructured, there is no delay in payments on principal and / or interest for more than 30 days;
- no overdue of more than 30 days for non-negotiated and restructured exposures;
- lack of indications of deteriorating financial condition of the debtor.

Transfer from Stage 3 to Stage 2
A financial asset is transferred from Stage 3 to Stage 2 when the criteria by which the loan was classified as impaired are no longer valid. The following criteria need to be met:
- The exposure is not in default;
- The debtor's financial situation has improved to the extent that he is able to repay his debts in full and without difficulties;
- Non-performing forborne exposure which meets the following criteria 1/ One year has passed since the application of the forbearance measures; 2 / During this one year from the application of the forbearance measures on the exposure there is no delay in payments - 0 days past due.

Criteria for grouping exposures based on similar risk characteristics
The Group groups its financial instruments based on similar risk characteristics, both for the purposes of assessing a significant increase in credit risk and for the calculation of collective impairments.
The general risk characteristics used for the purposes of grouping loans are as follows:
- Type of instrument (loan exposures, guarantees, letters of credits, debt instruments, etc.);
- Type of product (e.g., investment loan, working capital loan, consumer loan, credit card, mortgage loan , revolving loan, guarantees, letters of credit, etc.);
- Type of client (individuals, corporates);
- Type of collateral (real estate, cash, receivables, etc.)

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

approximate the expected maturity of the financial instrument reliably, the Group uses the remaining agreed maturity of the financial instrument.

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

For financial assets at amortized cost, the cumulative adjustment reduces the carrying amount of the instrument in the consolidated 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 consolidated statement of financial position and the accumulated loss adjustment is reported in the consolidated statement of comprehensive income. Upon subsequent derecognition of the instrument, the cumulative adjustment is recycled to the profit or loss for the period.

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

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

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

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

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

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

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

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

Max LGL: LGD ratio estimated for uncollateralised exposures.

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

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

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

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

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

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

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

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

Wherever possible, Group measures the fair value of an instrument using the market prices of the active market for that instrument. Market is considered to be active if the transactions for this asset or liability are carried out with sufficient frequency and volume so as to provide continuous observable price information. If there is no observable market price on an active market, the Group should apply valuation techniques and mainly use appropriate observable input data and minimize the use of non-observable ones. Selected valuation techniques cover all the factors that market participants would consider when assessing the transaction.

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

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

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

Additional information in relation to the techniques of fair value measurement is presented in Note 5.

3.10.10. Reclassification of financial assets

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

3.11. Investment in subsidiaries

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

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

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

3.12. Property and equipment, intangible assets and right-of-use assets

Property and equipment and intangible assets are initially measured at cost, including acquisition cost, duties, non-refundable taxes and direct costs of preparing the assets for use.

After initial recognition, they 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.

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

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 Loss allowances.

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

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

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

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

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

The depreciation of fixed assets is calculated using the straight-line method, so that the depreciation of the fixed assets is within the estimated useful life. The Group applies the following annual depreciation rates for 2025 and 2024:

	2025	2024
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 rights for use, but not less than 12 months	according to the duration of the rights for use, but not less than 12 months

The Group does not have intangible assets with indefinite useful lives. The Group has not determined a residual value in the above asset categories.

3.13. Investment properties

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

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

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

3.14. Foreclosed assets

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

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

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

Impairment of these assets is calculated in accordance with the Group's accounting policy based on the expected realisation of the assets acquired from collateral. Impairment of assets acquired from collateral is included in the consolidated statement of profit or loss. The Group's management considers that the carrying amount of the assets acquired from collateral represents the best estimate of their net realisable value at the consolidated statement of financial position date Both as at 31 December 2025 and 31 December 2024 there is no impairment of such assets. Further information is presented in note 24.

3.15. Provisions

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

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

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

Other provisions include retirement provisions as disclosed in Note 3.16.2.

3.16. Employee benefits

3.16.1. Termination benefits

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

3.16.2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net 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 Group has an obligation to pay a retirement income to those of its employees who retire in accordance with the requirements of Article 222, § 3 of the Labour Code (LC) in Bulgaria. According to these provisions of the LC, when a labour contract of a employee who has acquired a pension right is ended, the Group is required to pay them compensations amounting to two gross monthly salaries. In case the employee's length of service in the Group equals to or is greater than 10 or more years in the 20 last years of his employment, as at retirement date, then the compensation amounts to six gross monthly salaries.

3.16.3. Short-term employee benefits

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

3.17. Leases

3.17.1. The Group as a lessee

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

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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

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

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

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

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

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

3.17.2. The Group as a lessor

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

A lease is classified as a finance lease if it transfers substantially all the risks and rewards essentially 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 Group's consolidated statement of financial position and are depreciated in accordance with the depreciation policy adopted for such assets of the Group and the requirements of IAS 16 Property, Plant and Equipment. The Group generates rental income under operating lease agreements for its investment properties (check Note 10, 26). Rental income is recognized on a straight-line basis over the term of the lease.

Assets leased out under finance leases are recognized in the Group's consolidated 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 consolidated statement of profit or loss for the period. Recognition of financial income is based on a model that reflects a constant periodic rate of return on the residual net investment.

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

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

In the preparation of the presented Consolidated Financial Statements the significant judgments of the management in applying the accounting policies of the Group and the main sources of uncertainty of the accounting estimates do not differ from those disclosed in the Group's Consolidated Financial Statements as at 31 December 2024.

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

Uncertainty in assumptions and estimates
Information 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.

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

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

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

Measurement of expected credit losses
Credit losses are the difference between all contractual cash flows due to the Group and all cash flows that the Group expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Group'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 real estate - land and buildings used in the Group's operations and investment properties
As at 31 December 2025, in accordance with the accounting policy adopted, the Group has carried its property used in operations at revalued amount and its investment properties at fair value as determined by licensed independent valuers. Further information is provided in the 5, 25 and 26.

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

Term of lease contracts

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

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

Determination of the appropriate discount rate to measure lease liabilities

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

3.19. New or amended standards and interpretations

3.19.1. New standards adopted as 1 January 2025

The Group has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board and endorsed by EU, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning 1 January 2025, but do not have a significant impact on the Group's consolidated financial results or consolidated financial position:

- Amendments to IAS 21 "The effects of changes in foreign exchange rates: Lack of exchangeability", effective from 1 January 2025, adopted by the EU

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

At the date of authorisation of these consolidated 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 2025 and have not been applied early by the Group. They are not expected to have a material impact on the Group's consolidated financial statements. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. A list of the changes in the standards is provided below:

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7), effective from 1 January 2026, adopted by the EU
- Amendments to IFRS 9 and IFRS 7 Contracts Referencing Nature-dependent Electricity, effective from 1 January 2026, adopted by the EU
- IFRS 19 Subsidiaries without Public Accountability: Disclosures, effective from 1 January 2027, not yet adopted by the EU
- Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures, effective from 1 January 2027, not yet adopted by the EU
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, effective from 1 January 2027, not yet adopted by the EU.

IFRS 18 Presentation and Disclosure in Financial Statements effective from 1 January 2027, adopted by the EU is expected to have a material effect on the presentation of information in the Group's financial statements.

IFRS 18 aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 Statement of Cash Flows. IFRS 18 is effective from 1 January 2027. Companies are permitted to apply IFRS 18 before that date. IFRS 18 replaces IAS 1 Presentation of Financial Statements. Requirements in IAS 1 that are unchanged have been transferred to IFRS 18 and other Standards. IFRS 18 will affect all companies in all industries. Although IFRS 18 will not affect how companies measure financial performance, it will affect how companies present and disclose financial performance. IFRS 18 aims to improve financial reporting by:

- requiring additional defined subtotals in the statement of profit or loss. Adding defined subtotals to the statement of profit or loss makes companies' financial performance easier to compare and provides a consistent starting point for investors' analysis.
- requiring disclosures about management-defined performance measures. Requiring companies to disclose information about management-defined performance measures increases discipline over their use and transparency about their calculation.
- adding new principles for grouping (aggregation and disaggregation) of information. Setting out requirements on whether information should be in the primary financial statements or the notes and providing principles on the level of detail needed improves effective communication of information.

4. Risk management

4.1. Risk framework

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

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

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

4.2. Credit risk

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

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

4.2.1. Credit risk management

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

The credit risk management activity include:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control;
- Identifying, assessing, and measuring credit risk for each consolidated exposure, as well as on a portfolio level;

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

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

4.2.2. Significant increase in credit risk

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

4.2.3. Internal credit ratings

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

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

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

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

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

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

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

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

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

4.2.4. Measurement of ECL

The key inputs used for measuring ECL are:

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

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

4.2.5. Groupings based on similar risks characteristics

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

Grouping is based on the following criteria:

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

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

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

Credit risk, measured as the probability of default (PD) of loans included in the collective impairment model as at 31 December 2025, can be presented as follows:

Stage	Min PD	Max PD	Consumer	Mortgage	Corporate	Total
Stage 1	0.59%	1.70%	97,695	130,687	708,402	936,784
Stage 2	1.48%	34.97%	417	578	134	1,129
Stage 3		100.00%	1,192	1,240	8,520	10,952
			99,304	**132,505**	**717,056**	**948,865**

The main factors affecting the amount of impairment expenses for collectively assessed credit exposures are the values of the Probability of Default (PD) and Loss Given Default (LGD) parameters. The sensitivity of the collective assessment model parameters for loans and receivables from customers is presented in the table below.

	Consumer BGN'000	**Mortgage BGN'000**	**Corporate BGN'000**	**Total BGN'000**
1% change in PD	981	1,313	7,085	9,379
1% change LGD	993	13	1,519	2,525

The data represent the change in impairment expense resulting from a 100 bps (1%) change in the respective parameter.

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 Group 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	AAA	AAA	-
Aa1	AA+	AA+	
Aa 2	AA	AA	-
Aa 3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa 1	BBB +	BBB+	1
Baa 2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba 1	BB +	BB +	2
Ba 2	BB	BB	
Ba3	BB-	BB-	
B 1	B+	B+	3
B 2	B	B	
B3	B-	B-	

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

Official rating			Maximum eligible internal rating of corresponding bank
Moody's	Standard & Poor's	Fitch IBCA	
Caa Ca	CCC+ CCC CCC- CC	CCC CC C DDD DD	4
C	C	D	5

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

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

Official rating	As at 31.12.2025	As at 31.12.2024
AA	3,249	2,608
AA-	8,914	8,499
A+	918	24,017
A	-	-
A-	21,809	10,394
BBB+	15	42,528
BBB	-	63,068
BBB-	-	-
BB+	-	18,001
BB-	-	16,001
B	-	8,001
TOTAL EXPOSURE	**34,905**	**193,117**

Changes in the assigned ratings of counterparty banks by international credit rating agencies are monitored on a regular basis, and the established exposure limits to counterparty banks are adjusted where necessary.

The Group adheres to approved limits expressed as a percentage of the capital base (equity) in order to control counterparty risk and concentration risk when placing or investing funds in various instruments issued by domestic or foreign financial institutions, in line with the issuer's assigned international credit rating.

For the calculation of expected credit losses on loans and advances to banks measured at amortised cost, the parameters used include the probability of default and loss given default corresponding to the rating of each counterparty, in accordance with Moody's annually published report.

Concentration risk

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

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

Cash balances with the central bank and receivables from banks

	As at 31.12.2025	As at 31.12.2024
Concentration by sector		
Central banks	976,446	726,141
Bulgarian commercial banks	94,127	189,119
Foreign commercial banks	34,890	66,580
	1,105,463	**981,840**
Expected credit losses	(290)	(313)
TOTAL	**1,105,173**	**981,527**

Concentration by region	As at 31.12.2025	As at 31.12.2024
Europe	1,096,663	973,672
America	8,800	8,168
	1,105,463	**981,840**
Expected credit losses	(290)	(313)
TOTAL	**1,105,173**	**981,527**

Loans and receivables from customers

The breakdown by sector and industry is presented in the Note 21. Geographically, all loans granted and receivables from customers as at 31 December 2025 and 2024 are in the Europe region.

To control the concentration risk of loans to non-bank customers, the Group has established internal industry and regional limits - each industry has a separate limit according to the Group's risk appetite and strategy, as well as a limit for exposures to companies performing parallel banking activities up to 20% of the capital base.

Debt instruments at amortised cost

	As at 31.12.2025	As at 31.12.2024
Concentration by sector		
Government	681,179	545,526
Bulgarian enterprises	19,772	19,772
	700,951	**565,298**
Expected credit losses	(630)	(483)
TOTAL	**700,321**	**564,815**

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 2025 and 2024, the Group has no investments in high-risk countries.

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

	As at 31.12.2025				As at 31.12.2024
Cash balances with the central bank and resources and advances to banks	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Central banks	976,446	-	-	976,446	726,141
Banks with investment rating	41,914			41,914	157,475
Banks with non-investment rating	87,103			87,103	98,224
Total gross carrying amount	**1,105,463**	-	-	**1,105,463**	**981,840**
Loss allowance	(290)	-	-	(290)	(313)
Total carrying amount	**1,105,173**	-	-	**1,105,173**	**981,527**

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

Receivables from repurchase agreements	As at 31.12.2025 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2024 Total
Corporate clients	12,204	-	-	12,204	12,203
Total gross carrying amount	**12,204**	-	-	**12,204**	**12,203**
Loss allowance	(51)	-	-	(51)	-
Total carrying amount	**12,153**	-	-	**12,153**	**12,203**

Loans and receivables from customers	As at 31.12.2025 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2024 Total
Corporate customer: Standard	556,575	134	8,442	565,151	386,023
Corporate customer: Revolving	151,827	-	78	151,905	140,320
Individuals: Mortgages	130,687	578	1,240	132,505	84,743
Individuals: Standard	96,288	404	1,157	97,849	88,461
Individuals: Revolving	1,407	13	35	1,455	1,331
Total gross carrying amount	**936,784**	**1,129**	**10,952**	**948,865**	**700,878**
Loss allowance	(5,803)	(99)	(5,823)	(11,725)	(10,477)
Total carrying amount	**930,981**	**1,030**	**5,129**	**937,140**	**690,401**

Loan commitments and guarantees	As at 31.12.2025 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2024 Total
Loan commitments	60,704	11	12	60,727	67,074
Financial guarantee contracts and letters of credit	90,726	-	25	90,751	89,061
Total loan commitments and guarantees	**151,430**	**11**	**37**	**151,478**	**156,135**
Provisions	**307**	-	**5**	**312**	**413**

Debt instruments at amortised cost	As at 31.12.2025 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2024 Total
Bulgarian government bonds	660,258	-	-	660,258	442,843
Bulgarian municipal bonds	20,921	-	-	20,921	24,818
Bonds of foreign banks	-	-	-	-	-
Bonds of local enterprises	19,772	-	-	19,772	19,772
Foreign government bonds	-	-	-	-	77,865
Total gross carrying amount	**700,951**	-	-	**700,951**	**565,298**
Loss allowance	(630)	-	-	(630)	(483)
Total carrying amount	**700,321**	-	-	**700,321**	**564,815**

Receivables from banks	As at 31.12.2025 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	As at 31.12.2024 Total
Nostro accounts with banks	14,132	-	-	14,132	23,396
Deposits granted with banks	27,242	-	-	27,242	175,506
Loans granted to banks	87,103	-	-	87,103	56,221
Guarantee deposits with Mastercard Inc. and Visa	540	-	-	540	576
Total gross carrying amount	**129,017**	-	-	**129,017**	**255,699**
Loss allowance	(290)	-	-	(290)	(313)
Total carrying amount	**128,727**	-	-	**128,727**	**255,386**

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 2025 is BGN 25,221 thousand (2024: BGN 11,906 thousand).

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

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

Loss allowance

	As at 31.12.2025	As at 31.12.2024
Resources and advances provided to banks	290	313
Loans and receivables from customers	11,725	10,477
Debt instruments at amortised cost	630	483
Loan commitments and financial guarantee contracts	312	413
TOTAL	**12,957**	**11,686**

The tables below analyse the movement in Loss allowance in 2025 and 2024 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 2025	**4,739**	**68**	**5,670**	**10,477**
Change in Loss allowance				
- Transfer to Stage 1	14	(14)	-	-
- Transfer to Stage 2	(2)	60	(58)	-
- Transfer to Stage 3	(15)	(37)	52	-
- Increase due to change in credit risk	195	57	449	**701**
- Decrease due to change in credit risk	(750)	(56)	(1,047)	**(1,853)**
- Repayments	(527)	(1)	(248)	**(776)**
New financial assets originated or purchased during the period	2,149	22	1,005	**3,176**
Loss allowance at 31 December 2025	**5,803**	**99**	**5,823**	**11,725**

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 2024	**2,811**	**133**	**5,092**	**8,036**
Changes in the Loss allowance				
- Transfer to stage 1	44	(40)	(5)	**(1)**
- Transfer to stage 2	(1)	6	(6)	**(1)**
- Transfer to stage 3	(1)	(17)	18	-
- Increases due to change in credit risk	1,236	19	1,028	**2,283**
- Decreases due to change in credit risk	(203)	(16)	(338)	**(557)**
- Repayments	(982)	(30)	(1,947)	**(2,959)**
New financial assets originated or purchased during the period	1,835	13	1,828	**3,676**
Loss allowance as at December 2024	**4,739**	**68**	**5,670**	**10,477**

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

The tables below analyse the movement of the expected credit losses in 2025 and 2024 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 2025	**385**	-	**8**	**393**
Changes in the Loss allowance				
Transfer to stage 2	-	3	(3)	-
– Increases due to change in credit risk	25	-	-	25
– Decreases due to change in credit risk	(136)	(3)	(1)	(140)
New financial assets originated or purchased	114	-	-	114
Financial assets written off during the period	(100)	-	-	(100)
Loss allowance as at 31 December 2025	**288**	-	**4**	**292**

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 2024	**141**	**-**	**25**	**166**
Changes in the Loss allowance				
Transfer to stage 1	2	-	(2)	-
– Increases due to change in credit risk	5	-	4	9
– Decreases due to change in credit risk	(65)	-	(16)	(81)
New financial assets originated or purchased	359	-	-	359
Financial assets written off during the period	(57)	-	(3)	(60)
Loss allowance as at 31 December 2024	**385**	**-**	**8**	**393**

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 2025	**20**	**-**	**-**	**20**
Change in the Loss allowance	**(1)**		**1**	**-**
New financial assets originated or purchased	-	-	-	-
Financial assets that have been repaid	-	-	-	-
Loss allowance as at 31 December 2025	**19**	**-**	**1**	**20**

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 2024	**8**	**-**	**-**	**8**
Change in the Loss allowance				
New financial assets originated or purchased	12	-	-	12
Financial assets that have been repaid	-	-	-	-
Loss allowance as at 31 December 2024	**20**	**-**	**-**	**20**

More information about significant changes during 2025 and 2024 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**
Loss allowance as at 1 January 2025	**690,222**	**898**	**9,758**	**700,878**
Change in Loss allowance				
- Transfer to Stage 1	193	(188)	(5)	-
- Transfer to Stage 2	(355)	433	(78)	-
- Transfer to Stage 3	(2,731)	(177)	2,908	-
Increase due to change in credit risk	430,916	508	1,069	432,493
Decrease due to change in credit risk	(181,461)	(345)	(2,700)	(184,506)
Repayments	**936,784**	**1,129**	**10,952**	**948,865**
New financial assets originated or purchased during the period	(5,803)	(99)	(5,823)	(11,725)
Loss allowance at 31 December 2025	**930,981**	**1,030**	**5,129**	**937,140**

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Gross carrying amount as at 1 January 2024	**570,865**	**1,765**	**12,666**	**585,296**
Changes in the gross carrying amount				
- Transfer to stage 1	803	(781)	(22)	-
- Transfer to stage 2	(562)	708	(146)	-
- Transfer to stage 3	(262)	(227)	489	-
New financial assets	353,052	36	3,308	356,396
Repaid	(233,674)	(603)	(6,948)	(241,225)
Write-offs	-	-	411	411
Gross carrying amount as at 31 December 2024	**690,222**	**898**	**9,758**	**700,878**
Loss allowance 31 December 2024	(4,739)	(68)	(5,670)	(10,477)
Carrying amount as at 31 December 2024	**685,483**	**830**	**4,088**	**690,401**

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

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 (LTV)	As at 31.12.2025	As at 31.12.2024
Less than 50%	28,293	17,175
51% to 70%	39,290	25,119
71% to 90%	49,290	36,695
91% to 100%	4,206	6,013
More than 100%	7,714	986
TOTAL	**128,793**	**85,988**

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.

As at 31 December 2025 the net carrying amount of loans and receivables from corporate clients amounting to BGN 660,905 thousand (2024: BGN 465,680 thousand), and the value of the related collateral is amounting to BGN 3,724,787 thousand (2024: BGN 2,643,983 thousand).

Investments in securities

The Group holds investments in debt securities measured at amortised cost with a carrying amount of BGN 564,815 thousand, investments measured at fair value through other comprehensive income with a carrying amount of BGN 73,230 thousand, and investments measured at fair value through profit or loss with a carrying amount of BGN 25,221 thousand. As at 31 December 2024, the investments in debt securities measured at amortised cost comprise government, municipal and corporate bonds; the investments measured at fair value through other comprehensive income comprise debt and equity instruments; and the investments measured at fair value through profit or loss comprise equity instruments, as well as government and corporate bonds.

4.3. Market risk

The Group is exposed to market risk, which is the risk of unfavourable changes in the market conditions, such as changes in interest rates, equity instrument prices or foreign currency exchange rates, that would affect the income, or the value of the financial instruments held by the Group. Market risk management is carried out in

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

accordance with internal bank regulations, which provide for appropriate allocation of decision-making responsibilities, information system, monitoring system, system of limits for control and mitigation of this type of risk.

4.3.1. Currency risk

The Group also operates in foreign currencies and is therefore exposed to the impact of fluctuations in exchange rates. The Group manages its foreign currency exposure on a daily basis to comply with the Central Bank's regulatory requirements in order to meet the currency open position limits and net open position. Following the introduction of the Currency Board in Bulgaria, the Bulgarian lev is pegged to the Euro. The Group prepares its financial statements in Bulgarian lev, therefore the statements are affected by movements in the exchange rates of currencies outside the Eurozone.

The table below presents the exposure to changes in foreign exchange rates as at 31 December 2025, which includes the Group's assets and liabilities at carrying value by currency type:

	EUR	USD	BGN	Other currencies	Total
Assets					
Cash and balances with the Central Bank	143,326	1,010	909,142	778	1,054,256
Financial assets at fair value through profit or loss	20,296	-	4,925	-	25,221
Financial assets at fair value through other comprehensive income	58,567	6,804	7,859	-	73,230
Receivables from banks	23,511	25,325	72,376	7,515	128,727
Receivables from repurchase agreements	-	-	12,153	-	12,153
Loans and receivables from customers	371,116	85	565,939	-	937,140
Debt instruments at amortised cost	95,107	-	605,214	-	700,321
Other assets	1,350	-	20,057	-	21,407
Assets acquired in foreclosure	-	-	12,971	-	12,971
Property and equipment	-	-	92,262	-	92,262
Investment properties	-	-	38,725	-	38,725
Intangible assets	-	-	6,555	-	6,555
Right-of-use assets	-	-	3,639	-	3,639
Current tax assets	-	-	7,260	-	7,260
TOTAL ASSETS	713,273	33,224	2,359,077	8,293	3,113,867
Liabilities					
Deposits from credit institutions	39,122				39,122
Deposits from other customers	362,815	33,168	2,129,777	8,276	2,534,036
Liabilities under repurchase agreements	131,846	-	-	-	131,846
Loans received from banks	20,495	-	56,378	-	76,873
Bonds issued	-	-	21,081	-	21,081
Other loans received	17,647	-	30,541	-	48,188
Lease liabilities	-	-	3,798	-	3,798
Provisions	100	-	1,308	-	1,408
Other liabilities	958	25	8,589	1	9,573
Current tax liabilities	-	-	2	-	2
Deferred tax liabilities	-	-	1,858	-	1,858
TOTAL LIABILITIES	572,983	33,193	2,253,332	8,277	2,867,785

As at 31 December 2025 the Group's exposures in foreign currency assets and liabilities other than BGN and EUR are respectively 1.33% and 1.45% of the total assets and liabilities.

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

The table below presents the foreign exchange rates risk as at 31 December 2024, including the Group's assets and liabilities at carrying amount broken down by currency

	EUR	USD	BGN	Other currencies	Total
Assets					
Cash and balances with central banks	56,035	974	694,483	494	751,986
Financial assets at fair value through profit or loss	9,166	-	2,740	-	11,906
Financial assets at fair value through other comprehensive income	-	7,317	56,418	-	63,735
Receivables from banks	33,286	26,655	188,045	7,400	255,386
Receivables under repurchase agreements	-	-	12,203	-	12,203
Loans and receivables from customers	163,846	407	526,148	-	690,401
Debt instruments at amortised cost	117,914	-	446,901	-	564,815
Other assets	668	-	17,018	-	17,686
Assets acquired in foreclosure	-	-	12,974	-	12,974
Property and equipment	-	-	63,908	-	63,908
Investment properties	-	-	29,139	-	29,139
Intangible assets	-	-	4,087	-	4,087
Right-of-use assets	-	-	4,508	-	4,508
Current tax assets	-	-	101	-	101
TOTAL ASSETS	380,915	35,353	2,058,673	7,894	2,482,835
Liabilities					
Deposits from other customers	360,594	34,881	1,757,390	7,885	2,160,750
Deposits from banks	-	-	45,990	-	45990
Bond issued	-	-	21,081	-	21,081
Loans received from clients	13,104	-	21,788	-	34,892
Lease liabilities	-	-	4,687	-	4,687
Provisions	76	1	1,179	-	1,256
Other liabilities	399	14	6,014	1	6,428
Current tax liabilities	-	-	5	-	5
Deferred tax liabilities	-	-	1,322	-	1,322
TOTAL LIABILITIES	374,173	34,896	1,859,456	7,886	2,276,411

As at 31 December 2024 the Group's exposures in foreign currency assets and liabilities other than BGN and EUR are respectively 1.74% and 1.88% of the total assets and liabilities.

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

4.3.2. Interest rate risk

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

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

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

	2025			2024		
	Variable interest rate	Fixed interest rate	Total	Variable interest rate	Fixed interest rate	Total
Assets						
Financial assets at fair value through profit or loss	-	14,874	14,874	-	11,244	11,244
Financial assets at fair value through other comprehensive income	-	58,568	58,568	-	49,387	49,387
Receivables from banks	-	129,017	129,017	-	255,699	255,699
Receivables under agreements with a buy-back clause	-	12,204	12,204	-	12,203	12,203
Loans and receivables from customers	908,547	40,318	948,865	669,776	31,102	700,878
Debt instruments at amortised cost	35,411	665,540	700,951	21,445	543,853	565,298
Total assets	943,958	920,521	1,864,479	691,221	903,488	1,594,709
Liabilities						
Deposits from banks	-	39,122	39,122	-	-	-
Deposits from customers	-	2,534,036	2,534,036	-	2,160,750	2,160,750
Liabilities under repurchase agreements	-	131,846	131,846	-	-	-
Loans received from banks	-	76,873	76,873	-	45,990	45,990
Bonds	-	21,081	21,081	-	21,081	21,081
Other loans received	-	48,188	48,188	-	34,892	34,892
Lease liabilities	3,798	-	3,798	4,687	-	4,687
Total Liabilities	3,798	2,851,146	2,854,944	4,687	2,262,713	2,267,400

The change in the annual interest income of the Group at 200 bp. change in the interest rate curve is BGN 119 thousand (2024: BGN 885 thousand) or 0.05% (2024: 0.45%) of the capital base.
To assess the interest rate risk in a 200 bps interest rate change scenario. The Group records both the effect on annual net interest income and the change in the fair value of securities in profit and loss of BGN 1,312 thousand. The total effect on the financial result would be a negative change of BGN 1,193 thousand which is 0.52% of the Group's capital.

EURIBOR is a reformed interest rate benchmark that will not be discontinued; therefore, the Group is not required to make any changes in relation to financial instruments whose interest income is based on this benchmark, as EURIBOR continues to comply with the regulatory requirements for qualification as a reference interest rate.
The IBOR reform exposes the Group to various risks, which are limited in nature and can be summarised as follows:

- Conduct risk, arising from discussions with customers and market counterparties due to the amendments required to existing contracts that fall within the scope of the reform;
- Financial risk for the Group and its customers that markets may be disrupted as a result of the IBOR reform, potentially leading to financial losses;
- Pricing risk, arising from a potential lack of market information if IBOR liquidity declines and risk-free rates (RFRs) are illiquid and unobservable;
- Operational risk, arising from changes to the Group's IT systems and processes, as well as the risk of payment disruptions if an IBOR ceases to be available.

4.3.3. Price risk

To control price risk, a limit is set for maximum exposure to foreign corporate bonds as a percentage of the capital base. The Group enters into transactions with foreign corporate bonds only if the bonds have been assigned a credit rating by one of the following international rating agencies - Standard & Poor's; Moody's; Fitch Ratings according to a specified scale depending on the type of issuer (banks and non-bank financial institutions and commercial corporations), at the highest security or low risk level of the respective rating.

The Group observes an established limit for trading in corporate equity securities issued by Bulgarian commercial companies, defined as a percentage of the capital base, as well as stop-loss levels/limits..

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

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

The value at risk (VaR) over a one-day period with a 99% confidence interval by risk category of debt and equity instruments measured at fair value is as follows:

Risk category	As at 31.12.2025	As at 31.12.2024
Interest rate risk	267	384
Price risk in equity instruments	244	176
Foreign currency risk	89	66
VAR Cumulative*	**388**	**441**

* Includes diversification among risk exposures

The following table shows the dynamics in 2025 of the Value at Risk (VaR) for a one-day holding period with a 99% confidence interval.

		Risk category		
	VAR Cumulative*	**Interest rate risk**	**Price risk in equity instruments**	**FX risk**
Average	422	316	221	85
Minimum	385	263	172	66
Maximum	454	378	248	97

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

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

Value at Risk (VaR) – basics

The Group uses a model to determine potential changes in the market value of the securities portfolio at fair value. The VaR model, using the Monte Carlo method, is designed to measure market risk by presenting the maximum future loss under normal market conditions that will not be exceeded with a certain degree of probability (confidence interval) for a specified period of time (holding period). The model, based on the cited method, relies on the simulation of a large number of random sets of market data and the determination of the distribution of asset values under these data.

The calculations using the chosen method go through several main stages:

1. Key factors are determined - those that affect the value of the portfolio, such as interest rate points (1 interest rate point = 0.01%), stock prices or underlying instruments (for derivatives), exchange rates, etc.
2. Generation of a correlation matrix and a volatility vector for the determining market factors based on their historical values over a one-year observation period. The matrix and vector are used to generate a large number of random scenarios for future changes in market factors.
3. The generated scenarios are used to simulate and calculate the expected change in the value of market instruments and portfolios, considering the effect of diversification between assets. The generated scenarios for the respective risk factors allow for the formation of the price distribution (price histogram) of the expected values of the instruments (portfolios), with the expected value of the distribution obtained from the average value of the respective price series. The price series are sorted from highest to lowest value, and the corresponding chosen confidence interval is applied.

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

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

4.3.4. Liquidity risk

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

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

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

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

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

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

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

The stress scenarios take into account the occurrence of a liquidity shortage as a result of both external factors for the Group and internal ones.

1. Idiosyncratic shock (baseline and adverse) due to the deteriorated financial position, risk profile and / or reputation of the Group would lead to a loss of confidence in the stability of the Group, reduced access to markets and a significant outflow of deposits.

2. A market-wide shock due to deteriorating economic environment, a decline in asset prices and / or a lack of liquidity in the financial markets would lead to a decline in the value of the Group's marketable assets and the liquidity buffer, respectively.

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

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

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

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

31 December 2025	**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	1,054,256	-	-	-	-	1,054,256
Financial assets at fair value through profit or loss	25,221	-	-	-	-	25,221
Financial assets at fair value through other comprehensive income	-	48,837	9,730	14,663	-	73,230
Receivables from banks	41,368	-	1,369	85,450	540	128,727
Receivables from repurchase agreements	-	-	12,153	-	-	12,153
Loans and receivables from customers	12,911	23,885	143,403	441,138	315,803	937,140
Debt instruments at amortised cost	4,249	30,078	19,529	328,839	317,626	700,321
Current tax assets	-	7,260	-	-	-	7,260
Other assets	-	-	-	-	21,407	21,407
Assets acquired in foreclosure	-	-	-	-	12,971	12,971
Property and equipment	-	-	-	-	92,262	92,262
Investment properties	-	-	-	-	38,725	38,725
Intangible assets	-	-	-	-	6,555	6,555
Right-of-use assets	-	-	-	-	3,639	3,639
Total assets	1,138,005	110,060	186,184	870,090	809,528	3,113,867
Liabilities						
Deposits from banks	39,122	-	-	-	-	39,122
Deposits from customers	2,189,972	123,312	203,959	16,793	-	2,534,036
Liabilities under repurchase agreements	131,846	-	-	-	-	131,846
Loans from banks	-	388	1,035	75,450	-	76,873
Bonds	-	-	379	20,702	-	21,081
Other loans received	43	299	4,784	43,062	-	48,188
Lease liabilities	111	224	968	2,090	405	3,798
Provisions	-	-	-	1,408	-	1,408
Other liabilities	9,573	-	-	-	-	9,573
Current tax liabilities	-	2	-	-	-	2
Deferred tax liabilities	-	-	-	-	1,858	1,858
Total liabilities	2,370,667	124,225	211,125	159,505	2,263	2,867,785
MATURITY MISMATCH, NET	(1,232,662)	(14,165)	(24,941)	710,585	807,265	246,082
ACCUMULATED	(1,232,662)	(1,246,827)	(1,271,768)	(561,183)	246,082	

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

31 December 2024	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	751,986	-	-	-	-	751,986
Financial assets at fair value through profit or loss	8,536	10	797	2,563	-	11,906
Financial assets at fair value through other comprehensive income	-	-	49,387	14,348	-	63,735
Receivables from banks	198,727	-	583	55,500	576	255,386
Receivables from repurchase agreements	-	-	12,203	-	-	12,203
Loans and receivables from customers	999	1,384	72,189	188,062	427,767	690,401
Debt instruments at amortised cost	40,032	92,090	108,461	183,523	140,709	564,815
Current tax assets	-	101	-	-	-	101
Other assets	-	-	-	-	17,686	17,686
Assets acquired in foreclosure	-	-	-	-	12,974	12,974
Property and equipment	-	-	-	-	63,908	63,908
Investment properties	-	-	-	-	29,139	29,139
Intangible assets	-	-	-	-	4,087	4,087
Right-of-use assets	-	-	-	-	4,508	4,508
Total assets	1,000,280	93,585	243,620	443,996	701,354	2,482,835
Liabilities						
Deposits from customers	1,843,187	120,946	182,816	13,801	-	2,160,750
Loans received from banks	-	-	-	45,990	-	45,990
Bonds	-	-	-	21,081	-	21,081
Other loans received	-	-	-	34,892	-	34,892
Lease liabilities	124	249	1,066	2,924	324	4,687
Provisions	-	-	-	1,256	-	1,256
Other liabilities	6,428	-	-	-	-	6,428
Current tax liabilities	5	-	-	-	-	5
Deferred tax liabilities	-	-	-	-	1,322	1,322
Total liabilities	1,849,744	121,195	183,882	119,944	1,646	2,276,411
MATURIY MISMATCH, NET	(849,464)	(27,610)	59,738	324,052	699,708	206,424
ACCUMULATED	(849,464)	(877,074)	(817,336)	(493,284)	206,424	

The maturity structure of the contingent liabilities and commitments at 31 December 2025 and 2024 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 2025	3,827	30,959	60,813	53,538	2,341	151,478
31 December 2024	8,117	25,936	58,670	61,166	2,246	156,135

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

The liquidity coverage of Municipal Bank AD as at 31 December 2025 is as follows:

- Liquidity buffer BGN 1,156,601 thousand (2024: BGN 826,064 thousand);
- Net outflow BGN 284,004 thousand (2024: BGN 52,247 thousand);
- Liquidity coverage ratio 407 % (2024: 1.581%);
- Net stable funding ratio 227,18% (2024: 265%).

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

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

	2025 Carrying value	2025 Fair value	2024 Carrying value	2024 Fair value
Cash on hand	77,810	77,810	25,845	25,845
Accounts in the Central Bank	976,446	976,446	726,141	726,141
Receivables and deposits in banks	128,727	128,727	255,386	255,386
TOTAL	**1,182,983**	**1,182,983**	**1,007,372**	**1,007,372**

4.4. Financial assets pledged as collateral

As at 31 December 2025 Bulgarian government bonds are pledged as collateral and amount to BGN 718,282 thousand (2024: BGN 416,755 thousand).

As at 31 December 2025 the Group has blocked BGN 45,000 thousand (2024: BGN 100,000 thousand) in a special account with the BNB on the basis of Article 152, paragraph 6 of the Public Finance Act in connection with securing the cash available in the accounts of budget organisations (see Note 16).

4.5. Assets under custody

The Group is registered as an investment intermediary and performs operations on behalf of its clients in accordance with the requirements of Regulation 38 of the Financial Supervision Commission (FSC). The Group has an approved policy in relation to management of trust accounts which has been prepared on the basis of the requirements of Ordinance 38 of the FSC. As at 31 December 2025, the total amount of customer trust assets granted to the Group for custody amounted to BGN 39,198 thousand (31.12.2024: BGN 35,045 thousand).

4.6. Operational risk

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

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

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

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

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

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

The Group has developed an "Operational Risk Management Policy" and an "Operational Risk Management Rules". The Group's Operational Risk Management Policy, as part of the general framework of the Risk Management Policy, is in line with the basic requirements and recommendations of the Basel Committee on 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 Group. The system allows automatic historical archiving of all registered operational events.

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

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

4.7. Compliance with capital adequacy requirements

With the entry into force in 2014 of Regulation (EU) № 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms, capital requirements for banks are also established, with their own funds for regulatory purposes consisting of the following elements:

- Tier 1 capital, being the sum of basic Tier 1 capital and additional Tier 1 capital. As at 31.12.2025, 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 31.12.2025. The Group does not have any instruments meeting the requirements of Regulation (EU) No 575/2013 for Tier 2 capital element.

The Group calculates the total capital adequacy ratio as a percentage of regulatory capital to 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 Directive 2013/36/EU of the European Parliament and of the Council, the prudential regulatory framework for credit institutions and investment firms operating in the Union.

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

The minimum regulatory capital requirements for banks are as follows:

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

The minimum regulatory capital requirements for Municipal Bank AD as at 31 December 2025 are as follows:

- Total capital adequacy ratio of 8.85%;
- Common Equity Tier 1 Capital ratio of 6.56%.

By 31 December 2025 Municipal Bank AD reports the following capital ratios:

- Total capital adequacy ratio 18.28% (2024: 21.87%);
- Common Equity Tier 1 Capital 18.28% (2024: 21.87%).

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

As at 31 December 2024 and 2025 the Group's equity structure is as follows:

	2025 Basel III	2024 Basel III
Tier 1 capital		
Registered and paid in capital	89,362	89,362
Decrease		
- Intangible assets	(5,246)	(2,013)
- Deferred taxes that are based on future profits	(1,390)	(944)
Unrealized gains on financial instruments at fair value through other comprehensive income	23,349	16,781
Other regulatory adjustments under Basel III	123,235	91,892
Total Tier 1 capital	**229,310**	**195,078**
Total capital base (own funds)	**229,310**	**195,078**

As at 31 December 2024 and 2025, 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* of BGN 31,357 thousand (2024: BGN 22,297 thousand), 2.5% of the Bank's total risk weighted exposure of BGN 1,254,269 thousand (2024: BGN 891,872 thousand);
- *Institution specific countercyclical capital buffer* of BGN 24,835 thousand (2024: BGN 17,302 thousand) which is 2% (2024: 2%) of the credit risk exposures in Bulgaria;
- *a capital buffer for systemic risk* of BGN 37,182 thousand (2024: BGN 26,127 thousand), equivalent to 3% of the total risk-weighted exposure;
- *a capital requirements add-on under Tier II* of BGN 10,661 thousand (2024: BGN 12,932 thousand), which is 0.85% (2024: 1.45%) of total risk-weighted exposure.

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

Measurement of financial assets and liabilities

The Group's accounting policy for fair value measurements is set out in the Note 3.10.9.
The Group uses the following hierarchy to determine and disclose the fair value of financial instruments using the following valuation techniques:

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

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

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

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

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

The tables below provide an analysis of the assets measured at fair value as at 31 December 2025 and 2024 at fair value hierarchy levels that categorize the measurement of fair values. Values are based on the amounts recognized in the consolidated statement of financial position.

31 December 2025	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets at fair value				
Financial assets at fair value through profit or loss	25,163	31	27	25,221
Financial instruments at fair value through other comprehensive income	58,567	6,804	7,859	73,230
Investment properties	-	-	38,725	38,725
Land and buildings, used in the activity	-	-	47,315	47,315
TOTAL	**83,730**	**6,835**	**93,926**	**184,491**

31 December 2024	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets at fair value				
Financial assets at fair value through profit or loss	11,860	21	25	11,906
Financial instruments at fair value through other comprehensive income	49,387	7,317	7,031	63,735
Investment properties	-	-	29,139	29,139
Land and buildings, used in the activity	-	-	31,449	31,449
TOTAL	**61,247**	**7,338**	**67,644**	**136,229**

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

The fair value of individually material real estate properties – land and buildings, as well as investment properties – land and buildings, owned by the Group, has been determined on the basis of reports prepared by independent licensed valuers.

Description	**Fair value**		**Unobservable inputs**	**2025**	**Relationships between unobservable inputs and fair value**
	2025	2024			
Properties used in banking operations	47,315	31,449	Discount rate	8%	An increase in the discount rate results in a lower fair value
			Vacancy rate	5%	The higher the vacancy rate, the lower the fair value
			Price per sq. m – market approach	BGN 2 844 to BGN 6 875 per sq. m	The higher the asking price per sq. m, the higher the fair value
			Monthly rental price per sq. m based on market comparables	BGN 48 to BGN 82 per sq. m.	The higher the asking price per sq. m, the higher the fair value
Investment properties	38,725	29,139	Discount rate	8%	The higher the rental price per sq. m, the higher the fair value
			Vacancy rate	5%	An increase in the discount rate results in a lower fair value
			Price per sq. m – market approach	BGN 840 to BGN 5 319 per sq. m.	The higher the asking price per sq. m, the higher the fair value
			Monthly rental price per sq. m based on market comparables	BGN 20 to BGN 49 per sq. m	The higher the rental price per sq. m, the higher the fair value

<u>Buildings reported under Property, Plant and Equipment (Level 3)</u>
In determining the fair values of buildings used in the Group's operations, the Group's valuation experts applied the Market approach (Comparable sales method) and the Income approach.

Under the market approach, fair value is based on observed prices from recent market transactions or asking prices for comparable properties, adjusted for specific factors such as floor area, location and current use. In 2025, the adjustments applied for these factors ranged from –8% to +10%.

Significant unobservable inputs relate to adjustments for factors specific to the Group's buildings. The magnitude and direction of these adjustments depend on the number and characteristics of observed market transactions involving comparable properties used for valuation purposes. Although these inputs involve a degree of subjectivity, management believes that the resulting valuation would not be materially affected by the use of alternative assumptions.

Assumptions applied under the income approach include rental income per square metre, which depends on the geographical location of the specific property, a vacancy rate deduction of 5%, and property management expenses of 5%. The discount rate applied ranges around 8%, depending on the location of the property. All assumptions used in determining fair value are sensitive to change and may have a material impact on the fair value of buildings used in the Group's operations.

Investment properties – Land and buildings (Level 3)

In determining the fair values of investment properties, the Group's valuers applied the Market approach (Comparable sales method) and the Income approach.

Under the market approach, fair value is based on observed prices from recent market transactions or asking prices for comparable properties, adjusted for specific factors such as size, location and current use. In 2025, the adjustments applied for these factors ranged from –15% to +10%.

Significant unobservable inputs relate to adjustments for factors specific to the Group's properties. The extent and direction of the adjustments depend on the number and characteristics of comparable market transactions used in the valuation. Although these inputs involve judgement, management considers that the final valuation would not differ materially if alternative assumptions were applied.

Assumptions under the income approach include rental value per square metre, depending on the geographical location of the property, a vacancy deduction of 5%, and management expenses of 5%. A discount rate of approximately 8%, depending on property location, has been applied. All assumptions used in determining fair value are sensitive to changes and may have a material effect on the fair value of investment properties.

The correlation index of the individual available comparables varies. In determining the weighting coefficients reflecting their comparability with the valued asset, the individual characteristics of the compared elements are taken into account. Recent asking prices and actual transactions involving similar, relatively unattractive properties, such as agricultural land in neighbouring and nearby villages, were used as the basis for comparison.

Changes in the carrying amounts of non-financial asset categories are presented in the Notes 26 and 27.

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

6. Net interest income

	2025	2024
Interest income		
Interest income under the effective interest rate method		
Interest from loans and receivables from customers	33,268	35,131
Interest from financial assets at amortised cost	16,178	10,014
Interest from placements and advances to banks	12,504	14,343
Interest receivable under repurchase agreements	6,120	6,778
Interest on investments at fair value through other comprehensive income	2,067	1,164
	70,137	**67,430**
Other interest income		
Interest on financial assets at fair value through profit or loss	1,237	703
	1,237	**703**
Total interest income	**71,374**	**68,133**
Interest expenses		
Interest expense using the effective interest method		
Interest on loans from banks	(3,263)	(1,910)
Interest on repurchase agreements	(138)	(479)
Interest on deposits, other than credit institutions	(746)	(559)
Interest on bonds issued	(932)	(934)
Interest on other borrowed funds	(1,599)	(785)
Interest on leases	(143)	(164)
Interest on other liabilities	-	(19)
Total interest expenses	**(6,821)**	**(4,850)**
NET INTEREST INCOME	**64,553**	**63,283**

Net interest income, which the Group calculates using the effective interest method for financial assets and liabilities measured at amortised cost, for the year ending 31 December 2025 includes income of BGN 68,070 thousand (2024: BGN 66,266 thousand) and expenses of BGN 6,821 thousand (2024: BGN 4,850 thousand).

Interest income, which the Group calculates using the effective interest method for financial assets at fair value through other comprehensive income for the year ended 31 December 2025 includes income of BGN 2,067 thousand (2024: BGN 1,164).

7. Net fees and commissions income

	2025	2024
Fees and commissions income		
Card operations	6,120	5,285
Loan servicing fees	5,550	3,638
Servicing and maintenance of accounts	5,184	4,288
Transfer operations	2,891	2,919
Cash and arbitration operations	3,313	3,079
Documentary operations	1,664	1,034
Other	460	359
Total fees and commissions income	**25,182**	**20,602**
Fees and commissions expenses		
Card operations	(4,720)	(3,248)
Transfer operations	(1,854)	(1,631)
Other	(517)	(369)
Total fees and commissions expenses	**(7,091)**	**(5,248)**
NET FEES AND COMMISSIONS INCOME	**18,091**	**15,354**

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

8. Net gains from transactions in financial assets at fair value through profit or loss

	2025	2024
Gain on revaluation of securities at fair value through profit or loss	273	298
Gain on sale of securities at fair value through profit or loss	803	2,032
Gain on sale of foreign currency	2,279	3,284
TOTAL	**3,355**	**5,614**

9. Gains from sale of non-current assets

	2025	2024
Income from sale of non-current assets	17,667	1,252
Carrying amount of non-current assets sold	(14,687)	(940)
TOTAL	**2,980**	**312**

10. Other operating income

	2025	2024
Income from rental agreements (note 28.4)	1,146	841
Income from cash collection	170	184
Penalties under loan and other agreements	30	65
Sale of coins and precious metal items	39	23
Income from written-off receivables	5	30
Other income	451	625
TOTAL	**1,841**	**1,768**

11. Other operating expenses

	2025	2024
Expenses on investment properties	(178)	(181)
Expenses on personalization of electronic cards	(91)	(68)
Other expenses	(117)	(240)
TOTAL	**(386)**	**(489)**

12. Impairment of financial assets

The movement in impairments for uncollectibility is as follows:

	Loans and receivables form customers	Receivables from Banks and other financial institutions	Receivables from repurchase agreements	Debt instruments at fair value through other comprehensive income	Debt instruments at amortised cost	Other assets	Total
AS AT 01 JANUARY 2024	**(8,036)**	**(190)**	**-**	**-**	**(333)**	**(2,283)**	**(10,842)**
Impairment accrued for the period	(8,387)	(1,107)	-	(45)	(199)	(4)	(9,742)
Impairment reversed for the period	5,535	984	-	3	49	10	6,581
Net impairment	**(2,852)**	**(123)**	**-**	**(42)**	**(150)**	**6**	**(3,161)**
Loans written-off on account of impairments	411	-	-	-	-	-	411
AS AT 31 DECEMBER 2024	**(10,477)**	**(313)**	**-**	**(42)**	**(483)**	**(2,277)**	**(13,592)**
Impairment accrued for the period	(5,544)	(665)	(157)	(35)	(325)	(5)	(6,731)
Impairment reversed for the period	4,296	688	106	69	178	24	5,361
Net impairments	**(1,248)**	**23**	**(51)**	**34**	**(147)**	**19**	**(1,370)**
AS AT 31 DECEMBER 2025	**(11,725)**	**(290)**	**(51)**	**(8)**	**(630)**	**(2,258)**	**(14,962)**

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

13. Provisions

The movement in provisions during the period is as follows:

	Provisions on loan commitments	Provisions on lawsuits	Pension provisions	Total
AS AT 1 JANUARY 2024	**(174)**	**(196)**	**(474)**	**(844)**
Provisions accrued for the period	(1,321)	(20)	(268)	(1,609)
Provisions reversed for the period	1,093	29	86	1,208
Absorbed during the period	(11)	-	-	(11)
Recognised as follows:				
Accrued provisions recognised for the period in other comprehensive income	-	-	*(88)*	*(88)*
Net accrued provisions recognised in the line "(Accrued)/reversed provisions for credit commitments"	*(228)*	-	-	*(228)*
Net provision recognised in other items of expense	-	*9*	*(94)*	*(85)*
AS AT 31 DECEMBER 2024	**(413)**	**(187)**	**(656)**	**(1,256)**
Provisions accrued for the period	(514)	-	(334)	(848)
Provisions reversed for the period	615	-	81	696
Recognised as follows:				
Accrued provisions recognised for the period in other comprehensive income	-	-	*9*	*9*
Net accrued provisions recognised in the line "(Accrued)/reversed provisions for credit commitments"	*101*	-	-	*101*
Net provision recognised in other items of expense	-	-	*(262)*	*(262)*
AS AT 31 DECEMBER 2025	**(312)**	**(187)**	**(909)**	**(1,408)**

13.1. Provisions for credit 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 for court cases

Provisions on lawsuits are recognized when, based on expert judgment, it is found that the Group is more likely to face these liabilities in the near future. As at 31 December 2025, the Group assessed the lawsuits filed against the Group and assessed the necessary provisions for them at the amount to BGN 187 thousand (2024: BGN 187 thousand).

13.3. Retirement benefit provisions

The provision for retirement benefits represents the present value of the Group's obligations under defined benefit plans representing retirement benefits in accordance with the requirements of Article 222 of the Labour Code. Actuarial gains/losses adjust the amount of the liability recognised. An actuarial loss of BGN 9 thousand (2024: actuarial gain of BGN 88 thousand) has been recognised for the period. The main parameters in determining the defined benefit obligation for 2025 are: Discount rate - 3.93%; Compensation increase - 2% per annum; Retirement age: men 64 years and 8 months, women 62 years and 4 months for 2025 and increase by 2 months each year until 65 is reached for both men and women.

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

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

Parameter	*Amount*
Allocated reserve for leavers as at 31.12.2025	**72**
Retirement benefits paid	87
Shortage of reserve	(15)
Out of which due to unexpected circumstances such as:	
- persons with adjustment of gross remuneration	14
Net shortage, excluding unforeseen cases	**(1)**
% of allocated reserve	**1,72%**

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

	Central scenario	Discount rate		Change in the remuneration		% of leaving	
Changes in assumptions		**+100 b.p.**	**-50 b.p.**	**+1%**	**-1%**	**+2%**	**-2%**
	909	890	919	929	890	919	895
Change		**(19)**	**10**	**20**	**(19)**	**10**	**(14)**

The expected change in the defined benefit obligation in 2025 can be presented as follows:

	Provisions for retirement
Pension provisions as at 31.12.2025	**909**
Expected actual expense for retirements in 2026	(350)
Reserve released for leavers	(27)
Increase in provision for remaining employees	531
Expected Pension Provision as at 31.12.2026	***1,063***

14. Administrative expenses

	2025	2024
Employee benefits expense	(27,517)	(22,923)
Information, communication, and technology expenses	(1,491)	(2,693)
Expenses on security and cash collection	(2,217)	(1,938)
Contribution to the Bulgarian Deposit Insurance Fund	(1,759)	(2,644)
Deliveries and other hired services	(3,607)	(2,501)
Expenditure on consumables and materials	(1,251)	(912)
Consultancy, auditing, and other professional services	(1,700)	(1,306)
Rentals of buildings and assets	(174)	(146)
Advertising, marketing and communications	(2,099)	(1,191)
Other administrative expenses	(6,323)	(4,505)
TOTAL	**(48,138)**	**(40,759)**

Amounts charged for the year for services performed by the Group's registered auditors include independent financial audit services of BGN 218 thousand, regulatory services of BGN 26 thousand and other permitted services of BGN 99 thousand.

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

15. Income tax expenses

The tax expense represents the sum of current taxes and deferred taxes for all temporary differences calculated in accordance with the Corporate Income Tax Act at a rate of 10% for 2025 and 2024.

Taxes shown in the statement of profit or loss consist of the following:

	2025	2024
Current tax expense	(3,571)	(3,985)
Deferred tax income, related to the occurrence and reversal of deferred taxes	2	58
TOTAL INCOME TAX EXPENSES	**(3,569)**	**(3,927)**

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

	2025	2024
Profit before tax	37,217	38,507
Tax expense based on the applicable tax rate 10 % for 2025 and 2024	(3,722)	(3,851)
Tax effect of income /expenses which decrease /increases the taxable profit	151	(134)
Current tax expense	**(3,571)**	**(3,985)**
Tax income on deferred tax asset, related to the occurrence and reversal	2	58
TOTAL INCOME TAX EXPENSE	**(3,569)**	**(3,927)**
EFFECTIVE TAX RATE	9.59%	10.20%

In 2025, the Group has recognised a current tax expense in relation to items of other comprehensive income of BGN 538 thousand (2024: BGN 13 thousand).

The movements in current and deferred tax assets and liabilities during the periods presented are as follows:

	2025	2024
Current tax assets/(liabilities) as at 1 January	101	(433)
Income taxes paid during the year	10,728	4,514
Current tax expense	(3,569)	(3,980)
Current tax assets/(liabilities) as at 31 December	**7,260**	**101**

16. Cash on hand and cash balances with central banks

	As at 31.12.2025	As at 31.12.2024
Cash on hand	77,810	25,845
Current accounts with the Central Bank	976,446	726,141
TOTAL	**1,054,256**	**751,986**

The Current accounts with the Central Bank include minimum non-interest-bearing reserves of BGN 262,157 thousand (2024: BGN 217,158 thousand) and a reserve provision fund in relation to the guarantee mechanism of the Borica information system in the amount of BGN 0 thousand (2024: BGN 9,046 thousand) in accordance with Central Bank regulations. There are no restrictions imposed by the Central Bank on the use of minimum reserves. These reserves are determined on the basis of deposits attracted by the Group.

Since August 2018, the Group has secured part of the funds raised from budget enterprises and state institutions by blocking in favour of the Ministry of Finance, on the basis of Article 152, paragraph 6 of the Public Finance Act, cash in a specially opened account for this purpose at the Bulgarian National Bank. As at 31 December 2025, the blocked amount is BGN 45,000 thousand (2024: BGN 100,000 thousand).

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

17. Financial assets at fair value through profit or loss

	As at 31.12.2025	As at 31.12.2024
Shares in mutual funds	30	21
Bulgarian corporate bonds	21,783	7,837
Bulgarian government bonds	2,167	2,875
Foreign government bonds	504	505
Shares in local entities	683	616
Foreign corporate bonds	27	27
Compensatory instruments	27	25
TOTAL	**25,221**	**11,906**

The securities are valued at fair value, representing their market value. The fair value levels are presented in Note 5.

18. Financial assets at fair value through other comprehensive income

	As at 31.12.2025	As at 31.12.2024
Shares in foreign companies	6,804	7,317
Shares in Bulgarian companies	7,859	7,031
Bulgarian government bonds	-	49,387
Foreign government bonds	58,567	-
TOTAL	**73,230**	**63,735**

Financial assets measured at fair value through other comprehensive income as at 31 December 2025 comprise equity instruments in foreign entities amounting to BGN 6,804 thousand (2024: BGN 7,317 thousand) and in Bulgarian entities amounting to BGN 7,859 thousand (2024: BGN 7,031 thousand), classified respectively as Level 2 and Level 3 within the fair value hierarchy, as well as government bonds amounting to BGN 58,567 thousand (2024: BGN 49,387 thousand), classified as Level 1. The fair value hierarchy levels are presented in Note 5.
The revaluation of equity instruments measured at fair value through other comprehensive income recognised during the period amounts to BGN 1,187 thousand (2024: BGN 1,386 thousand).

Bulgarian government bonds pledged as collateral for maintaining budget accounts as at 31 December 2025 amount to nil (2024: BGN 49,387 thousand).

Foreign government bonds pledged as collateral under repurchase agreement liabilities as at 31 December 2025 amount to BGN 58,567 thousand (2024: nil).

19. Receivables from banks

	As at 31.12.2025	As at 31.12.2024
Nostro accounts with banks	14,132	23,396
Deposits due from banks	27,242	175,506
Loans to banks	87,103	56,221
Guarantee deposits with Mastercard Inc. and Visa	540	576
	129,017	**255,699**
Expected credit losses	(290)	(313)
TOTAL	**128,727**	**255,386**

Collateral deposits are deposits made by the Group in connection with payments under the Mastercard Inc. and Visa card systems.

As at 31 December 2025 and 2024, the remaining and original maturities of all deposits placed with banks are up to 3 months.

The bank loans are long-term, granted to 3 Bulgarian banks and have original maturities of 3 to 5 years. Their total principal amount is BGN 85,450 thousand (2024: BGN 55,500 thousand).

20. Receivables under repurchase agreements

	As at 31.12.2025	As at 31.12.2024
Financial institutions	12,204	12,203
	12,204	**12,203**
Impairment loss	(51)	-
TOTAL	**12,153**	**12,203**

As at 31 December 2025, the Group was a party to two repurchase agreements with a carrying amount of BGN 12,204 thousand (2024: BGN 12,203 thousand), secured by a pledge over corporate securities. The maturity of the agreements is six months.

The collateralisation ratio of repurchase agreements secured by a pledge over Bulgarian government bonds is at least 100%. The collateralisation ratio of repurchase agreements secured by a pledge over corporate securities is at least 120%.

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 31.12.2025			As at 31.12.2024		
	Gross carrying amount	**Impairment for uncollectibility**	**Carrying amount**	**Gross carrying amount**	**Impairment for uncollectibility**	**Carrying amount**
Individuals	231,809	(1,439)	230,370	174,535	(1,403)	173,132
Mortgages	132,505	(49)	132,456	84,743	(39)	84,704
Consumer loans	98,469	(1,361)	97,108	89,026	(1,346)	87,680
Credit cards	835	(29)	806	766	(18)	748
Corporates	670,795	(9,890)	660,905	474,270	(8,590)	465,680
Government entities	18,768	(191)	18,577	13,376	(147)	13,229
Non-banking financial institutions	27,493	(205)	27,288	38,697	(337)	38,360
TOTAL	**948,865**	**(11,725)**	**937,140**	**700,878**	**(10,477)**	**690,401**

In the structure of the loan portfolio by type of customer, the loans granted to individuals are further indicated by purpose of the loan.

		31 December 2025			
Segment	**Stage**	**Number of transactions**	**Gross carrying amount in BGN '000**	**Impairment in BGN '000**	**Carrying amount in BGN '000**
Retail	Stage 1	10,403	228,382	(678)	227,704
	Stage 2	56	995	(99)	896
	Stage 3	280	2,432	(662)	1,770
	Total	**10,739**	**231,809**	**(1,439)**	**230,370**
Non-financial institutions	Stage 1	205	662,141	(4,729)	657,412
	Stage 2	4	134	-	134
	Stage 3	15	8,520	(5,161)	3,359
	Total	**224**	**670,795**	**(9,890)**	**660,905**
Financial institutions	Stage 1	4	27,493	(205)	27,288
	Stage 2	-	-	-	-
	Stage 3	-	-	-	-
	Total	**4**	**27,493**	**(205)**	**27,288**
Budget	Stage 1	18	18,768	(191)	18,577
	Stage 2	-	-	-	-
	Stage 3	-	-	-	-
	Total	**18**	**18,768**	**(191)**	**18,577**
Total Loan Portfolio		**10,985**	**948,865**	**(11,725)**	**937,140**

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

21.2. Analysis by sector

	As at 31.12.2025			As at 31.12.2024		
	Gross carrying amount	Impairment for uncollectibility	Carrying amount	Gross carrying amount	Impairment for uncollectibility	Carrying amount
Individuals	231,809	(1,439)	230,370	174,535	(1,403)	173,132
Manufacture	73,654	(3,836)	69,818	81,180	(4,092)	77,088
Services	395,267	(1,974)	393,293	243,541	(1,010)	242,531
Commerce	122,682	(1,152)	121,530	61,681	(487)	61,194
Government entities	18,768	(191)	18,577	13,376	(147)	13,229
Construction	36,329	(2,717)	33,612	38,947	(2,731)	36,216
Transport	35,625	(158)	35,467	39,959	(219)	39,740
Agriculture	7,238	(53)	7,185	8,962	(51)	8,911
Financial and insurance operations	27,493	(205)	27,288	38,697	(337)	38,360
TOTAL	**948,865**	**(11,725)**	**937,140**	**700,878**	**(10,477)**	**690,401**

In 2025, loans receivable written off against the loss allowance for bad debts amounted to BGN nil (2024: BGN 411 thousand).

22. Debt instruments at amortised cost

	As at 31.12.2025	As at 31.12.2024
Bulgarian government bonds	660,258	442,843
Bulgarian municipal bonds	20,921	24,818
Bulgarian corporate bonds	19,772	19,772
Foreign government bonds	-	77,865
	700,951	**565,298**
Expected credit losses	(630)	(483)
TOTAL	**700,321**	**564,815**

Bulgarian government bonds pledged as collateral as at 31 December 2025 amount to a total of BGN 584,310 thousand (2024: BGN 367,388 thousand). Of this amount, BGN 582,286 thousand has been pledged for the purpose of maintaining budget accounts, while BGN 2,024 thousand has been pledged for the initial euro funding in connection with the transition to the euro as Bulgaria's national currency as from 1 January 2026.

At the end of 2025, repurchase agreements were entered into, under which Bulgarian government bonds amounting to BGN 75,405 thousand were provided as collateral.

23. Other assets

	As at 31.12.2025	As at 31.12.2024
Properties acquired for resale	11,982	11,982
Advances paid to suppliers	2,856	2,241
Prepaid expenses	1,142	753
Other financial receivables	4,949	4,061
Current stock of precious metals	2,144	207
Other receivables from banks	88	314
Materials	248	131
Other assets	256	274
	23,665	**19,963**
Impairment due to uncollectibility	(2,258)	(2,277)
TOTAL	**21,407**	**17,686**

The regulated land property purchased by the Group in 2020, which is adjacent to a property owned by the Group and acquired by way of security (disclosed in Note 24), is worth BGN 11,871 thousand at 31 December 2025 (2024: BGN 11,871 thousand). No indication of impairment charge has been identified in 2024 and 2025. The Group 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

The movement in Assets acquired in foreclosure is as follows:

	Real Estate
By 1 January 2024	**13,509**
Foreclosed during the period	(535)
By 31 December 2024	**12,974**
Impairment	(3)
By 31 December 2025	**12,971**

The Group has performed its annual analysis for indications of impairment to net realisable value of Assets acquired in foreclosure. An impairment charge of BGN 3 thousand has been made in 2025 (2024: BGN nil)

For the purpose of the net realisable value analysis, valuations by external independent real estate valuers engaged by the Group were used. The appraisals used the market analogue (comparable sales) method. This involves valuing the subject property by direct comparison with similar properties that have been sold, with the price determined on the basis of these previous transactions. In applying this method, it is necessary that the data for the comparable properties are actually similar, that the properties are similar, that they are in the same area, and that the time of the transaction and the date at which the valuation is made are close. In the course of the analysis, significant unobservable inputs, such as a market realisation factor, a location factor and a specific features (condition) factor, were mainly used in the calculations.

As disclosed in the Note 23 the Group is in the process of negotiations with a purchaser who has expressed an intention to acquire two properties – a property purchased for resale, reported under other assets with a carrying amount of BGN 11,871 thousand as at 31 December 2025, and land plots acquired from collateral with a carrying amount of BGN 12,649 thousand as at 31 December 2025. As a result of the impairment review performed at the end of 2025, an impairment charge of BGN 3 thousand was recognised (31 December 2024: BGN nil).

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 2024	**24,858**	**8,530**	**1,079**	**2,859**	**3,626**	**18,790**	**59,742**
Additions	12,071	169	850	562	687	10,498	24,837
Disposals	(307)	(380)	(459)	(790)	(191)	(209)	(2,336)
Revaluation	132	-	-	-	-	-	132
31 December 2024	**36,754**	**8,319**	**1,470**	**2,631**	**4,122**	**29,079**	**82,375**
Additions	11,351	2,723	65	1,082	125	11,685	27,031
Disposals	-	(2,528)	(31)	(703)	(2,210)	(2,098)	(7,570)
Revaluation	5,326	-	-	-	-	-	5,326
31 December 2025	**53,431**	**8,514**	**1,504**	**3,010**	**2,037**	**38,666**	**107,162**
Accumulated depreciation							
1 January 2024	**4,886**	**7,426**	**658**	**2,658**	**3,411**	**-**	**19,039**
Accrued for the year	470	455	154	99	115	-	1,293
Depreciation of disposals	(51)	(379)	(456)	(788)	(191)	-	(1,865)
31 December 2024	**5,305**	**7,502**	**356**	**1,969**	**3,335**	**-**	**18,467**
Accrued for the year	812	502	213	202	166	-	1,895
Depreciation of disposals	-	(2,523)	(31)	(699)	(2,209)	-	(5,462)
31 December 2025	**6,117**	**5,481**	**538**	**1,472**	**1,292**	**-**	**14,900**
Carrying amount as at 31 December 2024	**31,449**	**817**	**1,114**	**662**	**787**	**29,079**	**63,908**
Carrying amount as at 31 December 2025	**47,314**	**3,033**	**966**	**1,538**	**745**	**38,666**	**92,262**

As at 31 December 2025, in accordance with the adopted accounting policy, the Group has revalued land and buildings used in its operations in the amount of BGN 5,326 thousand (2024: BGN 132 thousand). The analysis of the fair values of the land and buildings used in the Group's operations by level in the fair value hierarchy categorises the fair value measurement in Level 3. The valuation of the revalued amount was performed by an independent external valuer.

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

As at 31 December 2025, the carrying amount of land and buildings used in the Group's operations, if accounted for under the cost method, would be BGN 22,062 thousand (2024: BGN 25,171 thousand).

Assets under construction represent a property located in the city centre of Sofia and accumulated costs of design and administrative procedures for construction documents in connection with the initiated process of realization of investment intentions for the construction of the Group's own head office building

As at 31 December 2025, the Group has not pledged any of its property and equipment as collateral and has no contractual commitments to acquire significant property and equipment.

26. Investment properties

The Group's investment properties represent land and buildings that the Group leases or uses to increase capital value.

	Land and buildings
Carrying amount at 1 January 2024	**21,381**
Acquired	8,084
Disposed (sold)	(80)
Net loss on change in fair value	(246)
Carrying amount at 31 December 2024	**29,139**
Acquired	24,176
Disposed (sold)	(14,651)
Net loss on change in fair value	61
Carrying amount at 31 December 2025	**38,725**

In 2025, the Group recorded rental income from investment properties of BGN 1,121 thousand (2024: BGN 805 thousand). The direct costs of maintaining the investment properties in 2025 amount to BGN 189 thousand (2024: BGN 164 thousand). The analysis of the fair values of the Group's investment properties, by level in the fair value hierarchy, categorises the fair value measurement in Level 3.

As at 31 December 2025, the carrying value of investment properties acquired from collateral is BGN 7,095 thousand (2024: BGN 8,468 thousand). The Group 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.

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

27. Intangible assets

	Software 2025	Software 2024
Gross carrying amount		
1 January	**8,444**	**7,542**
Additions	3,384	995
Disposals	(2,080)	(93)
31 December	**9,748**	**8,444**
Accumulated depreciation		
1 January	**4,357**	**3,732**
Accrued for the year	912	642
Amortization of disposals	(2,076)	(17)
31 December	**3,193**	**4,357**
Net carrying amount at 31 December	**6,555**	**4,087**

As at December 31, 2025, the Group has not pledged its intangible assets as collateral and has no commitments to acquire significant intangible assets.

28. Right-of-use assets and lease liabilities

28.1. Right-of-use assets

	Buildings
Gross carrying amount	
Balance at 1 January 2024	**8,580**
Additions	1,437
Disposals	(753)
Balance at 31 December 2024	**9,264**
Additions	733
Disposals	(2,537)
Balance at 31 December 2025	**7,460**
Depreciation and impairment	
Balance at 1 January 2024	**3,964**
Accrued for the year	1,463
Depreciation of disposals	(671)
Balance at 31 December 2024	**4,756**
Accrued for the year	1,389
Depreciation of disposals	(2,324)
Balance at 31 December 2025	**3,821**
Net carrying amount as at 31 December 2024	**4,508**
Net carrying amount as at 31 December 2025	**3,639**

28.2. Lease liabilities

	As at 31.12.2025	**As at 31.12.2024**
Lease liabilities – non-current portion	2,495	3,248
Lease liabilities – current portion	1,303	1,439
Total	**3,798**	**4,687**

The Group leases premises in buildings, which it uses for Group's branches. Except for short-term leases and leases of low-value assets, each lease is recognised on the Statement of Financial Position as a right-of-use asset and a lease liability.

Each lease contract imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee.

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

Future minimum lease payments as at 31 December 2025 are 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 31.12.2025							
Gross lease payments	1,411	1,128	589	335	184	431	4,078
Finance charges	(108)	(66)	(39)	(25)	(16)	(26)	(280)
Net present values	**1,303**	**1,062**	**550**	**310**	**168**	**405**	**3,798**

Future minimum lease payments as at December 31, 2024 are 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 31.12.2024							
Gross lease payments	1,575	1,377	1,016	469	239	345	5,021
Finance charges	(136)	(88)	(49)	(25)	(15)	(21)	(334)
Net present values	**1,439**	**1,289**	**967**	**444**	**224**	**324**	**4,687**

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

28.3. Lease payments not recognized as a liability

The Group has elected not to recognize a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to payments not included in the measurement of the lease liability are as follows:

	Year ended 31.12.2025	Year ended 31.12.2024
Short-term leases	138	129
Leases of low assets	43	33
	181	**162**

28.4. Operating lease agreements under which the Group is the lessor

	As at 31.12.2025	As at 31.12.2024
Within 1 year	1,132	797
Between 1 and 5 years	4,068	2,663
More than 5 years	2,904	2,645
TOTAL	**8,104**	**6,105**

The tables below show by remaining maturity the amount of future minimum lease receipts under operating lease agreements.

	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 31.12.2025	1,132	1,106	1,037	973	952	2,904	8,104
As at 31.12.2024	797	797	726	570	570	2,645	6,105

Revenues from operating leases are presented in the Note 10.

29. Deposits from banks

Deposits from banks as at 31 December 2025 amounting to BGN 39,122 thousand represent weekly deposits from a domestic credit institution in foreign currency.

30. Deposits from customers

	31 December 2025			31 December 2024		
	BGN	**Foreign currency**	**Total**	**BGN**	**Foreign currency**	**Total**
RESIDENTS	2,127,827	382,261	2,510,088	1,753,209	385,585	2,138,794
Individuals	1,214,634	262,585	1,477,219	1,009,244	257,912	1,267,156
Budget	380,987	18,794	399,781	317,280	44,061	361,341
Services	176,210	48,806	225,016	168,949	42,006	210,955
Manufacture	100,292	18,126	118,418	63,084	13,329	76,413
Commerce	40,408	15,528	55,936	36,395	21,683	58,078
Transport	114,863	14,039	128,902	85,126	4,067	89,193
Construction	90,001	2,643	92,644	64,166	865	65,031
Finance (other than banks)	6,265	1,440	7,705	2,697	1,382	4,079
Agriculture	4,167	300	4,467	6,268	280	6,548
NON-RESIDENTS	1,951	21,997	23,948	4,181	17,775	21,956
TOTAL	**2,129,778**	**404,258**	**2,534,036**	**1,757,390**	**403,360**	**2,160,750**

Deposits of budgetary entities as at 31 December 2025 and 2024 primarily include current, budget and deposit accounts of Bulgarian municipalities.

31. Liabilities under repurchase agreements

As at 31 December 2025, the Group was a party to repurchase agreements amounting to BGN 131,846 thousand. All liabilities under repurchase agreements were settled in accordance with their maturities at the beginning of January 2026. Under these transactions, the Group provided its own securities as collateral.

32. Loans received from banks

	As at 31.12.2025	As at 31.12.2024
Principal	75,450	45,500
Interest liabilities	1,423	490
	76,873	**45,990**

As at 31 December 2025 and 31 December 2024, the Group had the following long-term loans received from domestic banks.

	Currency	**Interest rate**	**Amount (BGN thousand)**	**Date granted**	**Maturity**	**Carrying amount at 31.12.2025**	**Carrying amount at 31.12.2024**
Loan 1	BGN	4.5%	12,000	November 2022	November 2027	12,058	12,058
Loan 2	BGN	5%	12,000	December 2022	January 2030	12,018	12,018
Loan 3	BGN	4.5%	3,000	July 2023	July 2028	3,057	3,057
Loan 4	BGN	5%	5,000	August 2023	January 2031	5,105	5,105
Loan 5	BGN	7%	3,000	August 2023	August 2028	3,083	3,083
Loan 6	BGN	5%	3,500	August 2024	August 2029	3,560	3,560
Loan 7	BGN	5%	3,500	August 2024	August 2029	3,561	3,561
Loan 8	BGN	7%	3,500	October 2024	October 2027	3,548	3,548
Loan 9	BGN	5%	5,000	March 2025	March 2030	5,191	-
Loan 10	BGN	5%	5,000	March 2025	March 2030	5,197	-
Loan 11	EUR	6%	15,060	May 2025	May 2030	15,595	-
Loan 12	EUR	5%	4,890	December 2025	January 2031	4,900	-

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

The loans received are unsecured. The funds have been provided to the Group for the purpose of meeting the minimum requirements for own funds and eligible liabilities in accordance with Articles 72a–72b of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, in conjunction with Article 69a(11) of the Act on the Recovery and Resolution of Credit Institutions and Investment Firms.

33. Bonds issued

	As at 31.12.2025	As at 31.12.2024
Principal	20,702	20,702
Interest liabilities	379	379
	21,081	**21,081**

The Group has issued two issues of bonds that are not traded on a regulated market.
Issue Conditions 1:
- ISIN: BG2100006225;
- Volume: 10,702 non-convertible bonds;
- Nominal value: 1,000 BGN;
- Type: ordinary, unsecured;
- Interest rate: 4.5% fixed;
- Issue date: June 2022;
- Maturity: June 2027

Issue Conditions 2:
- ISIN: BG2100011225;
- Volume: 10,000 pieces of non-convertible bonds;
- Nominal value: 1,000 BGN;
- Type: ordinary, unsecured;
- Interest rate: 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 UCITS Act and Article 72b of the Regulation on Prudential Requirements for Eligible Obligations Instruments of the Group, respectively, and will remain so until one year before maturity.

34. Other loans received

	As at 31.12.2025	As at 31.12.2024
Principal on loans from individuals	34,437	24,084
Principal on loans from non-financial entities	13,003	10,308
Liabilities for interest on loans received from clients	748	500
	48,188	**34,892**

As at 31 December 2025, the Group had obtained unsecured long-term loans for 3 or 4 years from individuals and non-financial entities. The loans were obtained in BGN or EUR. The interest expense on these loans in 2025 is BGN 747 thousand (2024: BGN 500 thousand) The cash was provided to the Group under products developed for individuals, the purpose of which is to diversify the forms of funds raised from customers in order to meet the minimum equity requirements and eligible liabilities under Art. 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 Art. 69a para. 11 of the Act on the Recovery and Resolution of Credit Institutions and Investment Firms (Recovery and Resolution Act).

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

35. Other liabilities

	As at 31.12.2025	As at 31.12.2024
Trade liabilities	4,956	2,560
Deferred income	635	569
Unsettled bank transfers	736	407
Unused paid leaves and other employee compensations	591	477
Other liabilities	2,655	2,415
TOTAL	**9,573**	**6,428**

Other liabilities mainly consist of accruals payable to service providers provided to the Group for which the documents were received in 2026 and 2025 respectively for the comparative period and which were paid in the following year.

Bank transfers in execution represent obligations for currency transfers ordered by customers on the last day of 2025 and 2024, respectively, with an execution lag of up to two days. These transfers are executed on the first business day of 2026 and 2025, respectively

36. Tax assets and liabilities

36.1. Current taxes

Current income tax assets represent the net tax position in relation to income tax (corporate income tax) for the respective year, increased by corporate income tax overpaid in a prior year and not yet refunded by the tax authorities. In accordance with statutory requirements, the Group makes advance payments of corporate income tax, which are calculated on the basis of the taxable profit for the previous year. If the advance payments made by the end of the year exceed the final corporate income tax payable for the year, this excess cannot be automatically offset against corporate income tax liabilities for the following year and must be explicitly refunded by the tax authorities. As at 31 December 2025, the Group's current income tax assets amount to BGN 7,260 thousand (2024: current income tax assets of BGN 101 thousand), and the Group's current income tax liabilities amount to BGN 2 thousand (2024: current income tax liabilities of BGN 5 thousand).

36.2. 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 2025 and 2024 is presented in the following table:

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

	Assets		**Liabilities**		**Net (assets)/liabilities**	
	2025	**2024**	**2025**	**2024**	**2025**	**2024**
Property and equipment	(625)	(157)	1,558	1,245	933	1,088
Provisions	(59)	(48)	-	-	(59)	(48)
Actuarial gains and losses	(91)	(66)	-	-	(91)	(66)
Other liabilities	(615)	(673)	1,463	794	848	121
Financial assets	-	-	227	227	227	227
Net tax (assets)/liabilities	**(1,390)**	**(944)**	**3,248**	**2,266**	**1,858**	**1,322**

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

The movement in tax temporary differences in 2025 arises from:

	Net (assets)/ liabilities 01.01.2025	Recognized during the year		Other changes in equity 01.01.2025
		In profit and loss	Other changes in equity	
Property and equipment	1,088	(693)	538	933
Provisions	(48)	(11)	-	(59)
Actuarial gains and losses	(66)	(25)	-	(91)
Other liabilities	121	727	-	848
Financial assets	227	-	-	227
Net tax (assets)/liabilities	**1,322**	**(2)**	**538**	**1,858**

The movement in tax temporary differences in 2024 arises from:

	Net (assets)/ liabilities 01.01.2024	Recognized during the year			Other changes in equity 31.12.2024
		In profit and loss	Other changes in equity	In other comprehensive income	
Property and equipment	768	(98)	405	13	1,088
Provisions	(38)	(10)	-	-	(48)
Actuarial gains and losses	(48)	(18)	-	-	(66)
Other liabilities	53	68	-	-	121
Financial assets	227	-	-	-	227
Net tax (assets)/liabilities	**962**	**(58)**	**405**	**13**	**1,322**

37. Equity and reserves

37.1. 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 2025, 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 2025, Novito Opportunities Fund AGmvK has a 96.51% (2024: 96.51%) interest in the share capital.

In 2025 and 2024 the Group has not distributed or paid any dividends.

37.2. Statutory reserves

The Group forms the Reserve Fund by decision of the General Meeting, on the basis of Article 246, paragraph 2, item 4 of the Commercial Law, from the profit after taxes, the value of which as at 31 December 2025 is BGN 102,964 thousand (2024: BGN 68,398 thousand).

37.3. Other reserves

The Other reserves include:

- Revaluation reserve of real estate includes the revaluation on owner occupier real estate in relation with the revaluation model adopted by the Group under IAS 16 Property, Plant and Equipment (Note 25), net of tax;
- Revaluation reserve of securities which consists of revaluations as a result of changes in their fair values, net of tax; and
- Actuarial gains or losses, net of taxes, related to the Group's liabilities under defined benefit plans in accordance with IAS 19 "Employee Benefits

	As at 31.12.2025	As at 31.12.2024
Revaluation reserve of owner-occupied property	14,004	9,167
Revaluation reserve of securities	10,334	9,177
Actuarial losses	(98)	(107)
Total	**24,240**	**18,237**

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

38. Related parties

The Group's related parties include its owners and key management personnel, as the Group has no associates or joint ventures, nor other entities under common control.

In the ordinary course of business, banking transactions are carried out with related parties. These transactions are conducted at agreed prices that do not differ from market terms. There are no overdue receivables from related parties.

Transactions and outstanding balances with related parties as at 31 December are as follows:

38.1. Related party balances

2025	Key management personnel	Major shareholder	Total
Loans and receivables	2,974	-	2,974
Deposits	2,025	-	2,025
Loan commitments and issued guarantees	39	-	39

2024	Key management personnel	Major shareholder	Total
Loans and receivables	1,514	-	1,514
Deposits	1,095	-	1,095
Loan commitments and issued guarantees	39	-	39

38.2. Related party transactions

In 2025 and 2024, there were no revenues or expenses recognized in profit or loss arising from transactions with related parties.

The short-term income of the Parent Bank's key management personnel for the year ending 31 December 2025 is BGN 3,557 thousand (2024: BGN 1,899 thousand).

39. Cash and cash equivalents

Cash and cash equivalents for the purpose of the consolidated statement of cash flows consist of the following balances:

	As at 31.12.2025	As at 31.12.2024
Cash on hand	77,810	25,845
Balances with the Central Bank	976,446	726,141
Nostro accounts in banks	14,132	23,396
Deposits with banks	27,242	175,506
Expected credit losses	(5)	(175)
TOTAL	**1,095,625**	**950,713**

Cash and cash equivalents as used in the consolidated statement of cash flows include cash on hand, unrestricted funds with the Central Bank, and nostro accounts, deposits with banks and amounts due from banks under agreements with a repurchase clause with an original maturity of 3 months or less. The Group recognises as cash and cash equivalents funds representing the minimum reserve requirement and the collateral reserve fund as disclosed Note 16. Banks are free to use these funds on payment of interest in accordance with Regulation 21 of the BNB on the minimum reserve requirements that banks maintain with the BNB.

40. Reconciliation of liabilities arising from financing activities

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

	Loans received from banks BGN thousand	Bonds issued BGN thousand	Loans received from clients BGN thousand	Lease liabilities BGN thousand	Total BGN thousand
1 January 2025	45,990	21,081	34,892	4,687	106,650
Cash flows					
Payments	-	-	(1,859)	(1,765)	(3,624)
Proceeds	29,950	-	14,907	-	44,857
Interest paid*	(2,330)	(932)	(1,351)	-	(4,613)
Non-monetary changes					
Interest accrued	3,263	932	1,599	143	5,937
Asset additions	-	-	-	733	733
31 December 2025	76,873	21,081	48,188	3,798	149,940

	Loans received from banks BGN thousand	Bonds issued BGN thousand	Loans received from clients BGN thousand	Lease liabilities BGN thousand	Total BGN thousand
1 January 2024	35,321	21,081	8,796	4,772	69,970
Cash flows					
Payments	-	-	-	(1,686)	(1,686)
Proceeds	10,500	-	25,655	-	36,155
Interest paid*	(1,741)	(934)	(344)	-	(3,019)
Non-monetary changes					
Interest accrued	1,910	934	785	164	3,793
Asset additions	-	-	-	1,437	1,437
31 December 2024	45,990	21,081	34,892	4,687	106,650

41. Non-cash transactions

During the reporting periods presented, the Group has entered into the following investment and financing transactions where no cash or cash equivalents were used and which are not reflected in the consolidated statement of cash flows:
The Group has acquired right-of-use assets amounting to BGN 733 thousand (2024: BGN 1,437 thousand);

42. Contingent and irrevocable commitments

The contingent and irrevocable commitments made by the Group consist of issued guarantees, commercial letters of credit and loan commitments.

As at 31 December 2025, the Group has issued guarantees to customers in favour of third parties in the amount of BGN 78,153 thousand (2024: BGN 77,081 thousand), respectively, which are secured by deposits, tangible fixed assets and other assets. These contingent liabilities carry credit risk.

As at 31 December 2025, the Group has issued letters of credit to customers in favour of third parties in the amount of BGN 1,598 thousand (2024: BGN 11,980 thousand). These contingent liabilities carry credit risk.

The loans and overdrafts commitments as at 31 December 2025 amount to BGN 60,727 thousand (2024: BGN 67,074 thousand)

As at 31 December 2025 and 2024 the Group has not entered into any forward transactions.

43. Events after the end of the reporting period

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

In accordance with the Act on the Introduction of the Euro in the Republic of Bulgaria, as from 1 January 2026 the official currency and legal tender in the Republic of Bulgaria is the euro. The fixed exchange rate is BGN 1.95583 per EUR 1. The introduction of the euro as the official currency of the Republic of Bulgaria represents a change in the functional currency, which will be accounted for prospectively and does not constitute an adjusting event after the reporting date.

Pursuant to Article 33 of the Act on the Introduction of the Euro in the Republic of Bulgaria (AIEB), the amount of the share capital of commercial companies registered in the Commercial Register, as well as the registered nominal value of shares in joint-stock companies, is automatically converted into euros and euro cents. The currency conversion is performed ex officio by the Registry Agency. As at 1 January 2026, the Parent Bank's registered share capital was converted into EUR 45,664,395.91, divided into 8,936,281 ordinary, registered, dematerialised and freely transferable shares, all carrying voting rights and with a nominal value of EUR 5.11 per share.

From the end of February 2026, a significant escalation of geopolitical tensions in the Middle East has been observed, including an escalation of the conflict involving Iran, resulting in increased uncertainty at both regional and global levels. These developments have been accompanied by increased volatility in energy and financial markets, as well as heightened uncertainty regarding the macroeconomic environment and future economic conditions.

The Group's management is closely monitoring developments and has considered the information available as at the date of preparation of the financial statements when forming accounting estimates and assumptions. As of the reporting date, no need has been identified for adjustments to recognised assets and liabilities or for changes in the applied accounting policies, other than the disclosures made. Nevertheless, given the dynamic nature of the geopolitical environment, future developments may have an impact on the results of operations, financial position and cash flows in subsequent reporting periods.

44. Approval of consolidated financial statements

The consolidated financial statements as at 31 December 2025 (including comparative information) were approved for issue to the Supervisory Board by the Management Board on 07.05.2026.