



Annual Management Activity Report and Corporate Governance Declaration

Independent Auditors' Report

Annual Financial Statements as at 31 December 2023

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**MANAGEMENT ACTIVITY
REPORT 2023**



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I. Environment in which Tokuda Bank AD operated in 2023

In 2023, the banking sector operated in an unstable environment, mainly characterised by the disruption and refocus of some logistics chains as a result of the sanctions imposed on the Russian Federation (RF). The industrial manufacturing index remained negative throughout the year, and despite compensations related to the continuing fiscal incentives and the bigger slowdown in import, the potential to generate stable revenue for the banking system was visibly weakened. The transfer of effects of ECB's active monetary policy resulted in a slowdown in inflation processes, though with some delay, due to the time lag in the transfer process. At the end of 2023, the 12-month HICP reached 8.6%, which is almost two times higher than the eurozone's average (5.4%) and significantly higher than the upper threshold of 150 b.p. to meet the inflation criteria, as far as the average value for the three countries with lowest inflation (Spain, Belgium, and Luxembourg) is 3.0%.

The slowdown in price indexes against the background of faster growth in nominal remuneration (13.5%) resulted in partial stabilizing in households' purchasing power, but did not help overcome the pessimistic outlook of economic agents and the index of current business conditions in Bulgaria's industry in December reached a 20-month low (30.7). Some of the anti-inflation measures taken met with adverse reactions; for instance, the interest rate increase resulted in a cooldown in lending to NFE (and the increase rate in business lending decreased from 11.47% in December 2022 to 7.91% at the end of 2023), and the lifting of bans on import of agricultural produce from Ukraine resulted in widespread protests of farmers in most member states.

The unusually high winter temperatures, along with the construction of replacement RES power capacities, and the shrinkage in industrial manufacturing in some of Europe's biggest economies facilitated a significant shrinkage in gas consumption in the EU. According to a report of the International Energy Agency (IEA), in 2023 gas consumption in the EU decreased by 7%, reaching its lowest level since 1995, which has on its part resulted in smaller fluctuations on the exchanges and to sustainable declines in the quotes for all energy sources. For instance, at the end of the heating season, the gas futures at the Dutch hub TTF with delivery in April 2024 (TGJ24) decreased almost twofold in the past year (to 46.53 EUR/MW in the last business day of 2023 compared to 81.55 EUR/MW at the end of 2022).

A similar trend is characteristic for periods of weakening economic activity; therefore, it may be expected that on the one hand, the basis for revenue generation for the financial sector in 2024 could shrink, and on the other hand – that against the background of the limited fiscal scape, the efforts will be focused on incentivizing economic activity through monetary measures.

Condition of the banking system in Bulgaria

The banking system is adapting to the changing situation, and in the conditions of automatically rising loan interest rates (as far as most loan agreements have been arranged under conditions for floating interest rate, or have a limited initial period of fixed interest rate), gross interest income in the system increased by 61.9% on an annual basis (from BGN 3,632 billion to BGN 5,878 billion) against a much more moderate increase in gross loans (13.1%). There is an even more moderate rate of increase (5.9%) in gross fees and commissions income, which in the past year reached BGN 1.862 billion and along with the increase in the net interest margin resulted in a record profit for the sector, at the amount of BGN 3.417 billion post taxes (or 65.9% more than in 2022). As a whole, 2023 was characterized by retaining intensive lending rates against the background of a still moderate increase of interest rates (which could be explained by the significant volume of liquidity buffers accumulated), a faster growth in operating expenses (interest on deposits and fees), by respectively 155% and 17%, which due to the significantly lower volume compared to gross revenue so far do not significantly affect net income; still continuing (though insignificant) costs for impairment and accrued provisions and most of all – the record increase in the sector's financial results.

In the conditions of serious challenges in the economic and regulatory environment, the Bulgarian banks continue to be sustainable, profitable, to retain high levels of liquidity and capital buffers. The immediate main trends in the sector are (directly and indirectly) dictated by the processes related to the conflict; the restructuring of assets and liabilities so as to limit risks resulting from expected changes in base interest rates; maintaining an adequate dynamic balance between lending conditions and standards in an unfavourable macro environment, but also from the intensive processes of digital transformation and establishing the necessary basis for managing the processes related to transition to green economy. In 2024, the European Banking Authority will set requirements for institutions regarding the identification, assessment, management and monitoring of risks related to environmental and social management, including to plans aimed to overcome risks from the transition to climate-neutral EU economy, which will result in a new increase in the sector's administrative burden, and in stricter demands to some borrowers.

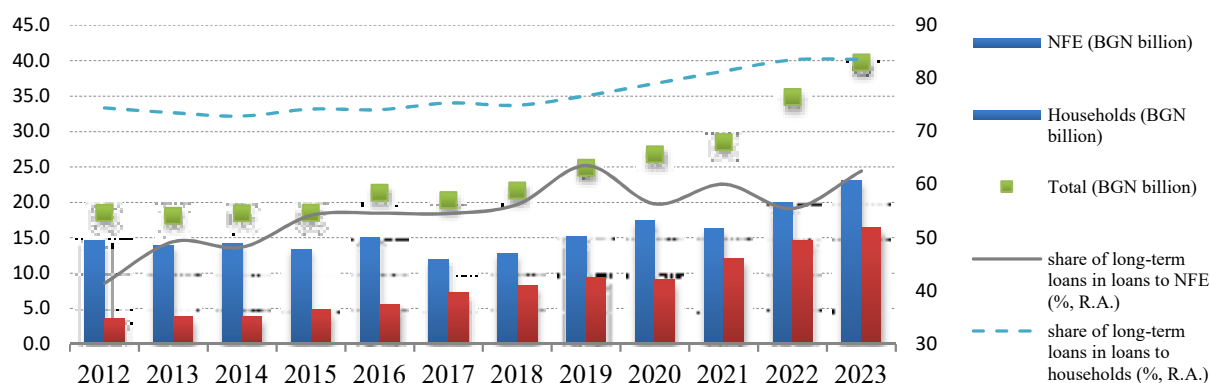
Lending activity and loan quality

The analysis of data from the monetary statistics (Figure 1) shows that the trend of growth in the nominal volume of loans of new business to non-financial entities continues. After the sporadic shrinking of contracted loans to corporate

customers in 2021, in subsequent years the statistics again point to growth, which in 2023 reached BGN 3.1 billion.

The gross amount of the increase is comparable to the one in 2022, and the volume of new business in loans in the segment (BGN 23.1 billion) is a record both in terms of absolute and in relative value, since the ratio between new business for NFE and the amount of gross loans and advances in the segment at the end of December 2023 reached 47.58%.

Figure 1 New business volumes

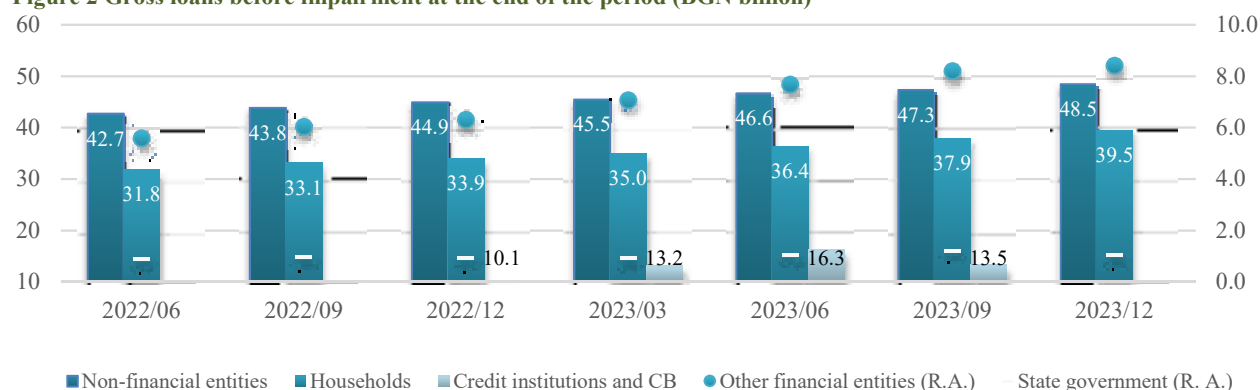


Source: BNB, own calculations

As a result of the increased activity, loans to entities last year reached BGN 48.5 billion (Figure 2), and it can be seen in the analysis of the maturity structure of new business in this segment that the share of long-term loans has increased. Over BGN 14.43 billion of contracted loans in the segment have original maturity over 5 years, and thus the share of long-term loans reaches 62.57%, or 7.05 p.p. higher than in 2022. This can to a certain extent be explained with the restructuring of lending activity which is due to the raising of reference rates, to which the effective interest rates are linked, but also with the efforts to limit debt servicing costs against the background of increasing pessimism among economic agents.

The higher lending activity in the corporate segment can to some extent be attributed to the lending policy of commercial banks. The summarised results from BNB's lending activity questionnaire show that most banks retained their interest spread, which motivated economic agents to benefit from the still low real interest on loans.

Figure 2 Gross loans before impairment at the end of the period (BGN billion)



Source: BNB, own calculations

In the past 2023, the gradual recovery of real interest rates continued. This trend commenced in the third quarter of 2022, when the price index started to decline from the maximum reached, and reference rates started to increase. It was expected that the appreciation of borrowings, in real value would result in lower demand in this segment, but the balance in opinions regarding demand in the annual BNB questionnaire remains positive, while the new business volumes continue to grow at rates comparable to last year. Most probably, the behaviour of economic agents can be explained on the one hand with the relatively slow rates of transfer of the effects of the tightening of monetary policy in the eurozone, and on the other hand – with the low elasticity of demand for borrowing given the current levels of market rates on corporate loans.

To some extent, it may seem paradoxical that an entity in a peripheral economy with relatively high credit risk can be financed at a lower cost than entities in the eurozone, at least because of the fact that the difference in risk premiums means higher interests on loans to NFEs. Different hypotheses may be formulated to explain this, the most accurate of which may explain the behaviour of commercial bank with the wish to grow their market share, while the liquidity surplus allows most of them to apply a purely price competition. Just last year, the liquid coverage ration increased from 235.0% (at the end of December 2022) to 246.7% at the end of December 2023, and the liquidity buffer reached BGN 53.0 billion. In general, given such high levels, financial intermediaries are willing to offer the surplus of free resources at a comparatively low price (which usually means underestimating the real amount of the risk premium) in order to expand the basis for effective placement thereof.

It can be expected that in case of further weakening of economic activities and the possible aggravation of indicators of the local economic operations, a change will occur in the attitude of both banks and applicants for corporate loans, since the shrinking in business scope generally results in lower need of financing thereof, while banks will be less willing to undertake insufficiently covered risks in corporate lending. Most likely, costs on provisions will continue to grow as early as 2024, and this may provoke additional tightening of both credit standards and on lending conditions (in view of the effective accrual of a higher risk premium within the price of the loan extended).

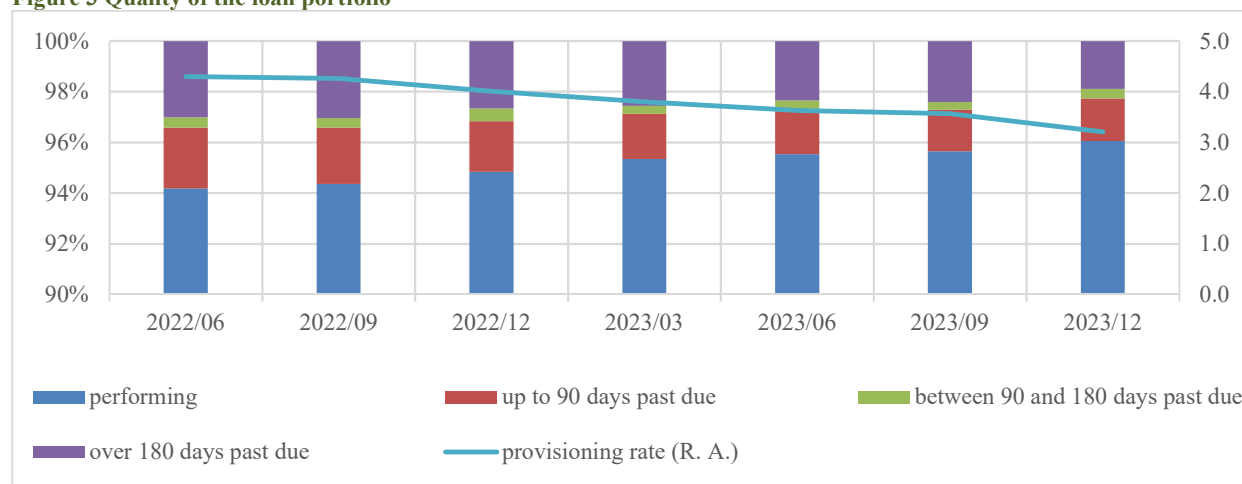
It can be seen that the nominal increase in loans to NFE (by 3.6 billion for 2023), like in the prior year, is faster than the growth in new business volumes in the segment (BGN 3.1 billion), but this difference decreased from BGN 0.8 billion in 2022 to BGN 0.5 billion in 2023. One of the main factors for the decreasing difference is the more active measures to write off non-performing loans, and the forced collection of past due receivables, as a result of last year's activity on the market of assets pledged as collaterals, and financial institution's natural wish to take advantage of the favourable market conditions to improve the quality of their portfolio, limiting the share of non-performing exposures (Figure 3).

The shirking difference has also been influenced by the expiry of contracts concluded pursuant to the procedure for deferral and settlement of payables. The term of these agreements, which resulting in retaining exposures that would otherwise have been matured and repaid, ended at the end of 2021, and for entities whose solvency aggravated after the contract was concluded, the extraordinary deferral resulted in a delay in the actions to reclassify payables and the consequences therefrom. Therefore, the active initiation of forced collection measures in 2023 can be partially explained with the lag effect of the agreements mentioned above.

Trends in retail lending

In retail lending there has been a retention in high activity levels reached in the prior year (Figure 1). The total new business volume continued to grow, reaching BGN 16.45 billion for the year, which is BGN 1.80 billion (or 12.2%) more than in 2022. This trend proves to be sustainable, as far as the new business volumes for natural persons have constantly been increasing since 2010 (with the exception of 2020). Also retained was the trend of an increasing share of long-term household loans, and in the past year, this share increased by 8 basis points, from 83.51% to 83.59%, and this can be partially explained with the continuing (for the fifth consecutive year) increase in the share of home loans (from 45.63% last year to 47.27% in 2023). Last, but not least, the decision on determining the loan term in the past year was also impacted by expectations for stagnation in most households' real income.

Figure 3 Quality of the loan portfolio



Even though work salaries grew by 13.7% (from BGN 21'242 to BGN 24'147), compared to just 9.5% increase in consumer prices, most Bulgarian households' income remains unchanged, which forms negative expectations and motivates individuals applying for a consumer or home loan to structure their repayment schedule so that the expenses for servicing their payables have the lowest possible percentage of their disposable income

The negative trend in the number of property transaction registrations with the Registry Agency since the end of the first half of 2022 and continued throughout 2023 to a large extent explains the moderate growth in the share of home loans in the past year (163 b.p.), which is three times less compared to 2020, when this share increased by over 560 points. The increase in this share against the background of the decreasing number of transactions in properties is somewhat surprising and could possibly be explained with the increase in the share of bank financing for real estate transactions (at the expense of self-financing), and this effect may be exhausted in 2024 and realisation in the segment will weaken, which on its part will result in the gradual decrease in the share of long-term loan in the total contracted amount of loans to individuals and households.

Activity remains high also in the consumer segment, where in 2023 the portfolio of consumer loans in the banking system grew by 11.8% on an annual basis (compared to 12.8% on an annual basis in 2022) to BGN 18.0 billion. The house loan portfolio, like in the previous five years, grew faster – by 19.1% on an annual basis to BGN 22.0 billion. The good indicators of the dynamic in households' exposure are commensurate the intensive growth in new business from loans to individuals, whose volume for the past 2023 reached BGN 16.45 billion and is 1/8 higher than the volume in 2022.

The last, but not least, motivating factor that should be mentioned is the slower growth in interest rates on new loans. From the point of reaching a minimum of 2.47% in September 2022, average interest rates on newly extended home loans denominated in the local currency fluctuate around 20 b.p. (reaching 2.60% at the end of 2023), while in EUR-denominated loans there has been a certain increase, from the minimum reached in the middle of 2022 (2.91%) to 3.85% in the very first month of 2023. This resulted in an increase in the interest difference between BGN and EUR-denominated loans of over 120 b.p., respectively – in retaining activity in BGN-denominated home loans.

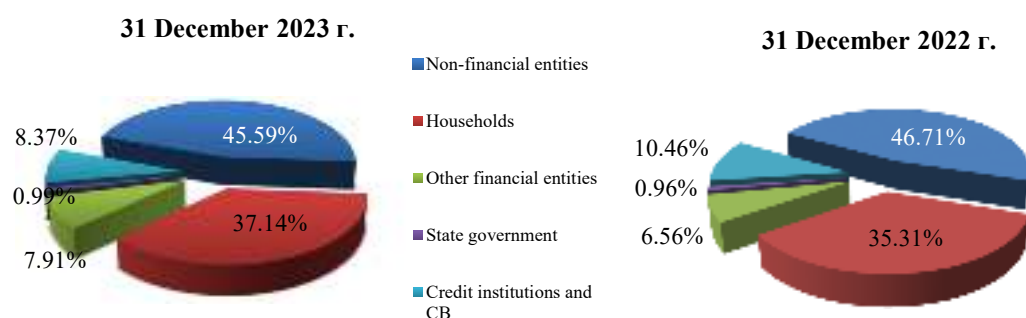
Through slowly, the increase in interest rates in 2023 is becoming a trend and it can be expected that the potential tightening of loan conditions in 2024 will result in a shrinkage in the grow amount of re-financing, and thus on limiting the volume of new business for households in general.

Structure of the assets of commercial banks

Following the lagging in the rate of gross loans (excluding ones to banking institutions) compared to the overall volume of loans and advances extended in 2022, in 2023 there was again a greater increase. If the total amount of loans increases by 9.57% for the past year, after loans to lending institutions are excluded, the growth rate is about 1/3 more intensive, reaching 12.14% on an annual basis. The reason for this change is the weakened motivation of commercial banks to transfer assets to current accounts in other banks (mainly abroad), since the increase in interest rates on new business (especially in the corporate segment) and in the profitability of new issues of sovereign debt resulted in a drop in the attractiveness of assets of the highest liquidity. The comparison with the expected profitability of loans to the non-financial sector is already in favour of the latter, despite the delay in the accrual of risk premium in the past year. Therefore, in 2023 financial intermediaries changed their preferences in favour of lending and it may be expected that this balance will be maintained in most of 2024, when the expected increase in environment risk and the impact thereof on risk premium increase will result in an outflow in both supply and demand for borrowed resources.

The above mentioned shift in the balance of preferences of financial intermediaries resulted in a significant decrease in the share of loans to FI (by 1/3 – from 10.5% at the end of 2022 to 8.4% at the end of 2023) at the expense of the shares of all others, with the exception of loans for entities (Figure 4). Their share decreased by 112 b.p., to 45.59%, which may be explained on the one hand with the partially lower demand for corporate loans (also due to the faster interest rate normalisation in this segment), and on the other hand, with the wish to achieve better diversification of the assets of financial intermediaries by increasing the share of smaller exposures to households. This is creditors' normal reaction in periods of growing imminent risk, as far as household exposures are originally lower in terms of individual amounts, and the market of loan collaterals is characterised by much greater depth than the market of collaterals on loans to legal entities. This reaction also explains the increase in the share of loans to households by 183 b.p., to 37.14% at the end of the year.

Figure 4 Structure of loans and advances

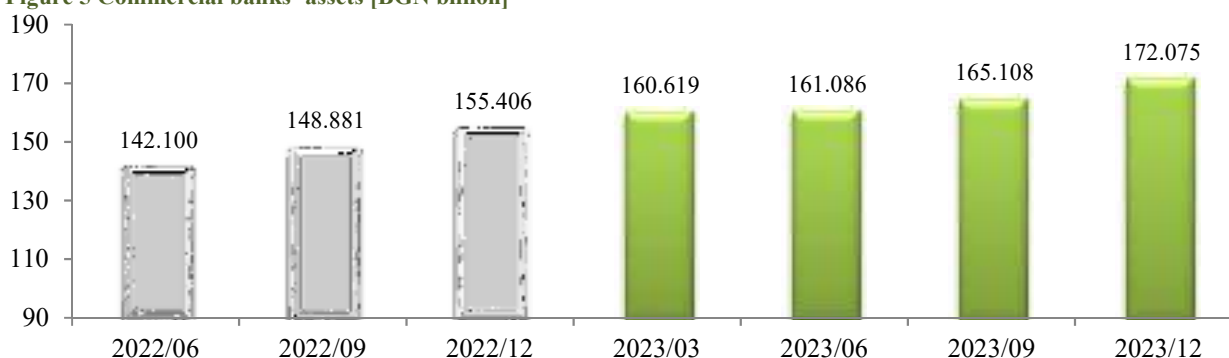


Source: BNB, own calculations

Loans to non-banking institutions also continue to grow. In 2022, banks actively led to this sector, and the rate in 2023 exceeds the one achieved in the period of highest dynamics in this segment (25-27% on an annual basis in 2017-2018). In 2023, the total amount of receivables from other financial entities increased by 32.37%, which is three times more than the level achieved in the previous year (11.47%) and is done not so much to utilize the excess of liquid funds any more but for the purpose of exporting assets of high risk weights to the balance sheets of (usually related) non-banking institutions so as to prevent the aggravation of capital adequacy ratios. It may be expected that in 2024 exposures to this sector will continue to grow at a comparable rate, against the expectations for potential stagnation in population's real income.

Depositors continue to increase their savings, motivated by some extent by the increase in deposit interest rates. The total amount of attracted resources from the non-financial sector increased by 8.38% on an annual basis (which is two times weaker than in the prior year, 15.41%) mainly at the expense of households, where the increase in savings (BGN 8.33 billion) contributes to over $\frac{3}{4}$ of the total growth in deposits. It can be noticed that there is a sharp drop in the activity of legal entities, which after the intensive increase in savings by BGN 16.84 billion in 2022 (despite the fees on deposits) at the beginning of 2023 limited their proneness to saving and the first half closed with zero growth in attracted resources from this source. The sector comparison shows that the most intensive decline in deposits in the first half was in the sectors most directly affected by the sanctions against the Russian Federation, namely transport and trade, as a result of which it can be assumed that the main reason for the limited supply of deposits by economic agents is the disrupted rhythmicity of proceeds and the need to offset the shortage with own funds to ensure continuity of business processes.

Figure 5 Commercial banks' assets [BGN billion]



Source: BNB

As a whole, in 2023 commercial banks continue to demonstrate sustainable indicators despite the unfavourable conditions of the environment in which they operate, supported by a large extend to the growth in spreads and in the net interest margin as a result of the raising of base indices on which interest dynamics depends (and the rate at which interest is charged on the residual amount of loans disbursed). The data from unaudited financial statements of banks show that the sector is making record profit, allocated mainly to the bigger sector players. A comparison by groups shows that the five biggest institutions (Group I) managed to increase their net profit almost twofold (from BGN 1.4 to BGN 2.7 billion), while banks in Groups II and III achieve slower growth rates, respectively 46 and 42%.

Apart from the continuing growth of profits, the main trends in 2023 are the processes of digitalisation of banking products and services, and commencing the process of implementation of the plans announced in March of the European Central Bank and the European Supervisory Authorities (ESA) to introduce new requirements for disclosure of climate change-related information. The aim is to better identify the risks related to climate. In October, a revision was made to the framework setting the capital requirements for lending institutions, so as to account for environmental and social buffers in mandatory buffers for the entire industry. This process should change the risk appetite and risk profile of banking institutions, impacting each of the traditional categories of financial risks, and may result in certain limitations in the basis for generating revenue in the sector.

II. Review of the activity of Tokuda Bank in 2023

As at 31 December 2023, the assets of Tokuda Bank AD amount to BGN 485.465 million, which is 0.28% of the total amount of assets in the Bulgarian banking system (according to BNB data). When compared to the assets of Group Two banks, to which Tokuda Bank AD belongs, this share is 1.36%. The average monthly value of balance amount is gradually increasing; in the past year, the indicator reached BGN 471.5 million, and in 2022 – respectively BGN 449.1 million.

In the past year, the Bank has successfully met the challenges of its environment and continues to strictly observe the main priorities in its strategy. For instance, in relation to the priority for improving the structure of assets and liabilities, the following results may be indicated: gross loans increased by BGN 1.258 million above prior-year levels (reaching BGN 255.947 million compared to BGN 254.689 million at the end of 2022) at lower allowance for credit losses and an increased share of performing loans. The share of the loan portfolio following impairment in the overall assets structure takes up 51.46% of the total assets at the end of 2023 (compared to 53.90% in the previous year), and along with that, the quality thereof improved – in the past year, the Bank managed to shrink the share of non-performing loans by 1.51 percentage points, to 7.97% of the gross amount of loans to and receivables from customers.

This was one of the key challenges for the past year, against the uncertain environment and the moderate dynamic of the loan portfolio, which is a logical result of the insecure behaviour of indicators of the economic climate and the increased competition for clients with proven creditworthiness. The increase in the share of the loan portfolio as a whole in the structure of assets was at the expense of categories with generate relatively low income, like for instance receivables from banks.

The latter supports reaching the business objectives related to improving the profitability indicators, and it should be taken into consideration that the increase of their share in the structure of assets is accompanied by the improved quality thereof. The fulfilment of this objective may be tracked through the dynamic of the ratio between total operating expenses to the total operating income, which over the past year remained unchanged (decreasing by 22.70 p.p. to 58.80%), as a result of the increase in the total operating income, before impairment and loss provision to BGN 25.218 million for 2023 (compared to BGN 16.863 million for 2022), but also as a result of the limited increase in operational expenses by BGN 1.085 million (to BGN 14.827 million for 2023).

The latter fact is the natural result of fulfilling another key objective, namely, improving the effectiveness of the Bank's market presence through the continuing optimisation of the office network. Pursuant to this objective, the following offices were closed down in 2022: the offices Sliven, Haskovo, Hemus-Sofia; the optimisation process was carried out without a significant client outflow. The effect of this optimisation could also be seen in 2023, and thus, the Bank managed to optimise its expenses and thus free resources to be relocated to the points that have the potential to generate higher added value.

There has also been successful fulfilment of another priority in the strategy and business plan, namely the effective management and control of the amount of customer deposits aimed at limiting the resource costs while maintaining stable financing. In 2023, the Bank managed to increase the amount of attracted funds by 3.90% (to BGN 429,034 million), and the share of more expensive financing, whose source are individuals and households, remained unchanged (75.76% in the overall structure at the end of 2022 compared to 73.44% in the prior year), while the share of term deposits decreased by 2.78 percentage points to 44.58%. Thus the price of attracted resource continued its downward trend and for 2023 interest costs decreased by BGN 217 thousand, to BGN 742 thousand despite the increase in the resource volume.

In 2023, the Bank realized a net profit of BGN 7.527 million. The result is significantly better than in 2022, when the Bank stated a net profit of BGN 2.433 million, and is mainly due to both the increases interest and fee income.

II.1. Operating income and expenses

In 2023, the Bank generated operating income before impairment and loss provisions at the amount of BGN 25.218 million (Table 1), which is BGN 8.355 million (49.55%) more than in 2022. Its dynamics in the past period was still influenced by the increase in interest rates in the country resulting in acceleration in the rate of gross loan interest income, which given 1.96% increase in the performing portfolio for the past year increased by 53.63% (BGN 5.269 million). The interest expense rate is negative (-20.39%), and the volume thereof decreased by BGN 190 thousand in the reporting period compared to last year, mainly due to the limiting of deposits with contractual maturity (whose share in the overall structure of borrowings decreased by 2.78 p.p.).

The Bank continued to adhere to the adopted conservative policy regarding administrative expenses. As part of this policy, the management exercises systematic control over expenditure, which in the conditions of intensive consumer price growth results in a moderate increase in most costs within this category, as a result of which the total amount thereof in the past year grew by BGN 1.085 million (to 14.827 million).

The ratio of the total volume of operating expenses to the total operating income for the past year decreased by 22.70 percentage points (to 58.80%), which is due both to the above mentioned limited increase of operating expenses by BGN 1.085 million, and to the intensive increase in overall operating income before impairment and loss provisions by BGN 8.355 million (from BGN 16.863 million in 2022 to BGN 25.218 million in 2023).

The unstable market situation resulting from the disruption of some supply chains due to the stricter sanctions against Russia and the growing tension in the Middle East, as well as the continuing rising of interest rates, resulted in some changes in the structure of revenue (Table 1). In 2023, the share of net income increased by 14.09 p.p. and reached 72.42% of the total amount of revenue, while non-interest income decreased to 27.58% (for comparison – in the same period of last year, these values were respectively 58.33% and 41.67%). The changes that occurred in the structure may be explained with both the intensive growth in interest, and the negative rate in “other operating income”, which decreased by 39.73% on an annual basis, to BGN 1.188 million, as a result of lower rental income (due to the disposal of some properties) and the decrease in revenue from remeasurement of investment property.

Table 1. Operating income (BGN'000)

	2023	2022
Interest income	19,005	10,769
Interest costs	(742)	(932)
Net interest income	18,263	9,837
Income from fees and commissions	5,486	4,926
Expenses for fees and commissions	(431)	(366)
Net income from fees and commissions	5,055	4,560
Net profit from financial assets held for trading	712	495
Other operating income (expenses)	1,188	1,971
Total operating income	25,218	16,863

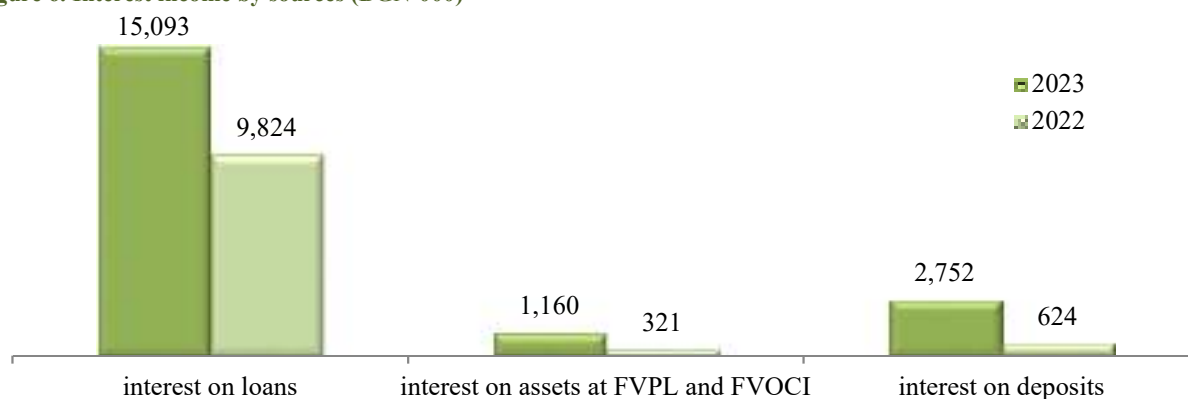
The gross income from interest on loans and other receivables increased by BGN 5.262 million to BGN 15.093 million and continued to have the biggest relative share as compared to the total amount of interest income, which is due to the general market trend of increase in interest rates, but also to the increase in the volume of performing loans. Tokuda Bank AD continues to maintain a relatively small spread compared to reference rates, in order to strike a balance between improving profitability and ensuring the best possible conditions for the Bank's clients compared to current market levels. The effect of the relieved conditions is partially offset by limiting the share of non-performing exposures, which decreased by 1.52 percentage points to 7.97%. The growth in loan interest income in 2023 is intensive (53.63% compared to 7.23 % in 2022), however, against the background of the faster rate in interest income in other interest-bearing assets in 2023, the share of interest income on loans decreased by 11.81 percentage points compared to last year, reaching 79.42% at the end of the period.

Interest income from the debt instruments portfolio (Figure 6) increased by BGN 839 thousand (or by 261.37% compared to the figure stated in 2022), to BGN 1.160 million for the past year, on the one hand due to portfolio amortisation and the sales made at the end of 2022 and the beginning of 2023, accompanied by intensive purchases, resulting in replacing the issues recognized in the Bank's balance sheet with new ones whose profitability is higher due to the overall change in market conditions. The accelerated rate of increase of income from this source results in a noticeable increase in its share in the total amount of interest income – from 2.98% to 6.10%.

A logical result of the continuing increase in interests on interbank deposits and their reaching positive values (resulting from effective transfer of the effects of the Eurozone's quantitative easing policy), the overall amount of revenue from this source increases by multiple times, reaching BGN 2.752 million (compared to BGN 624 thousand in 2022). The effect of the continuing increase in interest rate on this type of revenue is partially offset by the increase of the average annual amount of this group of assets in the past period (BGN 35.536 million in 2023 against BGN 56.370 million for the previous year).

The price of attracted funds remained above the average level for the country's banking system, as individual and household deposits maintained their relatively big share in the Bank's deposit base (75.76% versus 73.44% for 2022). As a result of the relatively high share of fixed-maturity deposits initially contracted at interest rates lower than the effective ones, interest costs in the past year decreased by BGN 190 thousand (to BGN 742 thousand for 2023).

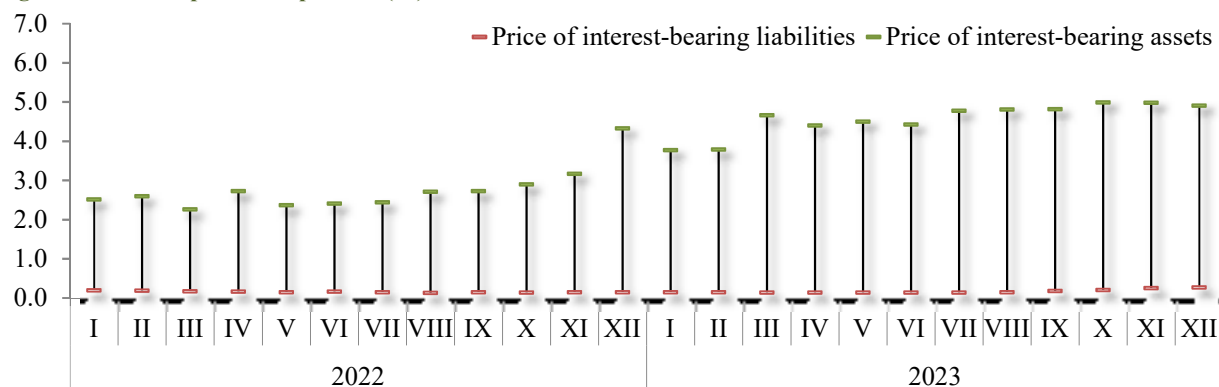
Figure 6. Interest income by sources (BGN'000)



In 2023, the interest spread gradually increased (Figure 7), and its dynamic was more intensive in the first half, while in the second half the indicator fluctuated within a comparatively narrow range (4.3-4.7). The comparison of the profitability of interest-bearing assets shows that over the past year, the unweighted profitability ratio increased by 181 b.p. (from 2.77% for 2022 to 4.57% for 2023), mainly as a result of the higher market interest rates, but also due to restricting the share of classified loans with delays on principal and interest payments by more than 180 days. Another factor that contributed to the spread increase was the retention in the expense rate for attracted funds, which changed by 1 b.p. per annum on average – 0.17% for 2022 to 0.18% for 2023.

The elimination of additional fees on higher current account balances and the minimal increases in interest rates on fixed-term deposits in 2023 resulted in some changes in the maturity structure of attracted funds, and in the past year the share of current accounts increased by 2.78 percentage points (to 55.42%). This also supports a decrease in the price of the attracted resource, along with the increased reference indices realization of additional proceeds (from collected court receivables) in the past year had a positive effect on the interest spread. Thus the aggregate indicator in 2023 reached 4.40% (compared to 2.66% for the prior year).

Figure 7. Interest spread components (%)



Non-interest income

In 2023, non-interest income decreased by BGN 71 thousand (1.01%) on an annual basis, reaching BGN 6.955 million, which is mainly due to the revenue not related to principal activities. In the past year, other operating income decreased

by BGN 783 thousand (from BGN 1.971 million in 2022 to BGN 1.188 million in 2023).

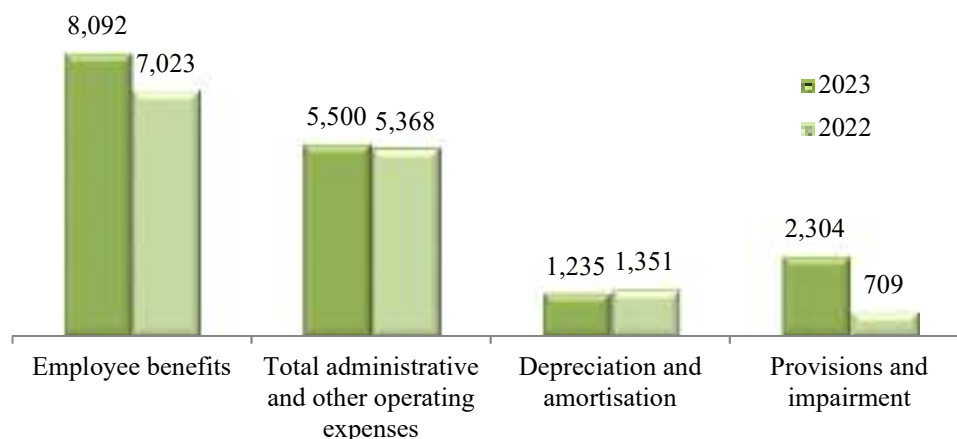
The largest share in this group of income remained that of net income from fees and commissions, which marked an increase by BGN 495 thousand (or 10.86% on an annual basis) to BGN 5.055 million as a result of the increased income from servicing of accounts, cards, and loans extended. These increases were partly compensated for by the lower income from charges on cash transfers, which in the past year decreased by a BGN 37 thousand. The structure of receipts from fees and commissions over the past year did not undergo significant changes, and the biggest increase was that of fees on servicing bank accounts (by 1.48 percentage points, up to 10.41% of gross fees income), and the biggest shrinkage was that of transfers (3.16 percentage points, down to 21.18% of gross fees income).

The expectations for forthcoming decrease in base rates, which are increasing against the background of the slowing price increase rates, have a favourable impact on the income from trade in securities, as a result of which the net trading income grew to BGN 712 thousand for the past year (versus BGN 495 thousand for 2022).

Non-interest expenses

The Bank's non-interest expenses in 2023 amount to BGN 17.131 million (Figure 8), which is by BGN 2.680 million or 18.55% more than the preceding year. This is due to the increase in the costs for impairment by BGN 1.595 million compared to 2022, and to the employee benefits expense (which increased by 15.22% to BGN 8.092 million as a result of catching up with the overall increase of employee benefits increase in the country). The other administrative operating expenses grew by BGN 132 thousand, reaching BGN 5.500 million in the past year as a result of the overall increase in price indices in the past year.

Figure 8. Non-interest expenses (BGN thousand)

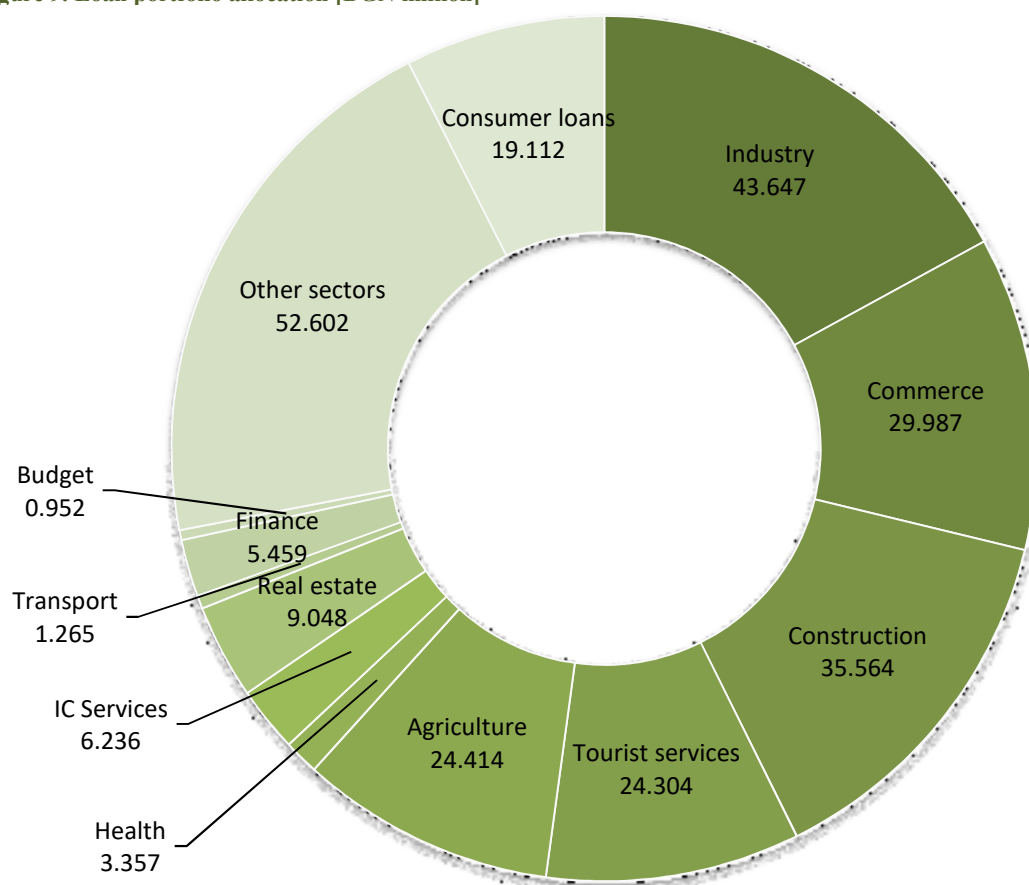


The clearly expressed dynamics of most portions of expenses in this group results in a change in its overall structure. For instance, the share of personnel expenses (including the labour remunerations and social security contributions) in the overall structure of non-interest expenses decreased by 1.36 percentage points (from 48.60% to 47.24% over the past year), the share of total administrative and other operating expenses decreased by 5.04 p.p. to 32.11%, and amortisation and depreciation costs in 2023 were 2.14 percentage points lower compared to the preceding year. The share of provisions and impairment expenses increased by 8.54 p.p.

II.2. Loan portfolio

At the end of 2023, the gross carrying amount of the Bank's loan portfolio (Figure 9) was BGN 255.947 million. After accounting for the allowance for credit losses at the amount of BGN 6.144 million, the net amount of the portfolio is BGN 249.803 million. The moderate increase is due to the uncertain indicators of the business climate and the retention of the high risk of the environment, but also to the intensified activity of collection of receivables classified in the "loss" group. The rate achieved somehow lower that of overall assets, which on its part resulted in an decrease in the share of the loan portfolio following impairment in the overall assets structure by 2.44 percentage points – to 51.46% of the total assets at the end of 2023, against 53.90% in the previous year.

Figure 9. Loan portfolio allocation [BGN million]



The loans to corporate customers increased by BGN 4.195 million (to BGN 196.156 million before impairment), and their share in the gross amount of the credit portfolio (up to 76.64%) remained close to the one achieved in the prior year (to 75.37%), which is due to maintaining almost complete correspondence between the structure of lending activity and that of the existing credit portfolio.

The changes in the “individuals and households” segment were due to the maintained activity in this category of borrowers. This segment’s share decreased from 24.18% in the structure of gross loans in 2022 to 22.99% in 2023. In an absolute value, the segment marked a decline of BGN 2.751 million, or 4.47% compared to the previous year, when its share in the overall portfolio structure decreased by 1.19 percentage points due to the slower growth in this segment compared to exposures to corporate clients.

In 2023 the Bank continued its traditional business with entities from the industry, commerce, construction, tourism, agriculture, healthcare, and other sectors. The share of loans to the trade sector in 2023 decreased by 2.05 percentage points and now holds the third biggest relative share (11.72%) in the loan structure, while industry climbed from third to first place as a result of an intensive growth in its share by 4.39 p.p. (to 17.05% of gross loans). The second place is taken by construction, whose share increased by 0.78% (to 13.90%). The fourth place was taken by agriculture (9.54%), followed by tourism (9.50%), real estate (3.54%) and information services (2.44%).

In the past year, the Bank has continued to maintain its moderately conservative lending policy, and new loans are approved if the individuals meet high reliability and creditworthiness criteria. An indicator of the effectiveness of these criteria is the regular servicing of loans by new customers.

To address the increased environment risk caused by domestic political instability, additional sanctions against the Russian Federation and the growing tension in the Middle East, the Bank continues to adhere to the list of identified (severely affected) sectors that it approaches with increased attention and only by exception, in case of inquiries for financing. In order to address the new challenges, this list was updated and made precise, and the Bank continues to maintain increased direct contact with existing borrowers, companies and individuals, in view of provision of timely information about trends in the businesses financed.

The changes in the portfolio's currency structure are moderate. The share of EUR-denominated loans has decreased by 2.23 percentage points (to 14.28% of the carrying amount of the loan portfolio after impairment), which is mainly offset by BGN-denominated loans (increasing by 1.93 percentage points – to 84.88% of the carrying amount of the loan portfolio following impairment) and USD-denominated loans taking up 0.84% of the portfolio at the end of the past year (30 basis points higher than in 2022).

Table 2. Loan portfolio allocation by classification groups under IFRS 9 (BGN thousand)

	2023			2022		
	gross amount	impairment according to IAS	carrying amount	gross amount	impairment according to IAS	carrying amount
Performing	235,554	1,064	234,490	230,562	632	229,930
Non-performing	20,393	5,080	15,313	24,127	6,296	17,831
Total	255,947	6,144	249,803	254,689	6,928	247,761

Pursuant to one of its strategic objectives, in the past year the Bank managed to shrink the share of non-performing loans by 1.51 percentage points, to 7.97% of the gross amount of loans to and receivables from customers. Continuing this trend is becoming an even greater challenge given the continuing armed conflicts and the growing risk of recession, which is related to expectations for a delay in the growth rate of real income, incomplete employment, as well as growing environment uncertainty (to which the repeated interruptions of the new political cycle also contributed). The above factors will continue to put pressure on consumption patterns, hence – on the lending rate, which may result in a delay in lending activity and in the process of improving the portfolio quality.

In order to cover the risk of losses from loan impairment and in accordance with the requirements of IFRS 9, as at 31 December 2023 the Bank charged an allowance for expected credit losses at the amount of BGN 6.144 million, and the coverage coefficient has decreased from 2.72% to 2.40% due to write-off of impairment at the amount of BGN 2.550 million. The coverage of impairment provisions for performing loans increased by 3 b.p. compared the prior year (from 0.27% to 0.44%). Nearly the entire impairment (82.68%) has been allocated to unserviced (non-performing) receivables (Table 2).

II.3. Securities

The securities portfolio has decreased at the end of 2023 by BGN 8.394 million, to BGN 72.122 million. Thus, its share in the total assets amount has decreased by 2.66 p.p. compared to the prior year, reaching 14.86%. The change rate is moderate (10.43%), as far as against the background of the slowing inflation indices and the growing unclarity regarding the next easing cycle of the by ECB and FED the Bank refrains from increasing the share of fixed-income instruments within the overall structure of assets. As a whole, limiting this category of assets is a continuation of the Bank's policy to reposition its assets towards decreasing the share of low-income components in the overall structure in order to improve profitability ratios.

Most of the securities (58.73%) are classified within the portfolio of securities at amortised cost, and the carrying amount of this category in the past year decreased from BGN 44.877 million to BGN 42.357 million. The securities measured at fair value through other comprehensive income decreased faster (from BGN 34.999 million at the end of 2022 to BGN 29.069 thousand as at 31 December 2023), while the portfolio of securities through profit and loss increased by BGN 66 thousand (to BGN 315 thousand).

Table 3. Securities portfolio (carrying amount) (BGN thousand)

	2023	2022
Stocks and shares in local enterprises	696	630
Bulgarian government securities (including Eurobonds)	27,291	36,207
Foreign government securities (including Eurobonds)	44,135	43,679
Corporate bonds of local and foreign issuers	-	-
Impairment charged in the year and credit loss allowance	-	-
TOTAL	72,122	80,516

Over the past year, there has been an increase in investments in foreign government securities by BGN 456 thousand

(to BGN 44.135 million), while their share in the overall securities portfolio increased by 6.95 percentage points (to 61.19 %). Regarding local government securities (Bulgarian government securities and Euro bonds) there is a negative growth, which in 2023 was BGN 8.916 million. Thus the carrying amount of assets in this category grew to BGN 27.291 million, while its share in the overall structure shrank by 7.13 p.p. (to 37.84%). The carrying amount of stocks and share of local entities in 2023 increased by BGN 67 thousand to BGN 696 thousand, and due to the higher growth rate of this category its share in the overall structure increased from 0.78% to 0.97% at the end of 2023.

II.4. Attracted funds

In 2023, the volume of attracted funds from customers increased by 3.90% and in the end of the year reached BGN 429.034 million. To some extent the effect of uncertainty in the economy was reflected into an increase in the savings of non-financial entities and the population, hence – into the banking system's liquidity. The sources of most of the Bank's attracted funds are persons and households (Table 4). In the past reporting period, the share of resources from this source increased – by 2.32 p.p. (to 75.76% of the overall structure), mainly as a result of the Bank's purposeful efforts to maintain a stable structure of the resource. The changes are mainly at the expense of on-demand deposits by persons and households (by 4.58 p.p. to 36.83%), which is partially offset by term deposits from the same source, whose share decreased by 2.26 p.p. to 38.92% at the end of 2023, but nevertheless retained their first place in the structure of liabilities.

The attracted funds from corporate clients decreased, and the share of current accounts decreased by 0.21 b.p. to 17.78%), and that of term deposits shrank by 0.52 p.p. (to 5.61% of attracted funds). The deposits of budget entities decreased their share by 1.21 percentage points – from 1.88% to 0.67%. The retention of the low share of attracted funds from non-banking institutions is explicable against the growing indicators for liquidity in the banking system. Over the past year, deposits from this source decreased by BGN 1.516 million, and their share in the overall structure of attracted funds shrank from 0.55% to 0.18%.

Tokuda Bank is no exception from the banking system and keeps maintaining high liquidity, thus preserving a weak interest in attracting any resource from banks. The total amount of deposits from credit institutions in the past 2023 holds a negligible share of the Bank's liabilities (0.01%), decreasing from BGN 1 thousand to BGN 48 thousand at the end of 2023.

Table 4. Structure of attracted resources (BGN'000)

	2023			2022		
	On-demand and savings deposits	Fixed term deposits	Total	On-demand and savings deposits	Fixed term deposits	Total
Accounts of local individuals	158,029	166,998	325,027	133,206	170,060	303,266
Budget accounts	2,880	0	2,880	7,748	0	7,748
Company accounts	76,275	24,083	100,358	74,294	25,339	99,633
NBFIs accounts	569	200	769	2,085	200	2,285
TOTAL	237,753	191,281	429,034	217,333	195,599	412,932

In 2023, activities continue for optimisation of the maturity structure of liabilities, and for updating deposit interest rates in view of offering better conditions to the Bank's customers. As a result, the average contracted price of the resource in 2023 has increased, from 0.17% to 0.25%, and its structure has been retained, and the share of fixed-term deposits shrank by 2.78 percentage points to 44.58%, while the share of on-demand deposits increased to 55.42%.

The changes in the currency structure of the attracted funds are insignificant and in favour of the single European currency, whose share over the last year increased from 39.48% to 40.59%, mainly at the expense of deposits denominated in BGN, whose shares decreased from 50.60% to 49.67%, and USD, which decreased by 0.31 p.p. to 9.06%. The shares of deposits denominated in JPY grew to 0.06%, and deposits in other currencies (CHF, GBP) decreased by 0.10 p.p. and at the end of the period reached respectively 0.61% of the overall structure.

II.5. Risk exposure

The Bank has established a risk management system for the risk related to financial instruments, which for the purpose of its monitoring and management is defined as the likelihood of discrepancy between expected proceeds (from the financial instruments held) and actual ones. The system has been established so as to allow the timely identification and management of the different types of risk related to financial instruments. Particularly important to this system are the management procedures, the mechanisms for maintaining reasonable risk levels, ensuring optimal liquidity,

and portfolio diversification.

A key element of the management system is the possibility to present and analyse the types of risks that the Bank is exposed to, in an exhaustive and certain manner, but also make a clear distinction between the types of risk that the Bank is exposed to, namely: credit risk, liquidity risk and market risk, which includes interest, currency, and price risk.

Credit risk, within the system used, is addressed by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by relevant business sectors. In order to reduce credit risk, according to the internal credit rules, adequate collaterals and guarantees are required.

Cash and cash balances with the Central Bank amount to BGN 135,631 thousand as at 31 December 2023 (respectively BGN 95,441 thousand as at 31 December 2022) and do not bear a credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Loans and receivables from credit institutions as at 31 December 2023 amount to BGN 4,507 thousand (respectively BGN 7,571 thousand as at 31 December 2022) and represent mostly deposits in first-class international and Bulgarian financial institutions with maturity of up to 7 days. The Bank manages the credit risk associated with loans and receivables from credit institutions, by setting exposure limits at counterpart level.

Loans to and advances to customers, with a carrying amount of BGN 249,803 thousand as at 31 December 2023 (respectively BGN 247,761 thousand as at 31 December 2022), expose the Bank to credit risk. In order to assess it, the Bank analyses the individual risk of each exposure by applying the criteria for risk assessment and classification according to the Policy for impairment of financial assets and contingent liabilities.

As at 31 December 2023, in order to calculate exposures to credit risk, Tokuda Bank AD applies the standard approach pursuant to Regulation (EC) No 575/2013. Due to the relatively small volume of financial instruments in the trading portfolio, capital requirements are calculated in accordance with the requirements of Regulation (EC) No 575/2013, applicable for the banking portfolio. To calculate the amount of capital necessary to cover operating risk losses, the basic indicator approach is applied.

Regarding **liquidity risk** (arising from the maturity gap of the assets and liabilities and the probable lack of sufficient funds of the Bank to meet its obligations on its current financial liabilities), it should be pointed out that Tokuda Bank maintains a high amount of liquid assets in the form of cash in hand and cash balances with the Central Bank, which guarantee the Bank's ability to meet its liquidity requirements. As at 31 December 2023, the Bank's cash and cash balances with the Central Bank represent 27.94% of the Bank's total assets (respectively 20.76% as at the end of 2022).

As an additional instrument to ensure liquidity, the Bank uses loans granted to banks. These comprise mostly deposits in first-class international and Bulgarian banks, with maturity of up to 7 days. As at 31 December 2023, loans and receivables from banks constitute 0.93% of the Bank's total assets (respectively 1.65% as at the end of 2022).

High-liquidity bonds owned by the Bank and not pledged as collateral as at 31 December 2023 amount to 14.00% of the Bank's total assets (compared to 15.70% at the end of 2022). By maintaining above 30.00% of its assets in highly liquid assets, the Bank ensures its ability to meet all its payment needs on matured financial liabilities.

Market risk arises on opened exposures in interest, currency and equity instruments, which are sensitive to general and specific market movements and affect the Bank's profitability. Market exposure is managed in accordance with the risk limits set by the management. The Bank manages the financial instruments held thereby, considering the changing market conditions. Market risk exposure is managed in accordance with the risk limits set by the management, by means of the purchase and sale of financial instruments or by opening an offsetting position to hedge the risk.

In order to measure and assess the **interest rate risk**, the Bank uses the GAP analysis method (misbalance method), allocating interest-bearing assets and liabilities in time ranges depending on the period left until their remeasurement (for instruments with floating interest rate) and maturity (for instruments with fixed interest rate). Thus it identifies the sensitivity of the expected revenue and expenses to changes in interest rates. The GAP analysis method aims to determine the exposure of the Bank, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their impact on net interest income. Its results support the management of assets and liabilities, and ensure sufficient and stable net interest income. Upon interest rate risk management, the Bank applies a policy and procedures according to the nature and complexity of its operations. By

managing interest rate risk, the Bank aims at a stable spread between the interest income and expense to provide an adequate profitability and maximum value at an acceptable risk value, and in view of the business volumes and structure, the Bank's exposure to interest rate risk and its sensitivity to this risk may be determined as moderate.

Foreign currency risk is the possibility to realise losses as a result of changes in foreign currency exchange rates. Most of the Bank's assets and liabilities are denominated in EUR and BGN; therefore, an adverse change in interest rates is insignificant, in as far as the exchange rate of the BGN is fixed to the EUR (under the Bulgarian National Bank Act, adopted by XXXVIII National Assembly on 5 June 1997, promulgated in the State Gazette, issue 46 dated 10 June 1997). Therefore, the Bank's open positions in EUR bear no currency risk for the Bank; and in currencies other than the euro the Bank aims not to hold open positions.

Price risk is related to the fluctuations in market prices of financial assets and liabilities which can cause losses for the Bank. The main risk for the Bank is the risk of a decrease in the market prices of the financial instruments held thereby for trading, which can lead to a decrease in net profit. As described in item 3 of this Section, a significant portion of the Bank's investments are in short-term and mid-term Bulgarian sovereign securities, which do not pose a significant price risk.

In 2023, Tokuda Bank AD continued adhering to a conservative approach in risk management and assessment, including with respect to credit risk, forming 86% of all risk exposures as at 31 December 2023. The Bank takes actions to a balanced decrease the risk on all credit exposures (mostly at the expense of the portfolio of non-performing loans), as a result of which the share of risk-weighted assets for credit risks remained almost unchanged. Overall risk exposure has decreased by BGN 7.006 million compared to 31 December 2022, to BGN 202.471 million as at 31 December 2023.

Table 5 Risk-weighted assets

	2023-12-31		2022-12-31		change	
	BGN'000	share	BGN'000	share	BGN'000	rate
For credit risk	174,333	86%	183,289	87%	-8,956	-5%
For market risk	625	0%	500	0%	125	25%
For operating risk	27,513	14%	25,688	13%	1,825	7%
Total	202,471	100%	209,477	100%	-7,006	-3%

Besides for the purposes of supervision, Tokuda Bank AD also calculates the Bank's economic capital, which would secure its solvency under unfavourable market conditions. For this purpose, an Internal Capital Adequacy Analysis (ICAA) is prepared.

II.6. Capital and reserves

As at 31 December 2023, the Bank's equity amounted to BGN 49.955 million, and the common equity according to the capital adequacy requirements for credit institutions is BGN 41.808 million.

The Bank's capital indicators are above the regulatory limits. Its capital position ensures an adequate coverage of risk exposures. The adequacy of the core Tier 1 capital has decreased compared to the previous year (by 225 basis points), reaching 20.65%, which exceeds the required regulatory limits.

As at 31 December 2023, the share capital amounts to BGN 68,000,000 /sixty-eight million/. The capital is allocated in 6,800,000 /six million and eight hundred thousand/ registered, non-materialised shares entitled to vote, with a nominal value of BGN 10 /ten/ each, and with an emission value equal to the nominal value.

According to the Book of Shareholders kept at the Central Depository, the Bank shareholders as at 31 December 2023 have remained, as follows:

- Tokushukai Incorporated, Japan (holding 99.94% of the capital);
- Gama Holding Group AD, Bulgaria (0.06%).

II.7. Branch network

The Bank has a total of 17 offices and remote workplaces in the country. The regional structure ensures fast access to potential clients of the Bank, since the offices are located in the main administrative centres in the country, and the



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organisational and management structure provide conditions for direct and effective contact with existing and future clients, in view of offering solutions that meet their needs. In 2023, no actions were taken to either open new offices or close down existing ones.

The structure of the branch network as at 31 December 2023 is as follows:

- Headquarters
- Offices – 15 nos.
- Remote workplaces – 2 nos.

The Bank's regional offices provide professional and high-quality services to their customers, as well as timely support in solving various issues and possibilities for utilization of new products and services.

II.8. Relations with correspondents

The Bank corresponds to all Bulgarian banks, as well as to leading banks abroad, following a policy for continuous optimization and expanding its relations with correspondents. The Bank uses the services of two local services for custodian servicing of its activities for acquisition and disposal of financial instruments on the Bulgarian and/or foreign markets.

II.9. Human resources

The human resource is a key factor for achievement of the strategic objectives of the Bank, which was proven by the quick adaptation in the conditions of all challenges in the past years. The Bank's management has been developing a human resource management system through continuous optimization of the staff administration processes (planning, recruitment, appointment, monitoring, assessment, promotion and dismissal). In 2023 the number of employees decreased from 206 to 194 as at 31 December 2023.

A determining factor for fulfilling the Bank's mission and strategy is the quality of its employees – their qualification, professional skills, and loyalty. The Bank's employees take part in a number of trainings and communications related to the functions performed thereby, since improving qualifications is one of the main and proven means to improve the working environment, service quality, and Bank's performance. The team of Tokuda Bank faced the challenges with high commitment, adequate reactions, and maintained the Bank's operations throughout all periods of increased risk.

The 'open door', communication and collaboration between divisions policy is ongoing. The Bank continues to make effort to retain and motivate valuable staff, by means of trainings, reporting, periodic control and changes, where necessary.

II.10. Information technologies

In the past year, the process of development of the upgraded electronic banking platform continued; the platform is an important channel for customer service in the conditions of limited physical contact. The Bank continues to promote the upgraded software platform servicing the debit and credit cards issued by the Bank was completed. The initiatives aim to improve the quality of customer service and provide reliable information about the behaviour of Bank clients. One of the challenges in this area in 2024 will be to use the functionalities of the new systems in a way to support the better realization of Tokuda Bank's card products.

III. Development prospects in 2024

In 2024 the banking system will face various challenges, most of which are directly related to the uncertainty regarding the events in Ukraine and the Middle East. At this stage there are no grounds to expect that the conflict will be resolved soon, nor that balanced solutions will be reached when structuring subsequent sanction packages – just the opposite. Most member states confirm their intention for final severance of economic relations not only with Russia, but also with the countries that make it possible to find ways to circumvent the restrictions imposed. This on its part presupposes the formation of more moderate expectations to the economy, hence – to the banking system in the short term, namely the possible weakening in the growth in lending and the drop in profitability and sustainability indicators in 2024. There will also be some pressure on profitability by the slowing growth and the rising domestic political instability and changes in the environment, which on their part create conditions for an increase in the share of non-performing loans, hence – in provisions, and a decrease in profitability ratios in the banking sector.

The concentration in the banking sector will probably continue to grow, like throughout the period since the beginning

of the pandemic (just in 2023, the share of the five biggest banks increased from 67.2% to 76.8%), as far as in the conditions of digitalization and transformation of banking services the migration of client mass will continue to focus on bigger banks that make bigger investments in developing new market realization channels and more active information channels for dissemination thereof.

The consolidation pressure will probably weaken despite the greater administrative burden and the increased risk of the environment (which may cause some of investors in this sector to withdraw), on the one hand due to the execution of several big deals in the past few years, and on the other hand – due to the accumulation of capital and liquid buffers in the period of increasing the interest spreads, as a result of which (at least in the short term) the urgency element will not impact the behaviour of investors in the sector.

A factor that will significantly influence the sector's development until 2025 is the effect of the economic and legal reforms related to Bulgaria's joint the eurozone. The violation of the inflation criteria and the difficulties in maintaining budget indicators may result in some delay compared to the indicative date for end of the currency mechanism.

As a whole, the Bank's operating plan for 2024 envisages continuing the actions taken to optimise business processes and complete ongoing projects, as well as taking targeted measures for organizational and technological improvements aiming to help the Bank meet the latest regulatory requirements, customer needs and business expectations.

The Bank has developed a capital plan for the 2024-2027 period, indicating the means and mechanisms to ensure coverage of regulatory requirements in view of forthcoming changes as a result of the latest amendments of the European Regulations. The document was approved by the MB by means of decision No 1058/27.03.2024 and is included as an integral part of ICAA.

Currently, the Bank's management intends to maintain a moderately conservative policy upon performing its main operations, in view of the further improvement its profitability indicators, and conduct active marketing campaigns in order to increase market share. The main objective for 2024 remains unchanged and is intensification of lending activity and improvement of the portfolio quality. The preliminary estimates in the financial plan show that the planned growth in activity may be achieved, as far as the Bank has a relatively small market share and has the potential to achieve lending rates that are above the average ones for the system.

A leading principle in determining development prospects is maintaining reasonable risk levels; therefore, the main priority in this year will again be the precise selection of appropriate customers and the reasonable assessment and management of credit risk.

In short, the main priorities for the Bank's development in 2024 have been retained in the way they were set upon determining its mid-term strategy, and may be summarised as follows:

- Improving the loan portfolio quality and optimising the asset structure in accordance with the policy on admissible credit risk and its capital coverage;
- Improving the Bank's efficiency; decrease of operating risks and building a solid base for long-term sustainable growth;
- Full use of modern information technologies to reach a wide range of customers, which would allow improving the quality and expanding the range of services offered;
- Increased activity in the field of retail lending in order to achieve better risk diversification and improve profitability indicators;
- Expansion of the market presence of the Bank by undertaking active measures aimed to increase the popularity of the "Tokuda Bank" brand and achieve better recognition thereof among potential customers;
- Ensuring stable income from main operations to guarantee higher return of share capital.

IV. Information on changes in the share capital, dividend policy and management

IV.1. Changes in the share capital

In 2023 there were no changes in the volume and structure of the Bank's share capital. The majority shareholder, holding 99.94% of the capital, is Tokushukai Incorporated, Japan. As at 31 December 2023, Tokuda Bank AD does not possess any own shares.

IV.2. Management

In 2023, the Bank preserved its two-layer management system. The composition of the Management Board and the



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Supervisory Board remained unchanged. As at the date of preparation of the financial statements, the members of the management bodies of the joint-stock company are as follows:

Bank's Supervisory Board

- Arthur Sterne – Chairperson of the Supervisory Board;
- Thomas Michael Higgins – Member of the Supervisory Board;
- Chris Matlon – Member of the Supervisory Board.

Bank's Management Board

- Dimitar Vouchev – Chairman of the Management Board and Executive Director;
- Anna Tsankova – Boneva – Member of the Management Board and Executive Director;
- Todorina Doktorova – Member of the Management Board and Executive Director;
- Savka Yondova – Member of the Management Board and Executive Director.

The total amount of remunerations received over the reporting year by members of the Supervisory Board is BGN 77 thousand (respectively BGN 72 thousand in the prior year). The total amount of remunerations received over the reporting year by members of the Management Board is BGN 571 thousand (respectively BGN 491 thousand in the prior year).

The members of the Management Board and of the Supervisory Board have no rights granted for acquisition of Bank shares and bonds, as they or their related persons have not concluded with the Bank any contracts beyond the usual activity or significantly deviating from the market conditions.

IV.3. Dividend policy

In 2023 the Bank did not pay dividend. The 2024 strategy does not envisage the payment of dividends for prior years or the current year.

IV.4. Events after the date of the statement of financial position

On 16 April 2024, through Bulgarian Stock Exchange (BSE), an agreement was disclosed between Bulgarian American Credit Bank (BACB) and Tokushukai Incorporated, Japan, for the acquisition by BACB of the shares of Tokushukai Incorporated, Japan in Tokuda Bank.

The transaction is for 6,796,250 shares in the capital of Tokuda Bank, or 99.94%. A permit is to be obtained for the transaction by the regulatory bodies – Bulgarian National Bank (BNB) and the Competition Protection Commission (CPC).

IV.5. Participation of Board Members in other companies

Supervisory Board:

- Arthur Stern – Chairperson of the Supervisory Board: shareholder and General Manager of Global Prime OOD, UIC 203874715;
- Thomas Michael Higgins – Member: shareholder (46% of the capital) in EASTISOFT Inc.; shareholder (13.3% of the capital) in YATOTO Inc. /USA/; Member of the Board of Directors and shareholder (27.5% of the capital) in EMP Invest Bulgaria AD with UIC 203120042; member of the management body of YATOTO EOOD with UIC 203831062; member of the supervisory body of Foundation for Business and Education with UIC 131468813;
- Chris Matlon – Member of the Board of Directors of America for Bulgaria Foundation (non-profit).

Management Board:

- Dimitar Voutchev – owner and General Manager of Delta Capital EOOD, UIC 175278566; Member of the Board of Directors of the America for Bulgaria Foundation (NPO); Member of the Board of Directors of Partners Bulgaria Foundation (NPO);
- Anna Tsankova-Boneva - owner of the shares in Fine Line EOOD, UIC 201758352;
- Savka Yondova – partner in SE Zlaten Ogan OOD, UIC 121215822.

V. Management responsibility

The prepared annual financial statements are in compliance with the statutory requirements and the International Financial Reporting Standards (IFRS) adopted by the European Union and applicable in the Republic of Bulgaria.

Tokuda  Bank

This is a translation from Bulgarian of the Management Activity Report of Tokuda Bank AD for year 2023.

They reflect in a reliable manner the property and financial condition of the Bank.

Upon preparing the annual financial statements (AFS), the management acknowledges that:

- the statements have been developed in compliance with the International Financial Reporting Standards;
- the statements have been prepared in accordance with the going concern principle and provide a truthful representation;
- the accounting policy applied is appropriate and has been consistently applied;
- the necessary judgements and assumptions made are in accordance with the prudence concept;
- all measures necessary for protection of the Bank's assets and prevention of fraud have been taken.

VI. Activities in the field of research and development

Due to the specifics of its operations, in 2023 the Bank did not perform any activities in the field of research and development.

VII. Activity as investment intermediary

Tokuda Bank AD performs services in its capacity as investment intermediary. The Bank intermediates the purchase and sale of financial instruments traded on a regulated market (Bulgarian Stock Exchange AD) and outside the regulated market. The Bank is a member of BSE and of Central Depository AD, and offers services as a Registration Agent. In its capacity as investment intermediary, the Bank meets certain requirements for the protection of customer's interests, in accordance with the provisions of the Markets in Financial Instruments Act (MFIA), Ordinance 38 on the requirements to operation of investment intermediaries, and Ordinance 58 on the requirements on protection of customers' financial instruments and cash, on product management and provision or receipt of consideration, commissions, other cash or non-cash rewards, issued by the Financial Supervision Commission (FSC). The Bank has established and applies an organisation for concluding and fulfilling contracts with customers, for compliance with the requirement for customers' data, accountability and storage of customers' assets in compliance with the statutory requirements, and in particular the provisions of Ordinance 38, Art. 28-31, and Ordinance 58, Para 3, Tokuda Bank has established and applies internal rules and procedures to ensure compliance with the legislation applicable to its operation as an investment intermediary.

The prepared Annual Management Activity Report and the Corporate Management Declaration are in compliance with the requirements of Chapter Seven of the Accountancy Act and Art. 100 n, Para 8 of the Public Offering of Securities Act (POSA).

In 2023 and up to the date of this Report, there have been no tax consultations or any other forbidden services performed by either of the two audit firms – BDO AFA OOD and ABVP-AUDIT STANDARD OOD, which carried out a joint independent financial audit of the Bank's annual financial statements for 2023.

By virtue of a Resolution of the Management Board of Tokuda Bank AD:

Dimiter Voutchev
Chairman of the Management Board and
Executive Director

Anna Boneva
Member of the Management Board and
Executive Director

Sofia, 14 May 2024



Tokuda  Банк

This is a translation from Bulgarian of the Management Activity Report of Tokuda Bank AD for year 2023.



CORPORATE GOVERNANCE STATEMENT OF TOKUDA BANK AD

(pursuant to Article 40 of the Accountancy Act and Art. 100m, Para 8 of the Public Offering of Securities Act (POSA))

1. Information on compliance with the Corporate Governance Code (Art. 100m, Para 8, p. 1, letter “a” of POSA)

In 2023, Tokuda Bank AD (the Bank) continued to comply, where appropriate, the National Corporate Governance Code (NCGC, the Code), published on the web page of the Bulgarian Stock Exchange AD (BSE), approved by means of decision No 461-KKY dated 30.06.2016 of the member of the Financial Supervision Commission (FSC) acting as Deputy Chair of the FSC responsible for the Supervision of Investment Activities Directorate, as corporate governance code pursuant to Art. 100m, Para 8, p.1, letter “a” from POSA, last amended on 1 July 2021, approved by FSC decision dated 25 November 2021.

The text of the National Corporate Governance Code is published on the website of the Financial Supervision Commission (www.fsc.bg).

2. Information on application of additional corporate governance practices (Art. 100m, Para 8, p. 1, letter “c” of POSA)

The Bank considers that the provisions of the National Corporate Governance Code are sufficient to cover the requirements of good corporate governance. Considering this, the Bank does not apply additional corporate governance practices other than those included in the Code.

3. Description of the main characteristics of the internal control and risk management systems in relation to financial reporting (Art. 100m, Para 8, p.3 of POSA)

3.1. The Bank has established an adequate system for identification, management and control of its risk profile, including:

- organizational structure for assessment and management of risk sensitivity;
- rules and methods for risk assessment and control;
- parameters and limits for transactions and operations related to credit, liquidity and market risks;
- a reliable system for accounting and management information, which allows identification and control of different types of risks.

The system for risk management performs preventive functions regarding potential losses and control over the amount of incurred losses.

The Bank’s risk management and control organisation corresponds to the nature and volume of operations, the inherent risks and the degree and scope of the control over operations exercised by the management. The activities it includes may be summarised as follows:

- management control and control environment;
- risk control;
- control activities and allocation of duties;
- information and communication;
- monitoring and correction of deviations.

The Bank’s development strategy is determined by the Supervisory Board (SB). Based on the strategy, the Bank’s risk appetite and risk profile are determined, which define its business model. The business model is subject to the risk appetite within the limits and thresholds established by the Management Board (MB) with respect to the significant risks which the Bank faces. Based on the strategy, risk appetite and profile of the Bank, the MB approves a plan and budget to accomplish the strategy, which includes targets, deadlines and measures to achieve the targets.

The competent bodies whose decisions on management lead to the formation of the Bank’s risk profile:

- SB – performs overall supervision over risk management; approves the Bank’s development strategy, on which the institution’s risk profile and risk appetite depends; approves a plan, budget and measures for the realization of the strategy and monitors their implementation. It appoints the head of the Risk Management and Monitoring Division (RMMD) and receives periodic and regular reports from the management, including capital management and capital plan; approves and confirms the capital plan prepared by RMMD and approved by the MB.

- MB – responsible for overall approach to risk management and for the approval of the plan, budget, principles and specific methods, techniques and procedures for risk management, as well as for approving the capital plan.
- RMMD – a specialised Bank unit for risk analysis, management and monitoring. The Division's functions are independent from the business units and from the units performing legal compliance and internal audit functions. The Division reports directly to the Bank's SB.

The Risk Management and Monitoring Division performs activities in the following areas: maintenance of database of information needed for risk assessment; monitoring and control of risks; regular control over compliance with limits; methodological support for other Bank's units related to application of internal rules and procedures for regular assessment and control of risks; compliance with internal rules and procedures for risk management; update of procedures for risk management and tools for controls of the risks in the Bank.

- 3.2. The main principles and actions, aims, rights and responsibilities, reporting lines and types of audits performed by the Internal Audit are regulated in the Rules for organisation and activities of the Internal Audit specialised service at the Bank. The rules are compliance with the applicable regulations of: the Bulgarian National Bank Act, the Credit Institutions Act, Ordinance 10 of BNB regarding the organisation, management and internal control in banks, the Financial Supervision Commissions Act, the Public Offering of Securities Act, the Special Purpose Investment Companies Act, the Measures Against Market Misappropriation with Financial Instruments Act, the Markets in Financial Instruments Act.

The Internal Audit supports the MB and SB in the performance of their function by providing objective, independent and reasonable assurance that the Bank is in condition to achieve internal control environment relevant to its goals. The Internal Audit performs assessment and recommends improvements to the efficiency of the corporate governance system, risk management and control processes by:

- performing assurance engagements and providing an independent and objectively documented opinion regarding:
 - the reliability, accuracy, completeness and timeliness of financial reporting and management information;
 - the effectiveness and efficiency of operations and of achieving operational and financial objectives and safeguarding of assets;
 - legal compliance with the applicable statutory and regulatory provisions.
- making suggestions for remediation of identified deficiencies and weaknesses in the control environment;
- performing advisory engagement by providing recommendations for improvement of existing practices and procedures and for development of effective control activities in the process of development of new procedures.
- performing extraordinary audit engagements and audits for fraud prevention.

The Internal Audit reports administratively to the MB and functionally to the SB of the Bank, which allows attaining the necessary degree of independence and effective performance of its responsibilities. The Head of the Internal Audit has direct and unrestricted access to the MB and SB.

- 3.3. The Bank's internal control system also includes the Legal Compliance Division. The Division provides the adequate identification, assessment and measurement of compliance-related risk.

The main principles, rights, responsibilities and reporting lines of the Legal Compliance Division are set out in the Rules on operation of the Legal Compliance Division at the Bank, in accordance with the applicable legislation.

The Legal Compliance Division enhances corporate governance and risk management efficiency by:

- Holding responsibility for the Bank's overall compliance with the effective legislation;
- Monitoring changes to Bulgarian and EU legislation that are directly related to the Bank's operations, performs regular assessment of these changes and the impact thereof on the Bank, and suggest changes to the effective/proposes new Bank's rules or procedures, products and services;
- Organises and coordinates the alignment to changes to laws, regulations and other acts applicable to banking activities in the Bank's internal rules and procedures, products and services.

The Legal Compliance Division is independent from the business lines and other structural units in the Bank and is directly subordinate to the Management Board.

- 3.4. As part of the Bank's operational activities, internal financial control is established and carried out – ex-ante, current, and ex-post control. There are established systems for internal control over financial reporting.

Ex-ante control is carried out over all types of accounting transactions and precedes their performance with the aim to ensure their lawful implementation.

Current control for operations with high level of operating risk is performed in the process of execution of banking transactions and aims to exclude deviations from established rules and procedures for performance of accounting operations, their compliance with legal requirements and timely correction of any errors, etc.

Ex-post control comprises all actions and measures with the aim of timely detection of unlawful activities and transactions, omissions and errors, fraud, waste of assets and other irregularities which were committed despite the measures included in the ex-ante and current control.

The internal control environment established at the Bank ensures the reliability of the financial reporting information. The functions of control over financial reporting include: organizational and operating independence of the unit responsible for financial reporting from the business units; alignment between the organization structure and the process for control and management of the related risks by strict definition of responsibilities; integrated information systems, which provide detailed breakdowns and report; developed framework of procedures and rules related to financial reporting and information security; definition and monitoring of approval limits and system for internal control processes; independent assessment for compliance performed by the Internal Audit division and the legal compliance division.

3.5. The risk assessment and monitoring function is performed by the Risk Management and Monitoring Division. The Division receives and analyses information about the assessment, control and monitoring of the Bank's inherent risks, including:

- Credit risk;
- Market and liquidity risk;
- Operational risk.

Sources of information for the Division for analysis and assessment of risks:

- IT systems and software used by the Bank – general banking and accounting system;
- The business units related to new loans proposals and data for performing loan portfolio monitoring;
- The Treasury and Financial Markets Division about information concerning banking and trading securities portfolios;
- The Legal Division (including Prevention of Money Laundering Department) and Legal Compliance Division with respect to legal risks, incl. litigation risks and risk of non-compliance of the internal regulations, banking products, etc. with the legislation and regulatory framework;
- The Banking Security Department with respect to operational risks, including risk of fraud and other potential risks related to the Bank's security;
- Chief Economist – summarised information on a daily basis about the development of the deposit base and attracted funds;
- All employees of the Bank, clients and other external parties with respect to information for operational events and submitted complaints.

The Risk Management and Monitoring Division receives requests for analysis and opinion with respect to transactions that lead to additional credit or market risk through:

- provision of new loan exposures;
- approval of new or change/discontinuing of existing loan or deposit products;
- executing new deals and purchases of financial instruments;
- establishing correspondence relations and opening new Bank exposures with other banks;
- other proposals for taking/terminating or change in the effect of risks to which the Bank is exposed.

Based on the received proposals, the Division prepares opinions addressed to the respective committees and the MB, which perform review and take decision on the proposals in compliance with the Bank's internal policies and procedures, the rules for activities of the committees and the approved limits for risk taking by different bodies.

It also prepares periodic and current reports to the SB regarding the Bank's capital adequacy, based on quarterly reports.

Regarding the operational risk, the Division collects information from all employees and external clients regarding operational events that have occurred and maintains a database of registered operational events and claims. The information is reviewed regularly by the Risk Committee and the Risk Management and Monitoring Division periodically informs the MB of any significant operational events and identified deficiencies in the activities which

expose the Bank to operational risk.

Units which perform risk-taking functions:

- MB and SB approve measures and tools for implementation of the Bank's strategy in compliance with its risk profile and appetite and provide final approval/rejection of the proposals for new loans resulting in significant exposure (at an amount equal to or exceeding BGN 500,000), changes in terms of existing loans, measures for exiting of problem exposures, new investments in securities and other assets, etc.;
- The Business units, including the branch network and the departments which provide lending services, perform the following:
 - Decisions of the Credit Committee and the MB for approval of new loans, changes in terms of existing exposures, actions for decreasing non-performing exposures, etc., made based on risk opinions provided by the RMMD;
 - Decisions of the Credit Committee and the MB for introduction of new loan or deposit products, discontinuance or changes to existing loan and deposit products;
- The Treasury and Financial Markets Division implements decisions of the Assets and Liabilities Committee (ALCO) and MB taken based on the opinions provided by the Risk Management and Monitoring Division with respect to purchases/sales of securities for the portfolios of the Bank and establishment of relations with counterparts or deposit of funds with other banks, and if necessary provides support in establishing correspondent relations.

4. Information per Art. 10, Paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids (pursuant to Art. 100m, Para 8, p. 4 of POSA)

- 4.1. Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Art. 85 (repealed) of Directive 2001/34/EC.

As at 31 December 2023, the Bank has no direct or indirect shareholdings within the meaning Art. 85 of Directive 2001/34/EC.

As at 31 December 2023, the shareholder structure of the Bank is as follows:

Shareholder	Number of shares	Share in capital (%)
Tokushukai Incorporated	6,796,250	99.94
Gama Holding Group AD	3,750	00.06
Total	6,800,000	100.00

Dr. Torao Tokuda is the majority owner of Tokushukai Incorporated, Tokyo, Japan. Therefore, Dr. Torao Tokuda is considered to be the beneficial owner – natural person of the Bank's capital (a person who directly or indirectly holds a sufficient percentage of shares or voting rights, pursuant to §2, Para 1, item 1 of the Supplementary Provisions to the Measures Against Money Laundering Act), which has been duly announced in the Commercial Registry and the Register of Non-profit Legal Entities.

- 4.2. The Bank has not issued shares with special rights of controls and has no shareholders, which own shares with special control rights;
- 4.3. The Statute of the Bank does not specify restrictions over voting rights of shareholders.
- 4.4. The rules that establish the appointment or change of the MB and SB and changes in the Statute:
- Statute of Tokuda Bank AD;
 - Policy of Tokuda Bank AD;
 - Rules on identification, management and prevention of conflicts of interests;
 - Policy on selection and assessment of the suitability of the members of the Management Board, Supervisory Board and key employees of Tokuda Bank AD;
 - Rules for activities of the Supervisory Board of Tokuda Bank AD;
 - Rules for activities of the Management Board of Tokuda Bank AD.
- 4.5. The powers of the members of the Supervisory Board and Management Board of the Bank are established in:
- Statute of Tokuda Bank AD;
 - Rules for establishment of the responsibilities of the Management Board of Tokuda Bank AD;
 - Rules for activities of the Management Board of TOKUDA BANK AD;

- Rules for activities of the Supervisory Board of TOKUDA BANK AD.

4.6. The share capital of the Bank may be increased by means of a decision of the General Meeting of Shareholders, or by a decision of the Management Board, approved by the Supervisory Board, according to the Statute's provisions. The share capital of the Bank may be decreased by means of a decision of the General Meeting of Shareholders, made by a qualified majority of 2/3 (two thirds) of the shares represented. The share capital of the Bank may be decreased upon the preliminary written approval of BNB, following the statutory procedure: 1) through decrease of the nominal value of the shares; 2) through redemption of shares.

5. **Information regarding composition and functions of administrative, management and supervisory units and their committees (pursuant to Art. 100m, Para 8, p. 5 of POSA)**

The Bank has a two-tier management system, which includes a SB and a MB with the following responsibilities, power and composition:

The SB currently consists of three members, elected by the General Meeting of Shareholders for a five-year term. According to the Bank's Statute, members of the SB may be re-elected without restrictions. A member of the SB may be a physically able natural person, and a legal entity, which meet the requirements of the law and bylaws of the Bulgarian National Bank and have been approved thereby. SB performs its powers and responsibilities in compliance with the applicable legal requirements, the Bank's Statute, the decisions of the General Meeting of Shareholders and the Rules for its activities. The SB appoints and releases the members of the Management Board and approves the Executive Directors.

The members of the SB as at 31 December 2023 are:

- Arthur Stern – Chairperson of the SB;
- Thomas Michael Higgins – Member of the SB;
- Chris John Matlon – Member of the SB.

The MB consists of 3 to 5 members, and their number is determined by the SB. Members of the MB may only be individuals who meet the requirements of the law and bylaws of the Bulgarian National Bank and have been approved thereby. Members of the MB are elected by the Supervisory Board for a 5-year term and may be re-elected without restrictions, and may be dismissed and replaced before their term expires at any time by means of a decision of the SB. The MB operates according to the Statute of the Bank and the Rules for its activities and performs tasks and activities required by law, by the decisions of General Meeting of the Shareholders and the Supervisory Board. The MB is a permanently-functioning collective body for management and representation of the Bank, which operates under the supervision of the SB and in compliance with the established vision, goals and strategy of the Bank.

As at 31 December 2023, the members of the MB are:

- Anna Tsankova-Boneva – Member of the MB and Executive Director;
- Todorina Doktorova – Member of the MB and Executive Director;
- Dimiter Voutchev – Chairperson of the MB and Executive Director;
- Savka Yondova – Member of the MB and Executive Director.

The members of the MB and SB have no rights for acquisition of shares or bonds of the Bank, as well as they and their related parties have no concluded contracts with the Bank outside of the ordinary activities or under terms outside the market terms.

The activity of the MB and SB is supported by permanent committees established at the Bank (listed herein below) – consultants for assessment and decision making on lending activity, liquidity and securities portfolios, asset profitability, risks, and other aspects of the Bank's operations.

As at 31 December 2023, the following committees are active within the Bank's structure:

The Credit Committee (CC) in its capacity as a collective body, in accordance with the approved rules on its work, the Bank's lending policy and the applicable legislative provisions:

- reviews and takes decisions for approval of new loan exposures, changes in existing exposures (renegotiated and restructured), taking measures for exit the existing exposures, enforcement of problem exposures of clients or group of related clients with exposures up to 10% of the Bank's capital base;
- proposes for review and approval by the MB loan proposals for exposures exceeding 10% of the capital base;
- reviews and submits to the MB proposals for collateral acquisitions by the Bank under bad debts, cession of loans and write off of loans under existing exposures.

CC is structured in three levels and the power of each level is determined in the “Rules for Activities of the Credit Committee of Tokuda Bank AD” and in the “Policy on Credit Activity of Tokuda Bank AD”. In its operations, the CC is governed by the requirements of the Law on Credit institutions and other legislation, which regulates the credit activities, as well as the internal policies and procedures of the Bank.

The first level of the Credit Committee consists of: Credit Expert/ Retail Banking Team Manager/ Retail Banking Regional Manager/ Corporate Banking Regional Manager, who is proposing the respective loan transaction, and the Head of the Credit Risk Department – Small and Medium-Sized Customers in the Risk Management and Monitoring Division or the most senior of the following employees: Team/Department Head or Chief Expert of Retail Loans.

As at 31 December 2023 and until 15 March 2024, the second level of the Credit Committee consists of: Executive Director, Executive Director and Corporate Banking Division Head – votes on loans to legal entities; the most senior of the following employees: Division/Team/Department Head or Chief Expert of Retail Loans – votes on loans to individuals, Head of the Risk Management and Monitoring Division, Chief Legal Advisor in the Legal Division. Following 15 March 2024, the second level of the Credit Committee consists of: Executive Director, Executive Director in charge of Corporate Banking Division – votes on loans to legal entities; Head of Corporate Banking Division – votes on loans to legal entities; the most senior of the following employees: Division/Team/Department Head or Chief Expert of Retail Loans – votes on loans to individuals; Head of the Risk Management and Monitoring Division, Chief Legal Advisor in the Legal Division.

As at 31 December 2023 and until 15 March 2024, the third level of the Credit Committee consists of: Executive Director, Executive Director and Corporate Banking Division Head, Head of the Risk Management and Monitoring Division, Head of the Legal Division. Following 15 March 2024, the third level of the Credit Committee consists of : Executive Director, Executive Director in charge of Corporate Banking Division; Head of Corporate Banking Division, Head of the Risk Management and Monitoring Division, Head of Legal Division.

The Committee for Analysis, Classification and Impairment (CACI) is the Bank’s competent body on monitoring, measurement and classification of financial assets and contingent liabilities, and on determining impairment losses and provisions, which makes the decisions on classification and determining impairment losses on financial assets and determined provisions under contingent liabilities. CACI analyses the ground for reclassification of credit exposures and controls compliance with BNB’s requirements and the internal rules in this area. The current members of CACI are:

- Executive Director – Chairperson;
- Head of Finance and Accounting Division – Member;
- Head of Loan Administration Division – Member;
- Head of Workout and Foreclosure Receivables Department – Member;
- Chief expert in Risk Management and Monitoring Division – Member;
- Legal advisor in Workout and Foreclosure Department – Member

The Asset-Liability Committee (ALCO) is the main body for management of the liquidity of the Bank. It bears direct responsibility for the liquidity state and daily liquidity management based on decisions of the MB, as well as for the current management of the assets and liabilities. In compliance with the Rules on the organisation and activity of the Asset-Liability Committee of the Bank, ALCO consists of eight members, as follows:

- Executive Director – Chairperson;
- Executive Director – Deputy Chairperson;
- Head of Risk Management and Monitoring Division – Member;
- Head of Corporate Banking Division - Member;
- Head of Office Operations and Customer Service Division – Member;
- Head of Treasury and Financial Markets Division - Member;
- Head of Finance and Accounting Division – Member;
- Chief economist - Member.

The Risk Management Committee is a specialized internal body of the management of the Bank in the area of management and control of the exposure of the Bank to credit, market (including interest, liquidity, currency), operational and other risks. The activities of the Risk Committee serve to fulfil the Bank’s goals and tasks, by supporting the MB and Executive Directors with suggestions and decisions, for the purpose of effective risk management. The Risk Management Committee is currently comprised of:

- Executive Director – Chairperson;
- Head of Risk Management and Monitoring Division – Deputy Chairperson;
- Head of Finance and Accounting – Member;

- Chief economist – Member;
- Head of Loan Administration Division – Member;
- Head of Legal Division – Member.

The Court Receivables Committee (CRC) is an operational decision making body at the Bank related to non-performing loans in foreclosure and workouts. CRC performs control over the actions taken by the Workouts and Foreclosure Department. CRC consists of:

- Executive Director in charge of Workouts and Foreclosure Department – Chairperson;
- Executive Director – Member;
- Executive Director – Member;
- Head of Workouts and Foreclosure Department – Member;
- Head of Legal Division – Member;
- Deputy Head of Risk Management and Monitoring Division – Member.

The Audit Committee, established pursuant to the requirements of the Independent Financial Audit Act, is a permanent specialised independent advisory body at the Bank, whose aim is to monitor the effectiveness and adequacy of the financial reporting processes, risk management and control, including internal audit, in accordance with the applicable legislation and best practices. The Audit Committee is appointed by the General Meeting of Shareholders of the Bank, which also determines its term and number of members.

The Audit Committee performs its activities in accordance with the Rules on its activity approved by the Bank's SB, and reports its activity to the General Meeting of Shareholders once a year, together with the approval of the annual financial statements. The Audit Committee monitors the financial reporting and the independent audit of the Bank, the effectiveness of the internal control systems and risk management, recommends the selection of a registered external auditor and monitors his independence.

As at 31 December 2023, the members of the Audit Committee are:

- Veneta Ilieva – Chairperson;
- Romyana Asenova – Member;
- Violeta Milusheva – Member.

6. **Description of the diversity policy applied with respect to administrative, management and supervisory bodies (pursuant to Art. 100m, Para 8, p. 6 of POSA)**

The Bank in its capacity as a credit institution under the CIA is subject to special statutory criteria in the selection and approval of applicants for Board Members of the Bank, including, but not limited to, education, qualification and professional experience, reliability and suitability, etc.

The Bank ensures diversity by means of:

- balanced age and gender structure at management and control levels;
- level of education and diverse areas of knowledge (finance, law, information technologies) corresponding to the national regulatory requirements and aimed to include a wide range of skills and competences;
- professional experience adequate to the respective positions, in compliance with the regulatory requirements, in the meantime aiming to maintain a balance between experience, professionalism, familiarity with the activity, as well as independence and objectivity in sharing opinions and decision making.

In addition, the diversity at the Bank is also related to continuity of historical traditions and fast adaptation to the latest technologies in the field of financial services.

Dimiter Voutchev
Chairman of the Management Board and
Executive Director

Anna Boneva
Member of the Management Board and
Executive Director

Sofia, 14 May 2024





INDEPENDENT AUDITORS' REPORT

To the shareholders of Tokuda Bank AD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Tokuda Bank AD ("the Bank"), which comprise the statement of financial position as at 31 December 2023 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material information on accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with *International Code of Ethics for Professional Accountants* (including the International Independence Standards) of the International Ethics Standards Board for Accountants (*IESBA Code*) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter included in the table below, the description of how this matter was addressed in our audit was made in this context.

Key Audit matter	How this key audit matter was addressed in our audit
<i>Impairment of credit losses on loans granted to and receivables from customers</i>	
<p>The Bank's disclosures regarding the impairment of credit losses on loans granted to and receivables from customers are included in <i>Note 3.2.1.4. Impairment of financial assets</i>, <i>Note 3.1.2. Determining expected credit losses on loans to and advances to customers</i>, <i>Note 31.2., Credit risk</i> and <i>Note 9 Loans and advances to customers</i> to the financial statements.</p>	
<p>Loans and advances to customers represent a substantial proportion (51%) of the Bank's total assets as at 31 December 2023. The gross carrying amount of these loans and advances to customers as at 31 December 2023 is BGN 255,947 thousand, and the respective allowance for accumulated credit losses therefrom is BGN 6,144 thousand. The Bank applies an impairment model for expected credit losses (ECL) on loans and advances to customers on an individual and portfolio basis, in accordance with IFRS 9.</p> <p>The application of such a model to determine the impairment of credit losses on loans and advances to customers is related to the application of an increased complexity in the calculations and assumptions, as well as the involvement of significant judgements on the part of the Bank's management regarding the identification and the amount of expected credit losses. The key assumptions, judgements and parameters in determining ECL are related to the development of quantitative and qualitative indicators for:</p> <ul style="list-style-type: none"> determining a significant aggravation of the credit quality of exposure, presence of low and/or 	<p>In this area, our audit procedures included, among others:</p> <ul style="list-style-type: none"> Inquiries, walk-throughs and obtaining an updated understanding of the Bank's process of monitoring and impairment of credit losses on loans and advances to customers in the Bank, incl. additional procedures introduced due to the specific social and economic circumstances resulting from the continuing crisis related to the current international situation. We focused on the methodology applied by the Bank, on the internal policy and re-calibrated impairment model used, as well as on changes related thereto made during the current year. Inquiries to Bank experts responsible for the modelling and management of credit risk. Review and assessment of internal procedures and key controls at organisation level regarding the impairment policy and model, including documentation supporting the model, as well as monitoring and update frequency and justification of the parameters applied. Obtaining an updated understanding, assessing the design and application, and respectively - testing the operational effectiveness of certain key controls appropriate for the audit, over the process of

significantly increased credit risk, and respectively of exposures with objective evidence for impairment – to allocate the individual credit exposures in the respective stages (Stage 1: *Exposures without a significant increase in credit risk*; Stage 2: *Exposures with a significant increase in credit risk, but without objective evidence for impairment*; and Stage 3: *Exposures with objective evidence for impairment*);

- determining the components “probability of default” (PD), “loss given default” (LGD) and “exposure at default” (EAD). The higher degree of approximation, judgements and estimation uncertainty are inherent to calculations of expected credit losses of loans and receivables on a collective (portfolio) basis in Stages 1 and 2, which depends on the extent to which the Bank has sufficient supporting historical information to test the assumptions used and calibrate the accuracy of the PD and LGD estimates in the impairment model;
- the scope, accuracy and completeness of inputs and the computation logic applied, since the Bank applies model based on incoming parameters from both internal and external sources;
- inclusion of information about the future development of macroeconomic factors, given different scenarios, in determining ECL estimates;
- the assumptions and judgements applied by the management in the review of individually significant credit-impaired exposures at Stage 3, related to the set of probability scenarios regarding the amounts and time allocation of future cash flows and the end outcomes, and regarding the future sale of and collection of cash flows from collaterals;
- determining the impact of the social and economic consequences of continuing crisis related with the current international situation,

monitoring, staging, and determining the amount of impairment of credit losses on loans and advances to customers. We involved our IT experts in the testing and assessment of general IT controls in the Bank’s internal information system, used in the process of monitoring loans and advances to customers and determining expected credit losses.

- Assessing the consistency of application and continuing relevance of the methodology, the specific models to identify credit losses and calculate impairment, as well as the key assumptions and judgements used therein, in accordance with the requirements of IFRS 9 and in the context of the specifics of the Bank’s loan portfolio and the availability of internal historical information, as well as data about the parameters’ future development. Moreover, reasonableness analysis and assessment were carried out of:
 - the relevance of the criteria to identify a significant increase in credit risk;
 - the appropriateness of the staging of exposures, in accordance with the classification criteria set by the Bank;
 - the calculations of the indicators “probability of default” (PD), “loss given default” (LGD) through checking the assumptions and outputs used;
 - the approach to using forecast data in the models, incl. effects of the continuing crisis and the processes and events monitored related to the current international situation;
 - identification of economic sectors affected.
- Analysis of the appropriateness of the results obtained as changes to the impairments stated in the context of our understanding of the development of the Bank’s loan portfolios and the quality of the available data. We also tested the mathematical accuracy of certain formulas used to calculate impairment in the models.
- Analysis of the Bank’s loan portfolio and other analytical procedures regarding its structure, composition and development trends, incl. the

with respect to the assumptions, judgements, parameters and resulting cash flows therefrom applied in the model.

Therefore, in 2023, in view of the social and economic consequences of the aggravated macroeconomic environment and the continuing crisis processes and events, the Bank reviewed its assessment of significant uncertainties resulting from these consequences. It addressed the identified uncertainties by updating some assumptions regarding the possibility of deterioration/loss, including differentiation and assessment of the cases that may be related to long-term financial problems experienced by the borrowers themselves, causing temporary liquidity difficulties.

Due to the significance of the above described circumstances that: a/ the materiality of loans and advances to customers as a reporting item for the Bank's financial statements, and b/ the complexity, significant judgements and assumptions, and the high inherent uncertainty of estimates of expected credit losses laid down in the impairment model for loans and advances to customers on an individual and portfolio basis, according to the requirements of IFRS 9, we have considered this matter as a key audit matter.

interrelation of trends in the expenses stated for impairment losses versus trends in loan portfolio development.

- Performing detailed tests and analysis, based on a risk-based sample of loans at all stages, for the purpose of assessing the relevance of the impairment charged of credit losses. For the respective exposures in the sample, the following audit procedures were performed:
 - analysis of the financial position and results of borrowers, and inspection of information and documents related to loan servicing;
 - review of collateral valuation reports of the respective exposures; for some collaterals, we used our expert appraisers regarding the assumptions and methods applied in the valuations of collateral realisable value;
 - analysis and assessment of the key assumptions and judgments made by the Bank's management upon calculation of specific provisions for credit losses on individual exposures at Stage 3;
 - testing and recalculation of the mathematical accuracy of the established amounts of expected credit losses on individual items, incl. versus certain changes in given parameters.
- Performing audit procedures for subsequent events focused on the development of loans granted to and receivables from customers from the abovementioned sample after the reporting date, so as to assess the consistency of the assumptions used by the Bank with respect to expected future cash flows.
- Assessment of the relevance, completeness and adequacy of the Bank's disclosures to the financial statements in relation to the impairment of credit losses on loans and advances to customers in accordance with the requirements of IFRS.



Estimates of the fair value of non-financial assets used for the purpose of determining the fair value of review for impairment of these assets

Information about the fair value estimates of financial assets used for the purpose of fair value measurement of review for impairment is disclosed in *Note 11 Investment property*, *Note 14 Other assets*, and *Note 31.5. Fair value* to the financial statements.

As at 31 December 2023, the Bank states investment property at the amount of BGN 6,327 thousand, and other assets acquired against non-performing loans, at the amount of BGN 11,477 thousand, consisting mainly of real estate acquired in exchange for debt from collaterals.

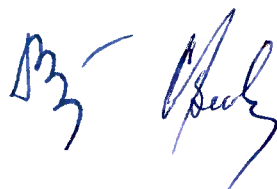
The Bank's accounting policy for the subsequent measurement of investment property following their recognition is based on a fair value model in accordance with IAS 40. In view of the sensitivity and specifics of the real estate market, on an annual basis the Bank applies a policy of performing regular annual reviews and fair value measurement of the other assets acquired against non-performing loans, for the purpose of their impairment test (based on their fair value less costs to sell), and for determining the fair value thereof for the purpose of their subsequent measurement and presentation in the financial statements.

Fair value measurement is based on valuations prepared by appraisers appointed by the Bank and/or independent real estate valuers assigned thereby. In the calculation of these measurements, multiple inputs, assumptions and models are used, and the fair value determined on this base is classified within Level 3 of the fair value hierarchy according to IFRS 13.

Due to the fact that the fair value estimates of non-financial assets (investment property, and other assets) of the Bank is characterized by higher uncertainty related to the inputs used and the assumptions for the purposes of fair value measurement and/or review for impairment, which may have a significant effect on both the carrying

In this area, our audit procedures included, among others:

- Assessing the objectivity, independence and competence of the external appraisers assigned by the Bank.
- For a sample of non-financial assets which are subject to impairment review and test or subsequent measurement at fair value, performing analysis and assessing the inputs applied regarding real estate, by also involving our internal valuation experts in the review and analysis of the valuation methods used, the information and key assumptions used in determining the valuations.
- For a sample of real estate, performing analysis by our internal valuation experts on whether the fair value measured is consistent with intervals of comparable market prices of similar assets.
- Assessment of the relevance and appropriateness of the Bank's disclosures to the financial statements of fair value estimates of non-financial assets (investment property and other assets) used for the purpose of fair value measurement or review for impairment.



amount of non-financial assets, and the calculation of the Bank's capital adequacy as at 31 December 2023, we have determined this to be a key audit matter.

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

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as applicable in the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless law or regulation precludes public disclosure of information 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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Financial Statements and Auditors' Report Thereon* section, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines Regarding New Extended Reports and Communication by the Auditor" of the professional organisation of Registered Auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act, Act applicable in Bulgaria



Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- The information included in the management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
- The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The corporate governance statement referring to the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

Additional reporting in accordance with Ordinance No 58/2018 (Art.11) of the Financial Supervision Commission

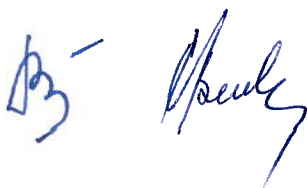
Statement in relation to Art. 11 of Ordinance No 58/2018 of Financial Supervision Commission on the requirements for protection of clients' financial instruments and cash, for product management and for granting and receiving consideration, commissions, other cash and non-cash benefits

Based on the audit procedures performed and the obtained knowledge and understanding of the Bank's operation and the context of our audit of the financial statements as a whole, the organisation established and applied in relation to the safeguarding of clients' assets complies with the requirements of Art. 3-10 of Ordinance No 58 of the FSC and Art. 92-95 of the Markets in Financial Instruments Act regarding the Bank's activities in its capacity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- BDO AFA OOD and ABVP-AUDIT STANDARD OOD were appointed as statutory auditors of the financial statements of the Bank for the year ended 31 December 2023 by the General Meeting of Shareholders held on 20 November 2023, for a period of one year.
- The audit of the financial statements of the Bank for the year ended 31 December 2023 represents a sixth consecutive statutory audit engagement carried out by BDO AFA OOD and a seventh total statutory audit engagement carried out by ABVP-AUDIT STANDARD OOD.



- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated 14 May 2024, provided to the Bank's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services, referred to in Art. 64 of the Independent Financial Audit Act, were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Audit firm
BDO AFA OOD:

Valia Iordanova

***General Manager,
Legal representative
Registered Auditor in Charge of the Audit***

Audit firm
ABVP-AUDIT STANDARD OOD:

Sevdalina Paskaleva

***General Manager,
Legal representative
Registered Auditor in Charge of the Audit***

**38, Oborishte Street
1504-Sofia, Bulgaria**

**Nadezhda I Residential Area, block 173, entr. B
1202- Sofia, Bulgaria**

14 May 2024

This is a translation from Bulgarian of the Independent Auditors' Report on the Financial Statements of Tokuda Bank AD for the year ended 31 December 2023.

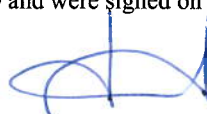


TOKUDA BANK AD
STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

(all amounts are in BGN'000)

	Notes	31.12.2023	31.12.2022
ASSETS			
Cash and balances with the Central Bank	4	135,631	95,441
Receivables from banks	5	4,507	7,571
Financial assets at FVPL	6	315	249
Debt instruments at FVOCI	7	29,069	34,999
Equity instruments at FVOCI	7	381	381
Debt instruments at amortised cost	8	42,357	44,887
Loans and advances to customers	9	249,803	247,761
Non-current assets held for sale	10	-	271
Investment property	11	6,327	10,713
Property, equipment and right-of-use assets	12	3,880	2,830
Intangible assets	12	621	561
Deferred tax assets	13	160	174
Other assets	14	12,414	13,822
Total assets		485,465	459,660
LIABILITIES			
Deposits from banks	15	48	49
Deposits from customers	16	429,034	412,932
Other liabilities	17	4,469	3,390
Subordinated debt	18	1,959	1,959
Total liabilities		435,510	418,330
EQUITY			
Share capital	19	68,000	68,000
Reserves	19	4,261	730
Accumulated loss		(22,306)	(27,400)
Total equity		49,955	41,330
Total liabilities and equity		485,465	459,660

The accompanying notes 1 to 34 form an integral part of the annual financial statements.

The annual financial statements on pages 1 to 65 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 14 May 2024 by:

		
Anna Tsankova-Boneva	Dimitar Voutchev	Svetlin Todorov
Member of the Management Board	Chairman of the Management Board	Finance Director
Executive Director	Executive Director	

Financial statements on which our auditors' report was issued dated 14 May 2024

BDO AFA OOD



ABVP – AUDIT STANDART OOD



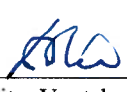
TOKUDA BANK AD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023

(all amounts are in BGN'000)

	Notes	2023	2022
Interest income		19,005	10,769
Interest expense		(742)	(932)
Net interest income	20	18,263	9,837
Fee and commission income		5,486	4,926
Fee and commission expense		(431)	(366)
Net fee and commission income	21	5,055	4,560
Net trading income	22	712	495
Other operating income	23	1,188	1,971
Operating income before loss on impairment and provisions		25,218	16,863
Net loss on impairment of assets and provisions	24	(2,304)	(709)
Personnel expense	25	(8,092)	(7,023)
Depreciation and amortisation	12	(1,235)	(1,351)
Other administrative and operating expenses	26	(5,500)	(5,368)
Administrative and operating expenses		(14,827)	(13,742)
Profit before tax		8,087	2,412
Income tax (expense)/benefit	27	(560)	21
PROFIT FOR THE YEAR		7,527	2,433
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Net gain/(loss) from remeasurement of debt instruments at FVOCI		1,098	(2,660)
Items that will not be reclassified to profit or loss			
Net gain on remeasurement of equity instruments at FVOCI		-	88
Total other comprehensive income		1,098	(2,572)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,625	(139)

The accompanying notes 1 to 34 form an integral part of the annual financial statements.

The annual financial statements on pages 1 to 65 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 14 May 2024 by:

		
Anna Tsankova-Boneva	Dimitar Voutchev	Svetlin Todorov
Member of the Management Board	Chairman of the Management Board	Finance Director
Executive Director	Executive Director	

Financial statements on which our auditors' report was issued dated 14 May 2024

BDO AFA OOD



ABVP – AUDIT STANDART OOD



TOKUDA BANK AD
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

(all amounts are in BGN'000)	Notes	Share capital	Reserves	Financial assets at FVOCI reserve	Accumulated loss	Total
Balance at 1 January 2022		68,000	2,952	350	(29,833)	41,469
Net profit for the year		-	-	-	2,433	2,433
Other comprehensive income for the year		-	-	(2,572)	-	(2,572)
Total comprehensive income for the year		-	-	(2,572)	2,433	(139)
Balance at 31 December 2022		68,000	2,952	(2,222)	(27,400)	41,330
Profit distribution for reserves		-	2,433	-	(2,433)	-
Net profit for the year		-	-	-	7,527	7,527
Other comprehensive income for the year		-	-	1,098	-	1,098
Total comprehensive income for the year		-	-	1,098	7,527	8,625
Balance at 31 December 2023	19	68,000	5,385	(1,124)	(22,306)	49,955

The accompanying notes 1 to 34 form an integral part of the annual financial statements.

The annual financial statements on pages 1 to 65 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 14 May 2024 by:

		
Anna Tsankova-Boneva	Dimitar Voutchev	Svetlin Todorov
Member of the Management Board	Chairman of the Management Board	Finance Director
Executive Director	Executive Director	

Financial statements on which our auditors' report was issued dated 14 May 2024

BDO AFA OOD



ABVP – AUDIT STANDART OOD



TOKUDA BANK AD
STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

(all amounts are in BGN'000)

	Notes	2023	2022
Cash flows from operations			
Profit before tax		8,087	2,412
<i>Adjustments from non-cash operations</i>			
Depreciation and amortisation		1,235	1,351
Impairment and loss provisions		2,304	709
Net interest income		(18,263)	(9,837)
Dividend income		(36)	(28)
Net result on disposal of property and equipment and intangible assets		1	(12)
Gain on sale of investment property		(368)	(247)
Other non-monetary amounts recognized in profit or loss		1,067	75
		<u>(5,973)</u>	<u>(5,577)</u>
Interest income received		16,523	11,311
Interest paid		(1,006)	(1,144)
Dividend income received		36	28
Taxes paid		(380)	-
<i>Cash flows from operations before changes in operating assets and liabilities</i>		<u>9,200</u>	<u>4,618</u>
(Increase)/Decrease in financial assets at fair value through profit and loss		(66)	2,641
Decrease in financial assets at fair value through other comprehensive income		7,112	3,591
Increase in loans and advances to customers		(1,108)	(16,114)
Decrease in non-current assets held for sale		-	799
Decrease in other assets		1,387	869
Decrease in deposits from banks		(1)	(16)
Increase in deposits from customers		16,366	31,429
(Decrease)/increase in other liabilities		(503)	393
Net cash flows from operations		<u>23,187</u>	<u>23,592</u>
Cash flows from investing activities			
Payment for acquisition of debt instruments at amortised cost		(207,498)	(54,778)
Proceeds from maturity of debt instruments at amortised cost		210,381	9,779
Acquisition of property and equipment		(225)	(169)
Proceeds from sale of property and equipment		1	20
Proceeds from sale of investment property		3,162	436
Acquisition of intangible assets		(226)	(38)
Net cash flows from/(used in) investing activities		<u>5,595</u>	<u>(44,750)</u>
Cash flows from financing activities			
Lease payments	17	(856)	(908)
Net cash flows used in financing activities		<u>(856)</u>	<u>(908)</u>
Net increase/(decrease) in cash and cash equivalents		<u>37,126</u>	<u>(17,448)</u>
Cash and cash equivalents at the beginning of the year		103,012	120,460
Cash and cash equivalents at the end of the year	29	<u>140,138</u>	<u>103,012</u>

The accompanying notes 1 to 34 form an integral part of the annual financial statements.

The annual financial statements on pages 1 to 65 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 14 May 2024 by:

Anna Tsankova-Boneva
Member of the Management Board
Executive Director

Dimitar Voutchev
Chairman of the Management Board
Executive Director

Svetlin Todorov
Finance Director

Financial statements on which our auditors' report was issued dated 14 May 2024
BDO AFA OOD

ABVP – AUDIT STANDART OOD

TOKUDA BANK AD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR YEAR 2023

All amounts are in BGN '000, unless explicitly stated otherwise

1. CORPORATE INFORMATION ON THE BANK

1.1. Incorporation

Tokuda Bank AD (The Bank), UIC 813155318, was incorporated on 27 December 1994 as a joint-stock company. The Bank's management address is: 21, George Washington Street, Sofia.

1.2. Ownership

As at 31 December 2023, the issued share capital of the Bank amounts to BGN 68,000,000 (sixty eight million levs), comprising 6,800,000 (six million and eight hundred thousands) registered voting shares with a nominal value of BGN 10 (ten) per share.

As at 31 December 2023, the major shareholder of the Bank is Tokushukai Incorporated, holding 99.94% of the Bank's capital.

1.3. Main activities

The Bank holds a banking license issued by the Bulgarian National Bank (BNB, Central Bank) to perform all banking activities allowed by the Bulgarian legislation.

In 2023 and 2022, the Bank's activity was mostly related to rendering banking services related to granting loans to private companies, attracting deposits from customers, servicing of client payments both locally and internationally, performing transactions with securities and other financial services in Bulgaria.

1.4. Structure and management

The Bank has a two-tier management system, consisting of Management Board and Supervisory Board.

As at 31 December 2023, the Bank's management, represented by the Management Board (MB), consists of four members, namely: Dimiter Voutchev, Anna Tsankova-Boneva, Todorina Doktorova and Savka Yondova. All MB members are also Executive Directors.

As at 31 December 2023, the persons charged with the Bank's governance, represented by the Supervisory Board (SB) are: Arthur Stern – Chairperson of the SB, Thomas Michael Higgins – Member of the SB, and Chris Matlon – Member of the SB.

According to the requirements of the Credit Institutions Act, the provisions of the Statute and court registration of the Bank, it is always represented jointly by two Executive Directors.

An Audit Committee operates at the Bank, which monitors the work of its external auditors, the activities of the internal audit, risk management and accounting and financial reporting. The Audit Committee consists of the following members: Veneta Ilieva – Chairperson, Romyana Asenova – Member, Violeta Milusheva – Member.

In 2023, the Bank operates through its Head Office and 17 offices and remote working places (2022: 17). As at 31 December 2023, 194 employees work at the Bank (2022: 206).

1.5. Legal environment

The Bank's activities are regulated by the Credit Institutions Act and the bylaws related thereto, and BNB exercises supervision and controls compliance with banking legislation.

1.6. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Bank's activities throughout the period 2019 – 2023 are presented in the table below:

TOKUDA BANK AD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR YEAR 2023

All amounts are in BGN '000, unless explicitly stated otherwise

Indicator	2019	2020	2021	2022	2023
GDP in million levs*	120,342	120,492	138,979	167,809	182,950
Actual growth of GDP**	4.0 %	- 4.0 %	7.7 %	3.9 %	1.9 %
Year-end inflation (HICP)***	3.1 %	0.0 %	6.6 %	14.3 %	5.0 %
Average exchange rate of USD for the year	1.75	1.72	1.65	1.86	1.81
Exchange rate of the USD at year-end	1.74	1.59	1.73	1.83	1.77
Basic interest rate at year-end*****	0.00	0.00	0.00	1.30	3.80
Unemployment rate at year-end****	5.9 %	6.7 %	4.8 %	5.4 %	5.6 %
Credit rating of the Republic of Bulgaria by Standard & Poor's (long-term)	BBB	BBB	BBB	BBB	BBB
Credit rating of the Republic of Bulgaria by Moody's (long-term)	Baa2	Baa1	Baa1	Baa1	Baa1
Credit rating of the Republic of Bulgaria by Fitch (long-term)	BBB	BBB	BBB	BBB	BBB
Credit rating of the Republic of Bulgaria by Scope Ratings (long-term)	BBB	BBB	BBB+	BBB+	BBB+

* Preliminary BNB data for 2023 as at 23 February 2024

** Preliminary BNB data for 2023 as at December 2023

***Preliminary NSI data for 2023 as at 15 February 2024

****Preliminary BNB data for 2023 as at 23 February 2024

*****Preliminary BNB data for 2023 as at 23 February 2024

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

2.1. General

These financial statements have been prepared for general purposes for the year ended 31 December 2023.

The functional and reporting presentation currency in the Bank's financial statements is the Bulgarian lev (BGN).

The financial statements are presented in thousand Bulgarian Levs (BGN'000), unless when explicitly stated otherwise.

2.2. Accounting convention

The annual financial statements of Tokuda Bank AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which have been effective since 1 January 2023 and have been accepted by the Commission of the European Union. IFRS, endorsed by EU, is the generally accepted name of the general purpose framework – the basis of accounting equivalent to the framework introduced with the definition in § 1, p. 8 of the Additional Provisions of the Accountancy Act under the name of “International Accounting Standards” (IASs).

For the current financial year the Bank has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

2.2.1. Initial application of new amendments to existing standards and interpretations that became effective in the current reporting period

The following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU, became effective for the current reporting period:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Disclosure of Accounting Policies, endorsed by the EU on 2 March 2022 (in force for annual periods beginning on or after 1 January 2023, endorsed by EC);
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates, endorsed by the EU on 2 March 2022 (in force for annual periods beginning on or after

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- 1 January 2023, endorsed by EC);
- IFRS 17 “Insurance Contracts”, including Amendment to IFRS 17, endorsed by the EU on 19 November 2021 (in force for annual periods beginning on or after 1 January 2023, endorsed by EC);
 - Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction, endorsed by the EU on 11 August 2022 (in force for annual periods beginning on or after 1 January 2023, endorsed by EC);
 - Improvements to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information, endorsed by the EU on 8 September 2022 (in force for annual periods beginning on or after 1 January 2023, endorsed by EC);
 - Amendments to IAS 12 Income Taxes – International Tax Reform – Pillar Two Model Rules, endorsed by EU on 8 November 2023 (effective immediately after the amendments are issued, as well as for annual periods beginning on or after 1 January 2023, endorsed by EC).

The amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements provide guidelines and examples regarding the application of the materiality concept upon judgements and decisions makings related to disclosures of the accounting policy. In particular, the amendments to IAS 1 introduce the requirement for disclosing material accounting policies information instead of significant accounting policies. Moreover, IFRS Practice Statement 2 has been supplemented with guidelines and illustrative examples to support the application of the materiality concept upon making judgements regarding disclosures of the accounting policy. As a result of these amendments, the Bank has reviewed the disclosures of accounting policies, but the amendments have not impacted the measurement, recognition and presentation of amounts in the financial statements.

The amendments to IAS 12 arise from the Pillar Two Model Rules issued by the Organization for Economic Co-operation and Development (OECD) on introducing national additional taxes (Pillar Two Income Taxes) to achieve global minimum corporate tax at the amount of 15%. The Bank has disclosed its exposure to Pillar Two Income Taxes in Note 20. In addition, in these financial statements the Bank has applied the exception for recognition of deferred tax assets and liabilities related to Pillar Two Income Taxes and the disclosure of information thereon.

The adoption of the other amendments to existing standards has not resulted in significant changes in the Bank’s financial statements.

2.2.2. *Amendments to existing standards issued by IASB and endorsed by the EU which are not yet effective.*

At the date of approval of these financial statements, the following new standards have been issued by IASB and endorsed by the EU but are not yet effective:

- Amendments to IFRS 16 “Leases” – Lease Liability in a Sale and Leaseback, endorsed by the EU on 20 November 2023 (in force for annual periods beginning on or after 1 January 2024, endorsed by EC);
- Amendments to IAS 1 “Presentation of Financial Statements”: Classification of liabilities as current or non-current, endorsed by the EU on 19 December 2023 (in force for annual periods beginning on or after 1 January 2024, endorsed by EC).

2.2.3. *New standards and interpretations issued by IASB and not yet endorsed by the EU*

At present, the IFRS endorsed by EU do not significantly deviate from the ones endorsed by IASB, with the exception of the following new standards, amendments to existing standards and new interpretations that have not yet been endorsed by the EU at the date of approval of these financial statements.

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (in force for annual periods beginning on or after 1 January 2025).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).

The Bank does not expect the adoption of these standards and amendments to existing standards to have a material impact on the Bank’s financial statements in the period of initial adoption thereof.

Hedge accounting referring to portfolios of financial assets and liabilities whose principles are not adopted by the

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EU has not yet been regulated.

According to the Bank's judgement, the application of hedge accounting referring to portfolios of financial assets and liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement, will not have a material effect on the financial statements if applied at the reporting date.

2.3. Basis of measurement

The Bank's annual financial statements have been prepared on a historical cost basis, with the exception of financial assets held for trading, financial assets measured at fair value through other comprehensive income and investment property, which have been measured at fair value.

2.4. Going concern

The Bank's financial statements have been prepared under the going concern assumption. Despite the profit stated in 2023 and 2022 as a result of the operations executed by the Bank, there are also accumulated losses from prior periods. These circumstances require judgement regarding the effect thereof on the Bank's ability to continue as a going concern, respectively to what extent it could realise its assets at least to their carrying amount and to settle in full its liabilities at their carrying amount. The management, like every year, has analysed and assessed the development and respectively, the Bank's possibilities and ability to continue to function in its usual volumes and structure in the future. Therefore, and by means of the actions undertaken by the management to strengthen the Bank's positions through optimization of the banking products and services and their profitability, improvements of the assets structure and quality and expenses, have been created conditions for generating income, stabilising profitability and offsetting some of the accumulated losses. The aims on which these actions are based, and the Bank's development plans are:

- improving the structure of assets and liabilities by means of:
 - sustainable annual growth on the loan portfolio (9% for 2022 and 0.5% for 2023);
 - decreasing the portion of non-performing loans to levels average and lower than the average in the banking system (sustainable decrease of NPL level from 9.5% at the end of 2022 to 8% at the end of 2023);
 - decreasing the portion of acquired assets (sustainable decline from 5.2% in 2022 to 3.7% in 2023);
 - controlled amount of customers' deposits and resource expenditure while retaining stable funding (growth in deposits from clients is 8.2% in 2022 and 3.9% in 2023 with controlled resource expenditure of BGN 551 thousand for 2022 and BGN 637 thousand for 2023);
- gradual increase of the average profitability of the performing portfolio (from 4.9% in 2022 it reached 6.3% in 2023);
- limiting impairment charge of loans and advances to customers by improving the quality of newly granted loans;
- growth in fee and commission income (from BGN 4,926 thousand in 2022 to BGN 5,486 thousand in 2023);
- strict control of operating expenses;
- optimization of the branch network – to meet this target, in 2022, the Bank closed down the offices Sliven, Haskovo, and Hemus-Sofia, and the entire optimization process was carried out without loss of clients;
- active marketing of the Bank's products;
- improving the quality and efficiency of service through enhancing staff's qualification (in 2023, various trainings were conducted to 60 employees, 35 from the headquarters and 25 from the regional offices).

The Bank covers the regulatory requirements, including for capital adequacy and the minimum requirement for own funds and eligible liabilities.

Based on the above, the management has determined and concluded that as at 31 December 2023, the Bank continues to have the potential and conditions to continue as a going concern. In addition, the Bank is also subject to current monitoring and regulation by BNB with respect to all of its licensed activities, financial status and stability.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

3.1. Accounting estimates

The presentation of financial statements in accordance with the International Financial Reporting Standards requires the Bank's management to make best estimates, accruals and reasonably justified assumptions that affect the reporting values of assets and liabilities, of revenues and expenses and of disclosures of contingent assets and

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liabilities. These estimates, accruals and assumptions are based on the information available at the date of the preparation of the financial statements, therefore, the actual future results of the Bank may differ therefrom.

The items that require a higher degree of subjective judgement or complexity or for which assumptions and accounting estimates are material for these financial statements are as follows:

3.1.1. *Expected credit losses from financial assets with low credit risk*

Instruments with low credit risk are considered to be the instruments for which the risk of default is low, the counterpart's ability to fulfil contractual conditions is stable, and long-term adverse changes in economic conditions are unlikely to change the ability to repay debts. For short-term receivables from banks and debt instruments measured at FVOCI (these are mainly government securities), the Bank assumes that the probability of default is unlikely, and therefore determines 12-month credit losses for these instruments. If in subsequent reporting periods the criteria for low credit risk are no longer met, the Bank analyses the change in the credit risk compared to initial recognition in order to determine the need of lifetime credit losses. Designating instruments as low credit risk ones requires judgement. Upon making this judgement, the Bank uses all the reasonable, grounded and relevant information accessible without making unnecessary costs or efforts (Note 31.2).

3.1.2. *Expected credit losses on loans and advances to customers*

When determining expected credit losses on loans and advances to customers, the Bank applies the general approach of IFRS 9 based on internal policies, rules, and calculation techniques. The Bank classifies its financial assets in three risk stages depending on changes in the credit risk following the initial recognition of the asset, and respectively determines 12-month credit losses if there is no change in the credit quality (Stage 1) and lifetime credit losses (Stages 2 and 3) if there is a significant increase in the credit risk. Upon determining how significantly the credit risk has increased compared to the initial recognition of the asset, the Bank uses all the reasonable and grounded information accessible without making unnecessary costs or efforts.

The loss given default is an estimate of the damages the Bank would suffer upon default and is based on the difference between the contractual cash flows and the cash flows it actually expects to receive, including from collaterals and other loan facilities. Significant judgement is needed in determining the timeframe and amount of expected cash flows, including determining the amount of collateral – realisation period, expenses for realisation, and expected selling price range. The management forms its judgements based on historical experience of losses from assets with inherent credit risk and objective evidence of impairment. This process requires assumptions related to expected future cash flows, amount of collaterals, expected period of realization of collaterals, expected change in real estate prices over the sales period, discounts depending on the type of property.

Upon determining the amount of expected credit losses, the Bank uses forecast information about expected future changes in certain macroeconomic conditions and indicators, and assumptions for correlations of how changes in these indicators would impact the probability of default. The Bank has developed internal models to determine the probability of default by loans, mostly based on historical information for periods when such information is available. The assessment of the correlation between the historical default rates and the forecast economic indicators is a significant estimate. Note 31.2 describes the process applied by the Bank to manage credit risk and determine expected credit losses from loans and advances to customers.

3.1.3. *Fair value of financial instruments*

When the fair value of financial assets and financial liabilities carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation techniques, involving the use of mathematical models. The input used in these models is obtained from observable markets, where possible, but where this is not feasible, estimation is required in establishing fair values (Note 31.5);

3.1.4. *Recognition of tax assets*

On recognising deferred tax assets, the management of the Bank reviews the extent to which deductible temporary differences can be utilised and the ability of the Bank to generate sufficient taxable profit against which the differences can be utilised. As a result of this analysis, the management has decided to not recognise deferred tax assets in the annual financial statements, with the exception of the tax assets described in Note 13.

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3.1.5. Classification and measurement of assets acquired from collaterals

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Bank as non-current assets held for sale, investment property and other assets acquired from collaterals. Upon the initial acquisition of these assets, the Bank's management makes judgements regarding their classification, based on its intentions and possibilities for future use and/or disposal. The management performs an annual review, as at the date of the financial statements, of its assumptions and judgements based on the existing circumstances, and if necessary, the assets are reclassified. According to the Bank's accounting policy, assets classified as non-current assets held for sale or as other assets acquired from collaterals are subsequently measured at the lower of the their carrying amount and the fair value less costs for disposal. In order to determine the fair value of non-current assets held for sale and other assets acquired from collaterals, the Bank uses independent external valuers. Acquired assets classified as investment property are subsequently measured at fair value, whose amount is determined by independent external valuers appointed by the Bank, holding suitable professional qualification and valuation experience with respect to analogous assets. The application of the valuation approaches and techniques, and of the inputs used for each case of fair value measurement, is subject to mandatory discussion and coordination between the external expert valuers and the Bank's valuation specialists, as well as the approval of the valuation reports issued – especially with respect to significant assumptions and final conclusions (Note 31.5).

3.1.6. Leases

Determining whether a contract contains a lease or lease components

Upon identification and classification of a lease or a lease component of a contract, the Bank determines whether the contract contains an identifiable asset and whether it transfers the right of control over this asset for the contract term.

The Bank as lessor

The Bank has leased some of its investment properties and assets acquired from collaterals. In its capacity as lessor, based on the lease conditions, the Bank has determined that it retains all material risks and benefits from ownership of these properties and that the lease term does not cover a substantial part of the properties' economic life; therefore, it accounts for them as operating leases.

The Bank as lessee

The Bank has identified the leases of office premises as containing lease components. The Bank obtains all economic benefits from the use of the premises and determines the manner, time, location and degree of operation of the offices.

Determining of the lease term of leases contract with renewal and termination options – as lessee

The Bank determines the lease term as the non-cancellable period of the lease, together with both: a) periods covered by an option to extend the lease if it is reasonably certain to be exercised and b) periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

When determining the term of leases, the Bank's management considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, such as significant enhancement to the underlying asset, significant adaptation and customisation of the underlying asset, costs related to termination of the lease and costs for the lease, relocation and identification of another asset, the importance of the underlying asset for the Bank's operations. Extension options (or periods following the termination option) are only included within the lease term when it is reasonably certain that the lease will be extended (or not terminated). The options are reassessed if a significant event or a significant change in circumstances occurs that is in the Bank's discretion and also impacts assessment.

After the commencement date, the Bank reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within its control and affects whether the Bank is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

Termination options for leases are included within the lease term when the Bank is reasonably certain that it will not exercise these options.

Determining the incremental interest rate of leases in which the Bank is a lessee

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In the cases when the Bank is a lessee and cannot readily determine the interest rate to discount lease liabilities, it uses the incremental borrowing rate it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Review of indicators for impairment of right-of-use assets

As at the date of the financial statements, the Bank's management performs an impairment review of right-of-use assets. If indicators exist that the approximate recoverable amount is lower than their carrying amount, the latter is impaired to the recoverable amount of assets.

The Bank has performed a review and has determined that no indicators for impairment exist as at 31 December 2023.

3.2. Financial instruments

3.2.1. Financial assets

3.2.1.1. Recognition of financial assets

The Bank usually recognises in the statement of financial position financial assets on the "trade date", being the date on which it has committed to purchase the respective financial assets. This includes transactions performed under a regulated framework – purchases and sales of financial assets that presume a settlement and assets transfer to be performed in a generally accepted manner established by law or relevant market convention. Loans and advances to customers are recognised when the funds are transferred to the customer's account. Respectively, the Bank recognises amounts due to customers when funds are received at the Bank.

3.2.1.2. Initial measurement of financial assets

All financial assets are initially measured at their fair value plus the directly attributable transaction costs, except for the financial assets at fair value through profit or loss. Trade and other receivables are measured at invoice amount (transaction price).

When the fair value of financial assets upon initial measurement deviates from the transaction price, the Bank recognises the difference within current profit or loss under the following conditions:

- if the fair value has been determined by means of a valuation technique based on observable inputs about the market participants, the difference is recognised as early as the first date within current profit or loss; and
- if the fair value has been determined by means of a valuation technique based on unobservable inputs, the difference is not recognised within current profit or loss until the data is observable or the financial instrument is written-off.

3.2.1.3. Classification and subsequent measurement of financial assets

Depending on their subsequent measurement, the Bank classifies its financial assets in one of the following categories:

- financial assets at amortised cost;
- financial assets at fair value through profit or loss (FVPL/PL);
- financial assets at fair value through other comprehensive income (FVOCI/OCI) with or without reclassification to profit or loss.

The classification of financial assets is determined based on the following two conditions:

- the Bank's business model for management of financial assets;
- the characteristics of the financial asset's contractual cash flows (SPPI).

When managing its financial assets, the Bank applies the following business models:

- **Business model to collect contractual cash flows** – within this business model, the Bank holds the respective financial instruments to maturity in order to collect the cash flows agreed with the issuer of the financial instrument /the debtor/. The financial assets held within this business model are not subject to sale, except for individual cases with an explicit decision of the Bank's management. The business model does not change upon executing sales of financial assets or expectations for future sales;
- **Business model to collect cash flows and sell financial assets** – within this business model, the Bank holds

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the respective financial instruments in order to collect the contractual cash flows, but also for the purpose of sale of financial assets. As compared to the business model whose purpose is the hold financial assets to collect cash flows, in this business model there is greater frequency and value of sales. Sales of financial assets are not sporadic; rather, they constitute a major factor for achieving the purpose of the business model, but in the meantime have no frequency and value threshold.

- **Business model to sell assets** – within this business model, the Bank holds the respective financial instruments for the purpose of trading, even though for the period of holding them the Bank may receive contractual payments of various nature for the respective financial instruments, the ultimate objective is to achieve a positive financial result from differences in the prices of the financial assets.

Establishing (testing) the characteristics and conditions of contractual cash flows (SPPI) is the second factor in determining the classification of each financial instrument. This process constitutes a check of a set of selected characteristics of expected contractual cash flows from the transactions, which are of key importance for the financial instrument. The aim is to identify assets for which cash flows are solely payments of principal and interest (SPPI test).

For the purpose of this test, the principal is defined as being the fair value of the financial asset at initial recognition, which may change over the instrument's life term. Moreover, the most significant element of the interest which is measured during the test is the compensation for the time value of money and credit risk. Upon assessing SPPI, the Bank makes a number of assumptions and judgements and considers a number of factors, in particular the fluctuation of cash flows and risks inherent in the respective exposure.

The process of establishing characteristics of contractual cash flows includes:

- identification and grouping the financial assets applicable to the respective business model;
- identification of sub-portfolios of instruments covered by standardised products for which the available information and/or examination of product documentations equivocally demonstrate compliance with the SPPI test;
- regarding homogeneous portfolios, the SPPI test is based on review of the applicable conditions based on internal rules, general rules and contracts and/or expert examination;
- in the remaining cases, the SPPI test is performed by means of individual examination of characteristics at the level of individual contracts.

The Bank has established the following frequency in identifying and testing the characteristics of contractual cash flows:

- upon introducing new standardised banking products at product documentation level;
- upon occurrence of a new instrument and/or product in the case of specific rules or rules that deviate from the standard ones set in internal rules, price list, general terms and conditions and contracts.

Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- according to the instrument's contractual conditions, on certain dates cash flows originate which are solely payment of principal and interest on the principal outstanding.

Within this category, the Bank states cash and balances with the Central Bank, debt securities at amortised cost, receivables from banks and customers, and other operating receivables. Amortised cost is the instrument's initial value adjusted for principal repayments and the amortisation accumulated on the difference between the initial value and the value at maturity using the effective interest rate method and less expected credit losses allowance. Interest income is measured and recognised based on the effective interest method and is presented in the statement of comprehensive income (within profit or loss for the year), within Interest income. Upon determining expected future cash flows, the Banks takes into consideration all contractual conditions of the transaction, including premiums, fees and other consideration payable by the counterpart, which impact the transaction's profitability and constitute an integral part of the effective interest rate.

Financial assets at fair value through other comprehensive income (FVOCI/OCI)

The Bank classifies in this category debt and equity securities.

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The Bank classifies and subsequently measures a debt financial asset within financial assets at fair value through other comprehensive income, when both of the following conditions have been satisfied:

- the assets are managed in a business model for the purpose of collecting contractual cash flows and sale of the financial assets;
- according to the instrument's contractual conditions, on certain dates cash flows originate which are solely payment of principal and interest on the principal outstanding.

Regarding debt securities at fair value through other comprehensive income, the interest income, foreign exchange gains, and impairment losses or reversal are recognised in the statement of comprehensive income (within profit or loss for the year) and are calculated in the same manner as those for financial assets measured at amortised cost. Unrealised gains and losses from changes in the fair value of debt and equity securities classified within the group of financial assets at fair value through other comprehensive income are recognised directly within a separate component of equity in the statement of changes in equity (reserve for financial assets at fair value through other comprehensive income). Upon derecognition, the cumulative change in the fair value, recognised in prior period within equity, is reclassified to profit or loss for the year.

The Bank may make an irrevocable choice to classify certain equity instruments as equity instruments at fair value through other comprehensive income at initial recognition, when they are not held for trading. The classification is determined at the level of individual instruments. Gains and losses on these financial assets are never reclassified to profit or loss. Dividends are recognised as other income in the statement of comprehensive income (within profit or loss for the year) when the right on payment is established. Equity instruments at fair value through other comprehensive income are not subject to impairment tests.

The Bank has elected to classify into this category its investments in equity instruments which it intends to hold in the long term.

Financial assets at fair value through profit or loss (FVPL)

Financial assets at fair value through profit or loss include financial assets held for trading, as well as financial assets initially measured at fair value through profit or loss, or financial assets for which there is obligatory measurement at fair value. Financial assets are classified as held for trading, if they have been acquired for the purpose of short-term sale or repeated acquisition. Derivatives are also classified as held for trading, unless they have been designated as effective hedging instruments. Financial assets whose cash flows do not constitute solely payments of principal and interest are classified at measured at fair value through profit or loss, irrespective of the business model.

Irrespective of the criteria for debt instruments which should be classified at amortised cost or at fair value through other comprehensive income as described herein above, debt instruments may be measured at fair value through profit or loss upon their initial recognition, if this would eliminate or significantly decrease the accounting discrepancy. Financial assets at fair value through profit or loss are stated in the statement of financial position at fair value, and net changes in fair value are recognised in the statement of comprehensive income (within profit or loss for the year).

3.2.1.4. Impairment of financial assets

The Bank recognises an allowance for losses on impairment of financial assets by applying the so-called “expected credit losses approach” (ECL), i.e. it recognises a loss allowance irrespective of whether a specific loss event occurred. The model is applied upon the initial recognition of all debt instruments which are not measured at fair value through profit or loss, including receivables under lease agreements, loan commitments and financial guarantees.

ECL are based on the difference between the contractual cash flows due according to the contract's conditions, and all cash flows which the Bank expects to receive, discounted with the initial effective interest rate. Expected cash flows include cash flows from the sale of collaterals held or other loan facilities which constitute an integral part of the contractual conditions.

When following the asset's initial recognition no significant increase in the credit risk has occurred, the allowance for impairment is based on the expected credit loss occurring as a result of default events probable over the next 12 months (12-month expected credit loss). For exposures that have a significant increase in credit risk compared to initial recognition, the impairment provision is recognised for the credit loss expected over the remaining lifetime of

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the exposure, irrespective of the point of default (lifetime expected credit loss).

The change in the loss allowance is stated as result from impairment in profit or loss for the period. When in subsequent period the credit quality of the financial asset improves so that there is no longer a significant increase in credit risk compared to the asset's initial recognition, the asset is again measured based on 12-month expected credit losses.

Additional information about the assumptions used in determining ECL is presented in Notes 31.2 and 3.1.

3.2.1.5. Reclassification of financial assets

Under certain circumstances it is possible for non-derivative financial assets at fair value to be reclassified to amortised cost and vice versa. Such reclassification is only permitted upon change in the business model within which the respective assets are managed. The change in the business model is determined by the Bank's management as a result of external or internal changes of material nature to the Bank's operations. A change may also occur upon reorganization of operations resulting from change in the business model's objectives. Changes to the initial classification of financial assets are expected to occur in relatively rare and limited cases.

The new treatment is applied for future periods, following the date of reclassification when the business model was changed, without restatement of prior periods. The date of reclassification is taken to be the first day of the first reporting period following the change in business model, as a result of which the reclassification occurred.

3.2.1.6. Derecognition of financial assets

Financial assets are derecognised from the Bank's statement of financial position when: a) the rights to cash flows from the asset have expired, or b) the contractual rights have been transferred by the Bank or it holds them, but has undertaken an obligation to transfer the cash flows received thereby to a third party without undue delay (so-called pass-through agreement). A transfer leads to derecognition when: a) the Bank has transferred substantially all risks and rewards from ownership of the asset; or b) the Bank has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon. It is assumed that the Bank has transferred control only when the recipient has the practical possibility to freely and unrestrictedly dispose of or sell the assets to third unrelated parties.

If the Bank continues to hold substantially all risks and rewards from ownership of a transferred financial asset, or has retained control thereon, it continues to recognise the asset transferred to the extent of its continuing interest therein, but also recognises the associated liability for the consideration received. Both the asset and liability are measured so as to most adequately assess the continuing rights and obligations of the Bank. If the continuing involvement is in the form of a guarantee on the transferred asset, it is measured according to the policy on financial guarantees, and if it is in the form of put or call options – at the fair value.

3.2.1.7. Modification due to material change in terms and conditions

The Bank modifies the financial asset when the terms and conditions are renegotiated to a degree that may be considered to constitute a new asset, and the difference is recognised as gain or loss on derecognition, in as far as the impairment loss has not yet been recognised. The newly created assets are classified in Stage 1 for the purpose of calculation of expected credit losses (ECL). When the modification of a financial asset results in derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered to be a new one.

Upon assessment whether an asset should be derecognised, the Bank also considers the following additional factors: change in the loan's currency, change in counterpart, whether the change results in the instrument no longer meeting the SPPI test criteria (solely payment of principal and interest).

3.2.2. Financial liabilities and equity instruments

The Bank's financial liabilities include: payables to banks and customers under attracted deposits, and other current liabilities.

The Bank classifies its liabilities, debt and equity instruments as either financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The

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Bank determines the classification of its financial liabilities at the time of their origination. All financial liabilities held by the Bank are classified as financial liabilities and are subsequently measured at amortised cost.

The differences resulting from changes in own credit risk for financial instruments measured at fair value through profit or loss are carried to a reserve for financial assets at fair value through other comprehensive income, without subsequent reclassification in the statement of profit and loss and other comprehensive income.

Financial liabilities are initially recognised in the statement of financial position at fair value, net of the directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Interest costs are carried currently to the statement of comprehensive income (within profit or loss for the year) systematically over the life of the instrument.

Financial liabilities are derecognised when the obligation thereunder is discharged, or cancelled, or the counterparty loses its entitlement.

3.2.3. Netting of financial assets and financial liabilities

Financial assets and financial liabilities are netted, and the net amount is carried to the Bank's statement of financial position only if a legally enforceable right exists to offset the recognised amounts and if there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.2.4. Financial guarantees and undrawn commitments

Contingencies are liabilities arising as a result of past events whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which cannot be fully controlled by the Bank or it is not probable that a resource outflow would arise to repay the liability. In its usual course of business, the Bank grants bank guarantees having the nature of loan substitutes, good performance guarantees, tender guarantees, customs guarantees and letters of credit to its clients. It treats these as conditional commitments until an event resulting in the occurrence of an actual obligation for it to make a payment to a client's counterpart in whose favour the respective guarantee has been issued. Such an event is a claim to the Bank for payment of the respective commitment undertaken.

Financial guarantees are initially recognised at fair value, which is the amount of the fee (premium) received. The Bank's liability under each financial guarantee is subsequently measured at the higher of the following: a) the amount initially recognised less the amortised portion thereof recognised in profit or loss, and b) the impairment of expected credit losses.

The net effect of the change in the estimate of expected credit losses from financial guarantees granted, letters of credit and undrawn commitments is presented in the statement of profit and loss and other comprehensive income (within profit or loss for the year). The fee collected for bank guarantees issued is amortised on a straight-line basis over the period of the guarantees and is presented in the statement of profit or loss and other comprehensive income within "fee and commission income".

The undrawn loan facilities and letters of credit are commitments for which over a certain time period the Bank commits to grant to its client a loan under conditions agreed in advance. Like for financial guarantees, provisioning is done when there is an irrevocable loan agreement at the amount of the impairment of expected credit losses.

The nominal amount of financial guarantees, undrawn loan facilities (where the loan is agreed at market conditions) and letters of credit is not recognised and carried to the statement of financial position. This amount, together with the recognised losses, is disclosed in the notes to the financial statements (Note 31.2).

3.2.5. Receivables and payables under repurchase agreements

The Bank enters into agreements for temporary sale of securities with repurchase clause on a future date at a fixed price.

Receivables and liabilities under repurchase agreements are recognized at cost, which represents the funds placed/obtained by the Bank, secured by the value of the securities, together with the accrued to the moment interest receivable/payable.

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Securities sold with repurchase clause are not derecognized from the statement of financial position of the Bank. The difference between the sale price and repurchase price is considered as interest and is accrued proportionally for the term of the agreement.

3.3. Investment property

Investment property is property held by the Bank to earn rentals or capital appreciation or both.

Investment property is recognised as an asset only when it is probable that the Bank will obtain the future economic benefits related to the property, and when the acquisition price can be reliably measured. Recognition is usually performed when all risks and rewards related to the asset are transferred to the Bank.

Investment property is initially measured at acquisition cost, including transaction costs. Current costs related to servicing the asset are not included in the carrying amount, but are stated as expense for the period. Enhancements made after the date of initial recognition are included in the value of the investment property, in as far as they meet the criteria for asset recognition.

The Bank uses the fair value model for presentation of investment property.

Gains or losses on changes in the fair value of investment property are carried to the statement of comprehensive income (within profit or loss for the year).

Investment property is derecognised from the statement of financial position when it is permanently decommissioned and no future economic rewards are expected therefrom or upon sale. Gains and losses on sale of individual assets from the “investment property” group are determined by comparing the consideration the Bank expects to be entitled to (the sales revenue) and the carrying amount of the asset at the date on which the recipient obtains control thereon.

3.4. Leases

At the lease inception, which is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease, the Bank performs analysis and assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as lessee

Transfer of control over the use of an asset exists when the Bank in its capacity as customer receives simultaneously:

- the right to dispose of an asset – to determine how and for what purpose it will use the asset over its term of use;
- the right to obtain essentially directly or indirectly all economic benefits from the asset's use over its term of use – through use, holding, or sub-leasing the underlying lease asset.

At the lease inception, the Bank recognizes a right-of-use asset and lease liability. The right-of-use asset is initially measured at acquisition cost. The acquisition cost includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- costs for dismantling and removing the underlying asset, restoring the site.

Following the lease inception, the Bank applies remeasurement by applying the acquisition cost model, measuring the right-of-use asset at acquisition cost less all depreciation and impairment losses accumulated and adjusted in accordance with each remeasurement of the lease liability as a result of subsequent modifications.

The Bank depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the asset is transferred under the lease by the end of the lease term, the Bank shall depreciate it to the end of the useful life.

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Right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*, by applying an impairment determination and reporting policy analogous to the one for property and equipment (tangible fixed assets). The recoverable amount of right-of-use assets is the higher of the fair value less disposal costs, or value in use. To determine assets' value in use, future cash flows are discounted to their present amount, by applying a pre-tax discount rate reflecting the market conditions and time value of money and the risks inherent to the respective asset. Impairment losses are determined as the difference between the recoverable and carrying amount (when the recoverable account is lower than the carrying amount).

Right-of-use assets are presented within "property and equipment and right-of-use assets" in the statement of financial position, and the depreciation and impairment losses thereof – in the statement of comprehensive income (within profit or loss for the year) as depreciation and amortization expense.

The Bank recognises lease liabilities at the commencement date, measured at the present value of the lease payments that are not paid at this date. Lease payments are discounted using the interest rate implicit in the lease. If this percentage could not be reliably determined, the Bank uses the incremental borrowing rate. As incremental borrowing rate, the Bank uses the effective interest rate on interest-bearing attracted funds for the previous calendar year. For year 2023, the incremental interest rate is 0.16% (2022: 0.21%). Lease liabilities are subsequently measured using the effective interest method. The carrying amount of the liability is remeasured to reflect any change in the lease or fixed payments.

The Bank determines the lease term as the non-cancellable period of the lease, together with both: periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The basis for determining the lease term is the term stipulated in the agreement and the strategies, plans and intentions adopted with respect to each particular asset. The Bank adjusts a lease term (irrespective of whether it contains a renewal option) if there are sufficiently certain circumstances and expectations justifying a change in the term envisaged in the lease. The Bank analyses all factors that confirm the possibility to renew or terminate the lease. The lease term is reviewed at the end of each calendar year for all leases or upon change in the non-cancellable period of the lease.

The Bank has elected to apply the exemption allowing it to not recognize right-of-use assets and lease liabilities for leases whose underlying asset amounts to less than USD 5,000. The Bank recognizes the lease payments related thereto as an expense on a straight-line basis for the lease term or on another systematic basis. Assets for which the above exemption has been applied, whose term is up to 12 months and/or amounting to less than USD 5,000 comprise office equipment, rental of parking places, rental of ATM locations, etc.

The Bank as lessor

The Bank as lessor classifies its leases as operating or finance leases.

Operating lease

A lease in which the lessor continues to hold a significant portion of all risks and economic benefits from ownership over the asset is classified as an operating lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The underlying asset which is subject to the lease shall remain and be stated within the Bank's statement of financial position.

Finance lease

Upon leasing assets under finance leases, the Bank recognises and presents the assets held under finance leases in its statement of financial position as lease receivables whose amount is equal to present value of minimum lease payments. The Bank recognises finance income, using the net investments method (before taxes), which reflects a constant periodic rate of return on investment. Receivables under funding agreements in finance leases are stated within "Loans and advances to customers" in the statement of financial position.

3.5. Property and equipment and right-of-use assets and intangible assets

Property (land and buildings) and equipment is carried to the statement of financial position at acquisition cost less accumulated depreciation and impairment loss, if any.

The acquisition cost includes the purchase price and all direct costs for acquisition.

Intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any.

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The Bank has set a value threshold of BGN 300, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Depreciation of property and equipment and intangible assets is accrued according to the straight-line method and over the expected useful life of the respective assets at the following annual rates:

Buildings	2%
Machinery and equipment	20%
Computers	20%
Vehicles – automobiles	15%
Fixtures and fittings	15%
Software	15%
Leasehold enhancements	According to the lease term

The useful life set is reviewed at the end of each year and in case of any material deviation from the future expectations on the period of assets' use, the latter is adjusted prospectively.

Property and equipment and intangible assets are subject to periodic review for impairment upon existence of impairment indicators. In the cases when the asset's carrying amount is higher than its expected recoverable amount, the asset is impaired and the Bank states impairment loss.

Property and equipment and intangible assets are derecognised from the statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the asset's recipient.

Gains and losses arising from the disposal of assets are determined as the difference between the disposal proceeds determined pursuant to IFRS 15, and the carrying amount of the asset in the statement of financial position at the disposal date. Gains and losses on disposal are recognised in the statement of comprehensive income (within profit or loss for the year).

Right-of-use assets are stated within property and equipment in the statement of financial position, and the policy applied thereon is disclosed in Note 3.4.

3.6. Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income (within profit or loss for the year) on accrual basis for all interest-bearing financial instruments.

Interest income comprises: interest income from debt securities measured at fair value through other comprehensive income, interest income from deposits with other banks, interest income from financial assets held for trading, interest on loans and advances to customers, including fees and charges on loans and advances to customers (including paid to intermediaries in relation to the loan disbursement), that are an integral part of the effective income of the financial instrument.

Interest costs comprise: interest on deposits from customers, as well as interest on financial assets (current accounts at other banks) with negative profitability.

Pursuant to IFRS 9, upon recognition of interest income and costs, the effective interest method is applied for all financial instruments at amortised cost and at fair value.

The effective interest rate method is a method to determine the amortised cost of a financial instrument and to allocate the income/cost therefrom/therefor over a period of time. The effective interest rate is the interest rate that discounts the future inflows and outflows (including all fees and other add-ons or discounts) that are expected to be generated during the life of a financial instrument or a shorter period of time, as appropriate, to its carrying amount.

The interest income from financial assets at amortised cost is calculated by applying the effective interest rate on the gross amount of the financial assets, with the exception of assets classified in Stage 3, for which the effective interest rate is applied on the amortised cost (net carrying amount) of the financial asset.

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3.7. Fees and commissions

Fee and commission income on bank and non-bank services (mostly under current transactions in BGN or foreign currencies and for opening letters of credit or issuing bank guarantees) is recognised over time or upon performance as per the conditions for transfer of control over the service.

Fees and commissions on bank guarantees are recognised on a systematic basis over the period of the exposure so as to match the cost of providing the service.

Fee and commission expenses related to the servicing of nostro accounts and other bank accounts are usually recognised at the time of performing/consuming the service they refer to, unless they are consumed over a period of time – in this case, they are recognised on a systematic basis over the period.

3.8. Foreign currency transactions

Transactions denominated in foreign currencies are translated into BGN at the rates of BNB at the date of transaction. Receivables and payables in foreign currencies are revaluated on a daily basis. At the end of the year, they are revalued into the BGN equivalent at closing exchange rates of BNB.

Effective from 1999, the exchange rate of the Bulgarian Lev is fixed to the Euro, official currency of the European Union, at a rate of EUR 1 = BGN 1.95583.

Net foreign exchange gains and losses arising from revaluation of cash and cash equivalents, loans and receivables, investments in securities, payables under deposits and other liabilities and from foreign currency transactions are recognized in the statement of comprehensive income (within profit or loss for the year) when occurred.

3.9. Employee benefits

Employee benefits are all forms of consideration given by the Bank in exchange for service rendered by the employees.

Short-term employee benefits include:

- basic remuneration for service;
- remuneration above the basic one according to the applied plans for service payment;
- additional remuneration for prolonged service, overtime and internal replacement;
- other specific additional remuneration according to individual labour contract;
- social security contributions and other benefits, including for paid sick leave, maternity leave and others;
- annual paid leave and other compensated leaves.

At the date of each financial statements, the Bank measures the expected expense on accumulated unused paid leaves which is expected to be paid as a result of the unused entitlement to paid leave. The measurement includes the estimate of remuneration and social security and health insurance contributions due by the employer thereon.

According to the requirements of the Labour Code upon termination of labour contract entities in the country are obliged to pay compensation at the amount of 2 to 6 salaries depending on the employee's length of service at the Bank.

In accordance with IAS 19 Employee Benefits the Bank treats these liabilities as defined-benefit pension plans and recognises long-term liabilities for retirement benefits, which are calculated by a licensed actuary using the projected unit credit method (Note 17). The amount reported in the statement of financial position represents the present value of the long-term liabilities of the Bank for retirement benefits.

3.10. Income taxes

The current income taxes of the Bank are determined in accordance with the requirements of the Bulgarian tax legislation. Income tax is calculated based on the taxable profit for the period, determined in accordance with the provisions of the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2023 is 10% (2022: 10%).

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Deferred income taxes are determined using the balance sheet method for calculating the liability for all temporary differences of the Bank as at the date of the financial statements between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences to the extent sufficient taxable profit is available from which the deferred tax asset could be set off. This does not apply to differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit/(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that they reverse and sufficient taxable profit be available or taxable temporary differences will occur in the same period, to allow the deferred tax asset to be deducted or offset.

Deferred taxes are recognised as savings or expenses and are included in the statement of comprehensive income (within profit or loss for the year), except for the cases when these taxes originate from a transaction or event stated in the same or other period directly within equity. Deferred taxes are directly accrued or deducted within equity when they refer to items accrued or deducted in the same or other period within equity.

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

As at 31 December 2023 the deferred income taxes of the Bank are computed at a tax rate of 10%, which is also valid for 2024.

Amendments to the Corporate Income Taxation Act (CITA) related to the 15% global minimum corporate tax rate

At the end of 2023, amendments were adopted to CITA, by means of which 15% global minimum corporate tax rate will be effectively applied as from 1 January 2024 for multinational and big national groups of entities, under the conditions set in CITA. These amendments are in the context of the so-called OECD Pillar Two Modal Rules in accordance with the agreement on global and European level that commenced with the BEPS initiative (Base erosion and profit shifting) of the OECD to cope with the taxation challenges arising as a result of the digitalization of the economy.

The management is in process of analysis of the potential effects, and respectively, if there are effects – what they would be, from the amendments to CITA in relation to the 15% global minimum corporate tax rate as from 1 January 2024.

3.11. Fair value of financial assets and liabilities

Some of the Bank's assets and liabilities are measured and presented at fair value on recurring basis and / or fair values are only disclosed for financial reporting purposes. These include:

- for the purpose of measurement and presentation at fair value in the financial statements: financial assets – securities at fair value through other comprehensive income, financial assets at fair value through profit or loss, non-financial assets – investment property;
- for the purpose of fair value disclosures in the financial statements: financial assets and liabilities – measured at amortised cost: receivables from banks, loans and advances to customers, deposits from to banks, deposits from customers; non-financial assets – assets held for sale.

The Bank also determines the fair value of the collaterals obtained thereby.

Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at a major (or most favourable) market at currently applicable market conditions. Fair value according to IFRS 13 is an exit price, irrespective of whether it is immediately available or estimated by means of another measurement technique.

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Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest. In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Bank has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities.

The Bank applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses all three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include direct and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows.

If an active market exists, the Bank uses direct quoted (unadjusted) prices to determine the fair value of the respective financial instrument.

If the market for the respective financial instrument is not active, the Bank establishes its fair value using a particular valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flows analyses and option pricing models. The valuation technique chosen makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with the accepted economic methodologies for pricing of financial instruments. Inputs to the valuation techniques reasonably represent market expectations and measures for risk-return factors inherent in the financial instrument. The Bank calibrates the valuation techniques and tests their validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Fair values reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Bank and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The determination of the fair value of non-financial assets is carried out periodically (annually). The Bank uses the expertise of external independent licensed valuers in determining the fair value of its investment properties for the purpose of disclosures in the financial statements. The selection of valuers is made on the basis of the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of the external valuers is assessed periodically. The application of the valuation approaches and techniques as well as the inputs used in all cases of fair value measurements are subject to mandatory discussion and agreement between the external expert valuers and the respective officers in charge within the Bank. The final fair value measurements are subject to approval by the Bank's management.

The Bank uses the following hierarchy to measure and disclose the fair value of financial instruments through valuation technique:

- Level 1: quoted (unadjusted) prices of active markets for identical assets or liabilities;
- Level 2: other techniques based on inputs, which has significant effect on the reported fair value and are observable either directly or indirectly;
- Level 3: techniques which have significant effect on the reported fair value and use inputs that are not based on observable market data.

The fair value hierarchy does not grant priority to the valuation techniques used, but is based on the nature of the input used in applying these techniques. The selection of a valuation technique to be applied takes into consideration the selling prices on the market (i.e. the major (or most favourable) market) for the asset or liability and the valuation inputs corresponding to the nature of the valued item.

Note 31.5 and Note 11 provide information on the fair values of financial assets and liabilities, investment property, and assets held for sale.

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3.12. Provisions and contingent liabilities

Provisions are recognised when the Bank has a present obligation, constructive or legal, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. The measurement of provisions is based on the best estimate made by the management at the date of preparation of the statement of financial position concerning the expenses required for the settlement of the particular obligation. The estimate is discounted if the obligation is long-term.

3.13. Assets acquired from collaterals

Assets acquired from collaterals which the Bank does not intend to use in the course of its business, and which are not investment properties are presented as "Other assets". These assets are collaterals which the Bank has acquired from borrowers who became insolvent. The Bank's policy is to sell the acquired collaterals when the Bank finds a profitable enough market for them.

Assets acquired from collaterals within "Other assets" are initially measured at acquisition cost, including transaction costs. They are subsequently measured at the lower of their carrying amount and their net selling price.

Assets acquired from collaterals that meet the conditions of IFRS 5 and IAS 40 are presented as "non-current assets held for sale" (Note 3.14) and "investment property" (Note 3.3) respectively.

3.14. Non-current assets held for sale

Non-current assets held for sale are real estate property and other non-current assets which the Bank intends to realize through a sale transaction, rather than through continuing use. Assets are classified in this category if they meet the following criteria:

- The asset is available for immediate sale
- The sale is highly probable, including:
 - Management is committed to a plan to sell the asset;
 - Active action has been undertaken to identify a buyer and carry out the sales plan;
 - The asset is actively marketed for sale at a price close to its current market value;
 - The sale is expected to take place within one year after the asset's classification as held for sale.

Certain circumstances may extend the period to complete the sale beyond one year, if the delay is caused by events and circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset and undertakes actions to respond to the circumstances which caused the delay.

The Bank classifies as non-current assets held for sale assets acquired as collateral under non-performing loans. Initially, the assets are recognized at acquisition cost, which is usually the public sale price, including direct transaction costs. After their initial recognition assets are recognized at the lower of their carrying amount or fair value, less costs to sell. These assets are not depreciated.

3.15. Share capital and reserves

The Bank is a joint-stock company and it is obliged to register in the Commercial Register a certain amount of share capital, which should serve as a security for the receivables of the Bank's creditors. Shareholders are liable for the obligations of the Bank up to the amount of the capital share held by each of them and may claim refunding of this interest only in liquidation or bankruptcy proceedings.

The share capital represents the non-distributable capital of the Bank and is presented at the nominal value of the issued shares.

The Bank is obliged to set aside a Reserve Fund (statutory reserve) in accordance with the requirements of the Commercial Act on distribution of the profit (Note 19.2).

The financial assets at FVOCI reserve is being set aside from the difference between the carrying amount of financial assets at fair value through other comprehensive income and their fair values at the revaluation date.

The financial assets at FVOCI reserve is transferred to the current profit and loss in the statement of comprehensive

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income, when the financial assets are sold or in case of lasting and prolonged impairment. The revaluation reserve of equity instruments upon derecognition is not reclassified to current profit and loss in the statement of comprehensive income.

3.16. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash in hand, cash in current accounts with other banks, deposits placed with other banks – payable upon demand and/or with original maturity of up to 3 months, as well as balances with the Central Banks, free of restrictions.

3.17. Comparative information

In these financial statements, the Bank provides comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

4. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2023	31.12.2022
Cash in hand	10,328	10,378
Cash with the Central Bank	125,309	85,067
	135,637	95,445
Allowance for credit losses	(6)	(4)
Total	135,631	95,441

As at 31 December 2023 and 2022 cash with the Central Bank includes mandatory minimum reserves at the amount of BGN 45,990 thousand and BGN 33,539 thousand respectively, reserve guarantee fund for securing the payments through the system for gross settlement in real time – RINGS in accordance with the requirements of the Central Bank amounting to BGN 716 thousand and BGN 433 thousand, respectively. There are no limitations imposed by the Central Bank for using the minimum reserves. The amount of the reserves depends on the amount of deposits attracted by the Bank.

The movement in the allowance for credit losses of balances with the Central Bank is as follows:

	2023	2022
Balance on 1 January	4	6
Increase/(decrease) of the impairment for expected credit losses	2	(2)
Balance on 31 December	6	4

5. RECEIVABLES FROM BANKS

Receivables from banks are as follows:

	31.12.2023	31.12.2022
Current accounts at local banks	734	441
Current accounts at foreign banks	576	833
Deposits at local banks	3,197	3,364
Deposits at foreign banks	-	2,934
	4,507	7,572
Allowance for credit losses	-	(1)
Total	4,507	7,571

Deposits placed with banks as at 31 December 2023 and 2022 have maturity of up to three months.

As at 31 December 2023 and 2022, receivables from banks are classified in Stage 1. Expected credit losses are

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calculated on an individual basis.

The movement in the allowance for expected credit losses on receivables from banks is as follows:

	2023	2022
Balance on 1 January	1	2
Increase in the impairment for expected credit losses	-	-
Reversal of the impairment for expected credit losses	(1)	(1)
Balance on 31 December	-	1

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Equity instruments at fair value through profit and loss

Stocks and shares in local entities	315	249
Total	315	249

7. DEBT AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2023	31.12.2022
<i>Debt instruments at fair value through other comprehensive income</i>		
Bulgarian government securities	27,291	32,238
Foreign government securities	1,778	2,761
	29,069	34,999
<i>Equity instruments at fair value through other comprehensive income</i>		
Shares and interest in local entities	381	381
	381	381
Total	29,450	35,380

The movement in securities at fair value through other comprehensive income is as follows:

	2023	2022
Balance at 1 January	35,380	41,688
Increase (purchases)	-	8,565
Decrease (sales and/or maturity)	(7,112)	(13,575)
Net effect of restatement to fair value	1,098	(2,572)
Interest income accrued	160	232
Net foreign exchange remeasurement	(76)	1,042
Balance at 31 December	29,450	35,380

As at 31 December 2023 and 2022 debt securities at fair value through other comprehensive income are classified in Stage 1. Expected credit losses are determined on an individual basis (Note 31.2).

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The movement in the impairment of debt securities at fair value through other comprehensive income is as follows:

	2023	2022
Balance on 1 January	25	37
Increase in the impairment on credit losses on debt securities	4	11
Reversal of the impairment on credit losses on debt securities	(13)	(23)
Balance on 31 December	16	25

As at 31 December 2023, government securities with carrying amount of BGN 3,282 thousand are pledged as collateral with BNB to secure attracted funds from the State Budget (31 December 2022: BGN 7,737 thousand).

8. DEBT INSTRUMENTS AT AMORTISED COST

	31.12.2023	31.12.2022
<i>Debt instruments at amortised cost</i>		
Bulgarian government bonds	-	3,969
Foreign government bonds	42,357	40,918
Debt instruments at amortised cost	42,357	44,887

	2023	2022
Balance at 1 January	44,887	-
Increase (purchases)	207,498	54,778
Decrease (maturity)	(210,381)	(9,779)
Increase in the impairment of credit losses	(13)	(2)
Recognised interest income	1,000	66
Net foreign exchange remeasurement	(634)	(176)
Balance at 31 December	42,357	44,887

The movement in the impairment of debt securities at amortised cost is as follows:

	2023	2022
Balance at 1 January	2	-
Increase in the impairment of debt securities at amortised cost	39	2
Reversal of the impairment of credit losses on debt securities at amortised cost	(26)	-
Balance at 31 December	15	2

As at 31 December 2023 and 31 December 2022 debt securities at amortised cost are classified as Stage 1.

9. LOANS AND ADVANCES TO CUSTOMERS

9.1. Analysis by type of customers

	31.12.2023	31.12.2022
Private entities	188,145	174,756
Households and individuals	58,839	61,590
State budget	952	1,138
Financial entities	-	6,997
Finance lease	8,011	10,208
	255,947	254,689
Allowance for credit losses	(6,144)	(6,928)
Total	249,803	247,761

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9.2. Analysis by sectors

Information for allocation of loans and advances to customers in accordance with the internal classification of the Bank is, as follows:

	31.12.2023	31.12.2022
Trade	29,987	35,050
Industry	43,647	32,244
Construction	35,564	33,402
Tourist services	24,304	26,529
Consumer loans	19,112	19,788
Agriculture	24,414	22,338
Real estate transactions	9,048	7,853
Healthcare	3,357	5,582
Information and communication services	6,236	6,521
Finance	5,459	6,997
Transport	1,265	1,182
State budget	952	1,138
Other sectors	52,602	56,065
	255,947	254,689
Allowance for credit losses	(6,144)	(6,928)
Total	249,803	247,761

9.3. Movement of the allowance for credit losses and allocation by portfolios and stages

	2023	2022
	Loans and advances	Loans and advances
Balance at 1 January	6,928	8,183
Accrued impairment	3,039	2,562
Increase in the allowance for impairment of unrecognized interest on loans in Stage 3	70	76
Reversed impairment	(1,343)	(2,237)
Impairment written of	(2,550)	(1,656)
Balance at 31 December	6,144	6,928

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The allocation of loans and advances to customers based on type and stage of impairment is as follows:

	31.12.2023	31.12.2022
<i>Individually impaired</i>		
Gross amount	16,416	19,256
Allowance for credit losses	(3,330)	(4,549)
Stage 3	13,086	14,707
Individually impaired	13,086	14,707
<i>Collectively impaired</i>		
Gross amount	209,942	195,152
Allowance for credit losses	(149)	(89)
Stage 1	209,793	195,063
Gross amount	25,612	35,410
Allowance for credit losses	(915)	(543)
Stage 2	24,697	34,867
Gross amount	3,977	4,871
Allowance for credit losses	(1,750)	(1,747)
Stage 3	2,227	3,124
Collectively impaired	236,717	233,054
Total	249,803	247,761

9.4. Analysis of finance lease receivables

Finance lease receivables are as follows:

	31.12.2023	31.12.2022
Up to 1 year	1,130	1,330
1 to 5 years	4,273	4,808
Over 5 years	6,307	7,669
Gross investments in finance leases, receivables	11,710	13,807
Less: unearned finance income	(3,699)	(3,599)
Net investments in finance leases	8,011	10,208

Net investments in finance leases are as follows:

	31.12.2023	31.12.2022
Up to 1 year	634	994
1 to 5 years	2,461	3,480
Over 5 years	4,916	5,734
	8,011	10,208

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10. NON-CURRENT ASSETS HELD FOR SALE

	2023	2022
Balance at the beginning of the year	271	1,070
Additions during the year	-	93
Reclassified to other assets (assets acquired against debt from non-performing loans)	(212)	-
Disposals during the year	(59)	(892)
Balance at 31 December	-	271

The fair values of non-current assets held for sale are categorized as Level 3 fair values based on the inputs used in the valuation approach. The valuations have been done in compliance with the methods set in IFRS 13 and the International Valuation Standards methods and the reference for market evidence based on transactions or bids for similar properties. Additional information about the inputs used in determining their fair value and the types of non-current assets held for sale is provided in Note 31.5.

11. INVESTMENT PROPERTY

	2023	2022
Balance at the beginning of the year	10,713	15,611
Granted under finance leases	(1,037)	(4,930)
Sold	(3,306)	(218)
Net remeasurement to fair value	(43)	250
Balance at 31 December	6,327	10,713

The fair value measurements of investment property are categorised as Level 3 fair values based on the input used in the valuation approach. The valuations were prepared using the methods and references set by IFRS 13 and the International Valuation Standards methods and references for market evidence from transactions or bid prices of similar properties (Note 31.5).

The Bank's investment property as at 31 December 2023 comprises hotel complexed, landed properties and retail sites. Some of the investment property is leased for a period of one year with an extension option and termination with one-month notice. The rental income from investment property for the year ended 31 December 2023 amounts to BGN 219 thousand (31 December 2022: BGN 406 thousand) and is included within "Rental income" in Note 23.

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12. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Property, plant and equipment and right-of-use assets

	Buildings	Right-of-use assets (buildings)	Office equipment	Motor vehicles	Furniture and fixtures	Other assets	Advances for acquisition of PPE	Total property, plant and equipment and right-of- use assets
Book value								
1 January 2022	751	5,229	2,573	717	571	483	337	10,661
Additions	-	574	112	-	2	-	56	744
Transfer	-	-	337	-	-	-	(337)	-
Disposals	-	(761)	(906)	-	(30)	(128)	-	(1,825)
Sold	-	-	(28)	(102)	(16)	-	-	(146)
31 December 2022	751	5,042	2,088	615	527	355	56	9,434
Additions	-	1,901	224	-	1	-	-	2,126
Transfer	-	-	56	-	-	-	(56)	-
Disposals	-	(5)	(78)	-	(6)	-	-	(89)
Sold	-	-	-	(26)	-	-	-	(26)
31 December 2023	751	6,938	2,290	589	522	355	-	11,445
Accumulated depreciation								
1 January 2022	(258)	(2,850)	(2,305)	(717)	(480)	(458)	-	(7,068)
Depreciation charge for the year	(15)	(913)	(191)	-	(35)	(8)	-	(1,162)
Depreciation written off	-	425	926	102	44	129	-	1,626
31 December 2022	(273)	(3,338)	(1,570)	(615)	(471)	(337)	-	(6,604)
Depreciation charge for the year	(15)	(849)	(175)	-	(27)	(3)	-	(1,069)
Depreciation written off	-	-	76	26	6	-	-	108
31 December 2023	(288)	(4,187)	(1,669)	(589)	(492)	(340)	-	(7,565)
Net carrying amount								
31 December 2022	478	1,704	518	-	56	18	56	2,830
31 December 2023	463	2,751	621	-	30	15	-	3,880

As at 31 December 2023, tangible fixed assets include assets with a book value of BGN 2,666 thousand (31 December 2022: BGN 2,462 thousand), which have been fully depreciated, but continue to be used in the Bank's operations.

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As at 31 December 2023, right-of-use assets are related to leases of office premises.

Intangible assets

	Licenses	Software	Advances for acquisition of IA	Total intangible assets
Book value				
1 January 2022	514	1,570	48	2,132
Additions	-	11	27	38
Disposals	-	12	(12)	-
31 December 2022	514	1,593	63	2,170
Additions	-	179	47	226
Transfer	-	39	(39)	-
31 December 2023	514	1,811	71	2,396
Accumulated amortisation				
1 January 2022	(413)	(1,007)	-	(1,420)
Amortisation charge for the year	(64)	(125)	-	(189)
31 December 2022	(477)	(1,132)	-	(1,609)
Amortisation charge for the year	(32)	(134)	-	(166)
31 December 2023	(509)	(1,266)	-	(1,775)
Net carrying amount				
31 December 2022	37	461	63	561
31 December 2023	5	545	71	621

As at 31 December 2023, intangible assets include assets of book value BGN 502 thousand (31 December 2022: BGN 205 thousand), which have been fully amortised, but continue to be used in the Bank's operations.

13. DEFERRED TAX ASSETS

Deferred income tax assets as at 31 December are related to the following items:

	Balance 31.12.2023	Effect on profit and loss 2023	Balance 31.12.2022	Effect on profit and loss 2022	Balance 31.12.2021
Deferred tax assets:					
Impairment of assets acquired against debt from non-performing loans	79	79	-	-	-
Bonus accrual	35	35	-	-	-
Long-term employee benefits	32	(5)	37	4	33
Unused paid leaves	6	(6)	12	(6)	18
Differences between accounting and tax depreciation and amortization	5	(120)	125	23	102
Other	3	3	-	-	-
Total deferred tax assets	160	(14)	174	21	153

Deferred tax assets as at 31 December 2023 and 2022 have been calculated by applying a tax rate of 10%, determined in accordance with the Corporate Income Taxation Act and applicable for periods of temporary

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differences.

On recognising deferred tax assets, the probability for a reversal of the individual differences and the abilities of the Bank to generate sufficient taxable profit in the future, have been taken into account.

As at 31 December 2023 the Bank reported positive tax financial result and offset the accumulated tax losses in accordance to the Corporate Income Taxation Act. As at 31 December 2022 the Bank did not recognise deferred tax assets at the amount of BGN 335 thousand on accumulated tax loss at the amount of BGN 3,349 thousand. The Bank does not recognise tax assets at the amount of BGN 358 thousand (31 December 2022: BGN 394 thousand) for other temporary differences at the amount of BGN 3,580 thousand (31 December 2022: BGN 3,938 thousand), in so far as there is uncertainty regarding the future taxable profit against which they can be utilised.

14. OTHER ASSETS

	31.12.2023	31.12.2022
Assets acquired against debt from non-performing loans	11,477	13,060
Deferred expenses	244	310
Advance payments	136	50
Guarantee deposits	58	63
Other assets	499	339
Total	12,414	13,822

Assets acquired under non-performing loans

The fair values of assets acquired under non-performing loans are categorized for disclosure purposes as Level 3 fair values based on the inputs used in the valuation approach. The valuations have been done in compliance with the methods set in IFRS 13 and the International Valuation Standards methods and the reference for market evidence based on transactions or bids for similar properties. Additional information about the inputs used in determining their fair value and the types of assets acquired under non-performing loans is provided in Note 31.5. The net selling price of these assets used as subsequent accounting measurement is determined based on their fair value (in accordance with the Bank's policy as disclosed in Note 3.13).

15. DEPOSITS FROM BANKS

The deposits from banks amount to BGN 48 thousand (31 December 2022: BGN 49 thousand) and have maturity of up to three months.

16. DEPOSITS FROM CUSTOMERS

	31.12.2023	31.12.2022
Individuals' accounts		
- Deposits on demand and savings accounts	158,029	133,206
- Term deposits	166,998	170,060
State Budget accounts		
- On demand deposits	2,880	7,748
Corporate accounts		
- On demand deposits	76,275	74,294
- Term deposits	24,083	25,339
Accounts of other non-bank financial institutions		
- On demand deposits	569	2,085
- Term deposits	200	200
	429,034	412,932

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As at 31 December 2023, 2.68% (31 December 2022: 2.72%) of customers' deposits are funds of the main shareholder and related parties thereto.

Customer deposits includes customers' cash blocked by the Bank: for collateral of loans and bank guarantees at the amount of BGN 1,298 thousand (31 December 2022: BGN 2,192 thousand), as well as accounts under special conditions: accumulation accounts at the amount of BGN 1,375 thousand (31 December 2022: BGN 2,493 thousand).

17. OTHER LIABILITIES

	31.12.2023	31.12.2022
Lease liabilities	2,756	1,711
Long-term retirement benefit obligation	324	369
Payables to suppliers	361	327
Bonus accrual	350	-
Bank transfers in progress	341	9
Current tax liabilities	167	-
VAT payable	3	232
Accruals for unused paid leaves	50	100
Remeasurement of financial guarantees and loan commitments	42	65
Other liabilities	75	577
	4,469	3,390

Bank transfers

Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2023 and 2022 respectively, with value date within two days. The transfers are processed up to the second working day of 2024 and 2023, respectively.

Payables to personnel

According to the provisions of the Labour Code, upon termination of employment relations, if the worker or employer is entitled to pension for length of service and age, the Bank is obliged to pay a compensation amounting to double the gross monthly remuneration. If the worker or employee has worked at the Bank over the last 10 years, the amount of the compensation equals 6 gross monthly salaries. As at 31 December 2023 and 31 December 2022, the Bank accrued BGN 324 thousand and BGN 369 thousand respectively for retirement benefit obligations, and the provision amount has been determined by a licensed actuary.

The main assumptions used by the licensed actuary upon determining the present value of the obligations are as follows:

- Updated mortality rate and average longevity of population in Bulgaria by the National Statistical Institute;
- Statistical information on disability probability;
- Turnover rate – 0.1722;
- Financial assumptions, 2.5% salary growth as compared to the previous year;
- Discount rate – due to the long-term nature of the payable, annual discount rate of 2.91% has been applied.

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Lease liabilities

The change in the lease liabilities is presented in the table below:

	2023	2022
Balance at 1 January	1,711	2,390
Accrued interest	5	8
Principal payments	(856)	(908)
Interest payments	(5)	(8)
Extended	1,901	574
Terminated	-	(345)
Balance at 31 December	2,756	1,711

The maturity analysis of lease liabilities is presented in Note 31.3

18. SUBORDINATED DEBT

As at 31 December 2023 and 2022, the balance of subordinated debt includes BGN 1,956 thousand – principal and BGN 3 thousand – interest currently accrued.

In September 2021 the Bank concluded a subordinated loan agreement with the main shareholder Tokushukai Incorporated. The agreement aims to support the Bank's growth and to optimise the structure of liabilities. The amount of the subordinated loan granted is EUR 1,000 thousand (BGN 1,956 thousand), and should be fully repaid by the Bank in January 2032. The interest is fixed at the amount of 5%.

In February 2022, BNB granted a permission for the loan to be included as Tier 2 capital.

19. EQUITY AND RESERVES

19.1. Share capital

As at 31 December 2023 and 2022, the Bank's share capital is fully paid and is distributed in registered voting shares, as follows:

	31.12.2023	31.12.2022
Number of shares	6,800,000	6,800,000
Share nominal in BGN	10	10
Share capital (BGN'000)	68,000	68,000

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

	31.12.2023	%	31.12.2022	%
Tokushukai Incorporated	6,796,250	99.94	6,796,250	99.94
Gamma Holding Group AD	3,750	0.06	3,750	0.06
Total shares	6,800,000	100	6,800,000	100

19.2. Reserves

A summary of the Bank's reserves is presented in the table below:

	31.12.2023	31.12.2022
Statutory reserves (Reserve Fund)	5,400	2,967
Other reserves - actuarial losses on revaluation of defined benefit retirement plans	(15)	(15)
Reserve of financial assets at fair value through other comprehensive income	(1,124)	(2,222)
	4,261	730

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Statutory reserves (Reserve Fund)

According to the Bulgarian legislation, the Bank is obliged to allocate a portion of its profit to the Reserve Fund until the amount thereof reaches at least 1/10 of the capital envisaged by the Statute.

The funds in the Reserve Fund may only be used to cover present- or past-year losses, and when they exceed 1/10 of the capital envisaged by the Statute, the excess may also be used to increase capital. In addition, under the Credit Institutions Act banks are not allowed to pay dividends before reaching the minimum reserves required by law or by the Statute, or in case the distribution of dividends will result in violation of the regulatory capital adequacy ratios.

Reserve of financial assets at fair value through other comprehensive income

The reserve of financial assets at fair value through other comprehensive income is formed from the effects of remeasurement of securities measured at fair value through other comprehensive income. Upon derecognition of debt securities, the reserve is recycled through profit and loss. Upon derecognition of equity securities, the reserve is not recycled through profit and loss statement and other comprehensive income (through profit or loss for the period).

20. INTEREST INCOME AND EXPENSES

	2023	2022
Interest income		
Receivables from banks	2,752	624
Loans and advances to customers	15,093	9,824
Debt instruments at FVOCI	160	232
Debt instruments at amortised cost	1,000	66
Financial assets at FVPL	-	23
	19,005	10,769
Interest expenses		
Deposits, including:	637	551
Individuals	591	539
Corporate clients	46	12
Current accounts at other banks and other assets	2	275
Lease liabilities	5	8
Interest on subordinated debt	98	98
	742	932
Net interest income	18,263	9,837

In 2023 the Bank charged interest income on loans and advances to customers classified at Stage 3, at the amount of BGN 1,195 thousand (31 December 2022: BGN 751 thousand).

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21. FEE AND COMMISSION INCOME/EXPENSE

	2023	2022
Fee and commission income		
Account servicing	1,850	1,646
Money transfers	1,162	1,199
Loans granted	1,103	930
Cash balance transactions	693	618
Card servicing	571	440
Guarantee servicing	82	72
Other	25	21
	5,486	4,926
Fee and commission expenses	2023	2022
Card servicing	331	290
Account opening and servicing	39	35
Money transfers	4	5
Insurance	2	2
Other	55	34
	431	366
Net fee and commission income	5,055	4,560

22. NET TRADING INCOME

	2023	2022
Foreign exchange gains	644	534
Gain/(Loss) on revaluation of financial assets at FVPL	68	(39)
	712	495

23. OTHER OPERATING INCOME

	2023	2022
Gain on non-current assets held for sale (acquired in return for debt)	539	811
Rental income	427	542
Net (loss)/gain on remeasurement of investment property to fair value	(43)	250
Net (loss)/gain on foreign currency revaluation	(11)	67
Dividends	36	28
Gain on sales of property and equipment	1	19
Income on court loans	19	3
Net loss on assets written-off, other than assets held for sale	(3)	(7)
Net loss on sale of debt instruments at FVOCI	(1)	-
Other operating income (net)	224	258
	1,188	1,971

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24. GAINS AND LOSSES ON IMPAIRMENT OF ASSETS AND PROVISIONS (NET)

	2023	2022
Impairment charge on loans and advances to customers	1,696	325
Effect of modification of loans and advances to customers	329	118
Reversed impairment of debt instruments at FVOCI	(9)	(12)
Accrued impairment of debt instruments at amortised cost	13	2
Accrued/(reversed) impairment of balances with the Central Bank	2	(3)
Remeasurement of financial guarantee contracts and loan commitments	(23)	42
Reversed impairment of receivables from banks	(1)	(1)
Accrued impairment of non-financial assets	297	238
	2,304	709

25. PERSONNEL EXPENSES

	2023	2022
Salary expenses	6,891	5,795
Social security contributions	735	687
Health insurance contributions	267	249
Expenses for additional mandatory pension insurance	147	136
Unused paid leaves	41	87
Occupational medical care	12	7
(Income)/expense for long-term benefits	(1)	62
	8,092	7,023

26. OTHER ADMINISTRATIVE AND OPERATING EXPENSES

	2023	2022
External services	1,383	1,248
Contributions to the Deposit Insurance Fund	1,001	955
IT licences and support	919	859
Unrecognised VAT expenses	581	621
Utility costs	342	479
Fees to cover administrative costs of BNB	245	254
Expenses on properties acquired	139	147
Audit fees	110	101
Office supplies	126	110
Court receivables written-off	64	45
Litigation costs	28	76
Rentals	15	16
Other expenses	547	457
	5,500	5,368

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27. INCOME TAX (EXPENSE)/BENEFIT

The main components of the tax (expense)/benefit for the periods ended on 31 December are:

	2023	2022
Deferred tax (expense)/benefit	(14)	21
Current tax expense	(546)	-
Total (expense for)/benefit from income tax carried to the statement of comprehensive income (within profit or loss for the year)	(560)	21
Reconciliation between profit before tax and the tax (expense)/benefit:		
Profit before income tax	8,087	2,412
Tax at 10% applicable tax rate for 2023 (2022: 10%)	(809)	(241)
Effect of unrecognized amounts in the tax return related to:		
increases	(142)	(648)
decreases	32	968
Unrecognised tax asset for tax loss	-	(58)
Effects of amounts recognised for deferred tax not recognised prior years	24	-
Tax loss deducted	335	-
Total (expense for)/benefit from income tax carried to the statement of comprehensive income (within profit or loss for the year)	(560)	21
Effective tax rate	6.9%	-

28. RELATED PARTY TRANSACTIONS

The Bank's related parties and the types of relation are as follows:

Related parties	Type of relation	Period of relation
TOKUSHUKAI INCORPORATED	Main shareholder	2022 and 2023
GLOBAL-PRIME OOD	Companies under common control	2022 and 2023
AMERICA FOR BULGARIA FOUNDATION	Company related through key management personnel	2022 and 2023
CREDITLAND EOOD	Company related through key management personnel	2022 and 2023

The key management personnel is disclosed in Note 1.

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As at 31 December 2023 and 31 December 2022, the Bank has receivables from and payables to related parties, as follows:

	31.12.2023	31.12.2022
Related parties and balances		
Main shareholders		
Deposits received	6,272	6,409
Subordinated term debt	1,959	1,959
Companies under common control		
Deposits received	1,507	1,866
Companies related through key management personnel		
Deposits received	3,721	2,953
Key management personnel		
Loans granted	34	45
Deposits received	185	559

The income and expenses of the Bank in 2023 and 2022 from related party transactions are as follows:

	2023	2022
Related parties and types of transactions		
Main shareholder		
Fee and commission income	1	1
Interest costs	101	98
Companies under common control		
Fee and commission income	2	2
Interest expense	1	-
Companies related through key management personnel		
Interest expense	17	10
Key management personnel		
Fee and commission income	-	2
Interest expense	1	1

The remuneration to the Supervisory Board members accrued and paid in 2023 amount to a total of BGN 77 thousand (2022: BGN 72 thousand). The remuneration to the Management Board members paid in 2023 amount to a total of BGN 571 thousand (2022: BGN 491 thousand).

29. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

Cash and cash equivalents for the purpose of the statement of cash flows include:

	31.12.2023	31.12.2022
Cash with the Central Bank (Note 4)	125,303	85,063
Deposits to banks with original maturity of up to three months (Note 5)	3,197	6,297
Cash in hand (Note 4)	10,328	10,378
Current accounts with foreign banks (Note 5)	576	833
Current accounts with local banks (Note 5)	734	441
Total cash and cash equivalents in the statement of cash flows	140,138	103,012

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30. COMMITMENTS AND CONTINGENCIES

The Bank's commitments and contingencies include guarantees issued and undrawn loan commitments.

	31.12.2023	31.12.2022
Guarantees	3,958	3,636
Undrawn loan commitments	51,138	43,443
	55,096	47,079

The amount of provisions accrued for credit losses on financial guarantee contracts and loan commitments and the effect thereof in profit and loss are disclosed in Notes 17 and 24.

31. MANAGEMENT OF THE RISK RELATED TO FINANCIAL INSTRUMENTS

The risk for the Bank related to financial instruments is the possibility that the actual proceeds from financial instruments could differ from the expected proceeds. The specifics of banking operations requires the Bank to apply adequate systems for timely identification and management of different types of risk, with special focus on risk management procedures, mechanisms for maintaining risks within reasonable limits, optimal liquidity, portfolio diversification. The main risk management objective is presentation and analysis of the types of risk exposures of the Bank in a comprehensive and conclusive manner.

The risk management system has preventive functions with regard to loss prevention and control of the amount of incurred losses and includes:

- risk management policy;
- rules, methods and procedures for risk assessment and risk management;
- risk management organizational structure;
- parameters and limits for transactions and operations;
- procedures for reporting, assessment, notification and subsequent control of risks.

The organizational structure for risk management is centralized and is structured based on competence levels, as follows:

- Management Board – determines the acceptable risk levels of the Bank within the adopted business strategy;
- Specialized collective committees – approve the framework and parameters of the Bank's operations with respect to risk management;
- Executive Directors – control the process of approval and implementation of adequate policies and procedures within risk management strategy adopted by the Bank;
- Heads of structural units within the Bank – implement the adopted risk management policy within the operations of the respective organizational units.

The main types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk, which includes interest, currency and price risk.

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31.1. Financial assets and liabilities

The tables below present the carrying amounts and fair values of financial assets and liabilities:

31 December 2023

	Carrying amount	Fair value
Financial assets		
Cash and balances with the Central Bank	135,631	135,631
Receivables from banks	4,507	4,507
Loans and advances to customers	249,803	258,003
Financial assets at FVPL	315	315
Debt instruments at FVOCI	29,069	29,069
Equity instruments at FVOCI	381	381
Debt instruments at amortised cost	42,357	44,890
Total assets	462,063	472,796
Financial liabilities		
Deposits from banks	48	48
Deposits from customers	429,034	429,158
Lease liabilities	2,756	2,756
Subordinated debt	1,959	1,959
Other financial liabilities	1,713	1,713
Total liabilities	435,510	435,634

31 December 2022

	Carrying amount	Fair value
Financial assets		
Cash and balances with the Central Bank	95,441	95,441
Receivables from banks	7,571	7,571
Loans and advances to customers	247,761	252,936
Financial assets at FVPL	249	249
Debt instruments at FVOCI	34,999	34,999
Equity instruments at FVOCI	381	381
Debt instruments at amortised cost	44,887	44,890
Total assets	431,289	436,467
Financial liabilities		
Deposits from banks	49	49
Deposits from customers	412,932	413,014
Lease liabilities	2,850	2,850
Subordinated debt	1,959	1,959
Other financial liabilities	803	803
Total liabilities	418,593	418,675

31.2. Credit risk

Credit risk is the risk of loss due to the probability that counterparty will be unable to settle its obligations when they are due. The Bank structures the credit risk by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by relevant business sectors. Adequate collateral and guarantees are required in order to

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reduce the credit risk, according to the adopted internal credit rules.

The main factors that influence the Bank include the military conflict in Ukraine, the increasing number of hot points around the world and the weakening economic activity in Europe. In 2023, the main central banks continued to raise interest rates, while interest rates on the local market followed the trend with a big lag. The Bulgarian banking system remains liquid and very competitive, with historically high profits in 2023. The difference between interest rates on deposits and loans on the local market remains big. As a result of the expectations for the completion of the cycle of raising base interest rates and the potential decrease by FED and ECB, the changes in interest rates on deposits are minimal. During the year, the Bank carefully monitors the development of the military conflicts in Ukraine and the Middle East, as well as the accelerated inflation and interest rates growth. It made changes to the expected credit losses model, the methodology for Pillar 2 capital requirements calculation, etc.

Cash and balances with the Central Bank, at the amount of BGN 135,631 thousand and BGN 95,441 thousand, respectively as at 31 December 2023 and 31 December 2022, do not bear credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Receivables from banks at the amount of BGN 4,507 thousand and BGN 7,571 thousand respectively as at 31 December 2023 and 31 December 2022 consist mostly of deposits with first-class international and Bulgarian banks with maturity of up to seven days. The Bank manages the credit risk related to receivables from banks, by setting exposure limits at counterparty level.

Counterparty risk is considered at the following levels:

- sovereign risk – impossibility or unwillingness of a country's government to repay its obligations;
- state-related risk – the risk of adverse changes in the social and political and/or economic situation in a country, as a result of which the Bank would take additional political and cross-border risks, such as moratorium on payments or impossibility of currency conversion;
- banking risk – the risk of deterioration of the financial condition of a bank or non-bank financial institution or counterparty, including insolvency, as a result of which the Bank would take additional risks and would incur losses;
- pre-settlement risk – the risk of deterioration of the financial condition of a certain bank-counterpart, including insolvency, as a result of which it is unable to meet its contractual obligations before the settlement date. This risk exists in trade in securities, debt instruments, FX and derivatives;
- settlement risk – the risk that occurs on the date of settlement and consists of impossibility to meet contractual obligations.

The counterparty risk level is determined based on the following ratings:

- official rating – short-term rating in accordance with the long-term rating of a country or bank, prepared by the following rating agencies – Moody's, Thompson Bank Watch, Standard & Poor's, Fitch;
- working rating – the rating of the respective bank as prepared by Tokuda Bank AD in case of lack of rating prepared by one of the agencies listed above;
- internal rating – the rating of a bank as determined by Tokuda Bank AD in accordance with the "Internal Rating Scale for Bank Counterparts". The internal rating is based on the official or working rating and directly corresponds to a certain "global banking limit". The internal rating of a non-bank financial institution is only determined in case of availability of official ratings by at least one of the rating agencies listed above.

Based on the internal rating, a global banking limit is determined, which is the lower of the permissible percentage of the Bank's capital and the permissible percentage of the counterparty's capital, and the percentages are determined based on a rating scale.

Financial assets at fair value through profit or loss, at the amount of BGN 315 thousand and BGN 249 thousand respectively as at 31 December 2023 and 31 December 2022 pose mainly a market risk to the Bank (Note 31.4). The maximum exposure to credit risk for these instruments is their carrying amount.

Debt instruments at FVOCI amount to BGN 29,069 thousand and BGN 34,999 thousand as at 31 December 2023 and as at 31 December 2022. The maximum exposure to credit risk for these instruments is their carrying amount.

Debt instruments at amortised cost amount to BGN 42,357 thousand as at 31 December 2023 and have a maturity of up to 3 months. The maximum exposure to credit risk for these instruments is their carrying amount. The Bank will maintain a portfolio of similar volume and term in the longer term with an investment purpose.

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In 2023 there was no increased level of the credit risk related to receivables from banks and in the Bank's securities portfolio, including in the context of effects from crisis situations due to the military conflicts in Ukraine and the Middle East. The Bank adhered to and continues to adhere to the established procedures for risk assessment and classification of financial assets and to monitor periodic changes in the credit ratings of bank counterparts and securities issuers, incl. as a result of the post-pandemic situation, the high inflation and the military conflicts in Ukraine and the Middle East on a regional, state, and individual level. In 2023 the Bank was focused on and invested mainly in lower-risk and short-term securities.

The growth in interest rates in 2023 did not result in additional impairment of the Bank's portfolio securities following the impairment stated in 2022. The interest rate increase resulted in additional interest income from the cash market and eliminated fees and changes and negative interest on funds with the BNB.

The contingent liabilities of the Bank consist of guarantees issued and undrawn loan amounts, whose amount of BGN 55.096 as at 31 December 2023 and BGN 47,079 thousand as at 31 December 2022 (Note 30) is the Bank's maximum credit exposure.

Loans and advances to customers with carrying amount of BGN 249,803 thousand and BGN 247,761 thousand, respectively, as at 31 December 2023 and 31 December 2022, bear the main credit risk to the Bank. The exposure of the Bank to that risk is determined on the basis of individual assessment of each loan, as the Bank applies the criteria for assessment and classification of risk exposures according to the Policy for impairment of financial assets and contingent liabilities.

In relation to the military conflicts in Ukraine and the Middle East and the accelerated inflation growth and interest rates growth, the management has analysed and identified the following potentially risk-exposed sectors that require increased attention and individual assessment approach:

- Mining;
- Art, print media, media and advertising;
- Light manufacturing industry;
- Education, science and R&D;
- Real estate transactions;
- Professional activities in the field of research, other activities in favour of society and individuals;
- Agriculture;
- Construction;
- Heavy industry;
- Transport;
- Tourist services;
- Trade, maintenance and repair of vehicles and consumer goods;
- Natural persons and households;
- Financial and insurance services;
- Human healthcare, sports and social activities.

In order to limit the impact of the military conflicts in Ukraine and the Middle East and the accelerated inflation and interest rates on lending activities in 2023, internal documents were adopted that regulate changes in internal processes, business strategies, and risk assessment:

- In the beginning of 2023, the Bank completed the project to recalibrate the probability of default ("PD") calculation model. The change aims to account for the recent trends in loans migration and the macroeconomic parameters. The recalibrated model was applied as from 31 December 2022.
- An update was made to the list of potentially risky economic sectors for which higher (adjusted) PD rates upon calculation of ECL and Pillar 2 capital requirements are applied as described below.
- Changes to loan portfolio ECL calculation model:
 - A technical adjustment was applied to PD calculated through the re-calibrated model for calculation of PD for risk sectors – as at 31 December 2023, a 50% increase was applied.
 - The Bank retained the extended terms for realization of collaterals in the LGD of collectively impaired loans accounted for the effect of the COVID-19 pandemic:
 - For residential properties – 3 years;
 - For non-residential properties – 5 years.
 - The Bank retained the extended terms for realization of collaterals in the cash flows for calculation

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of ECL on individually impaired loans managed by Corporate Banking.

- “Supplement to the Methodology for preparation of an Internal Capital Adequacy Assessment (ICAA) of Tokuda AD to account for the effect of the military conflicts in Ukraine and the Middle East and the accelerated inflation growth and interest rate increase in the Pillar 2 capital requirements” – for loans in risk-exposed sectors, an additional increase is applied in PD at the amount of 50%. This measure is an addition to the increase in the effective PD for credit risk and for concentration in the loan portfolio envisaged in the current methodology.
- The annual stress test for operational risk was adapted to account for the potential risks arising from:
 - The military conflicts in Ukraine and the Middle East and the accelerate inflation and interest rate growth;
 - The adoption of the Euro.

The competent body for monitoring, assessment and classification of financial assets and contingent liabilities and determination of impairment losses and provisions is the Committee for analysis, classification and provisioning (CACP), which performs its activities according to rules set by the Management Board.

Credit risk assessment and management is essential for the Bank. Traditionally, the loan portfolio holds the largest share of the Bank’s total assets.

Credit risk management bodies

The bodies responsible for managing the Bank’s credit risk are the Management Board, the Credit Committee and the Committee for analysis, classification and provisioning. The structure and activities of these bodies are regulated in their rules of operation. The operational duties of the Bank’s divisions and officials on credit risk management are regulated in the internal documents.

The Bank’s Management Board determines the parameters and limits of performing transactions related to credit risk. Reports and analyses to the MB are prepared by the Risk Management and Monitoring (RMM) Division at the end of each quarter.

Credit risk monitoring and control are carried out at the level of:

- loan transaction:
 - upon forming the credit exposure.
 - after forming the credit exposure.
- loan portfolio.

Credit risk monitoring and control have a continuous nature and are achieved through a system of procedures and measures, including allocation of responsibilities between the Head Office structural units and the Bank’s branches.

Control over the credit process at loan transaction level includes:

- assessment (rating) of the customer’s creditworthiness, including with respect to financial condition, business risk, and collateral;
- assessment of the banking credit risk, including share of the proposed exposure in the total loan portfolio and capital base, etc.

Control over the credit process at loan portfolio level includes:

- assessment of the quality of the loan portfolio based on coefficients reflecting:
 - the share of loans stated in groups other than “performing”, to the total amount of the loan portfolio;
 - provisioning ratio;
 - share of impairment on exposures to the total impairment on the loan portfolio.
- proposal on limits reflecting the credit policy applied:
 - limits by sectors;
 - maximum exposure to the borrower and a group of related parties.

Internal structure and units involved in credit risk management

The Corporate Banking Division and Retail Lending Division at the Bank’s Head Office, as well as the loan specialists at the Bank’s branches where such a position exists:

- identify, coordinate and are responsible for the Bank’s customer relations on loan transactions, as well as for attracting new customers;

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- collect the necessary information and prepare a company, market and financial analysis and loan proposals to the Credit Committee;
- administer, monitor and manage the loan portfolio, including collection;
- apply, coordinate and are responsible for and report on the results from the Bank's lending activity in accordance with the approved lending policy.

The credit risk management departments in Risk Management and Monitoring (RMM) Division at the Bank's Head Office are responsible for preventive control over structured transactions, degree of collateral, meeting the applicable limits, and analyse and provide a written opinion on the credit risk taken and the permissibility of the loan request by loan proposals, in accordance with procedures regulated in the Policy, rules and procedures for the lending activity at Tokuda Bank AD.

The Loan Administration (LA) Division at the Bank's Head Office:

- reviews, approves and controls the loan documentation and its compliance with the competent bodies on the loan transactions;
- keeps a register of collaterals and of related parties;
- monitors and controls compliance with the conditions envisaged in the loan agreements and annexes thereto;
- controls the process of updates of collateral valuation, as well as validity of collaterals;
- controls the process of updates (renewal) of collaterals' insurance.

The Workouts and Foreclosure Department at the Bank's Head Office monitors and controls, together with other units, loans past due by over 90 days or upon the occurrence of other events requiring early repayment, and carries out the foreclosure proceedings.

The Legal Division at the Bank's Head Office analyses and provides opinions on the legal risks to the loan transaction, as well as on the collateral offered and participate in the approval and preparation of loan agreement and in the process of collateral incorporation.

The Credit Committee is a collective body to the MB, whose main task is to manage the lending process. Its activities are subordinated to the provisions of the Credit Institutions Act and the other legal acts on lending relations, the Bank's lending policy, internal regulations and rules on the organisation of its activities. The Credit Committee examines and makes decisions on proposals for granting new exposures and changes on existing exposures (including renegotiation, restructuring, early repayment, forced execution, etc.) at an amount of up to 10% of the Bank's capital base, and proposes for review loan proposals for exposures exceeding 10% of the capital base.

The Committee for analysis, classification and provisioning (CACP) in its capacity as the Bank's competent body on monitoring, measurement and classification of financial assets and contingencies and on determining impairment losses and provisions, makes decisions on the classification and determining of impairment losses on financial assets and on determining provisions for contingencies. The activities of CACP are subordinated to the provisions of the Credit Institutions Act, the effective legislation in the country, and the Bank's internal regulations.

The methodology on determining impairment provisions applies the classification according to the rules set out in Regulations 2014/680 и 2015/1278. The management considers expositions as non-performing and performing.

According to the policy of the Bank:

A non-performing exposure is one that has significant breaches in its servicing or there is evidence that the financial position of the debtor is deteriorated to the extent that current and anticipated proceeds are insufficient to pay all its debts to the Bank and other creditors and when the Bank expects to incur losses. Non-performing is also exposure for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral regardless of the existence of any past due amount or of the number of days past due, with the exception of exposures where the realization of collateral is set in the initial loan agreement repayment schedule. Additionally, an exposure is classified as non-performing when it meets any of the following criteria:

- it has accumulated arrears on principal or interest more than 90 days;
- the financial position of the debtor has substantially deteriorated, which may jeopardize repayment;
- debtor has been declared bankrupt or is in liquidation procedure and there is risk of leaving unsatisfied creditors;
- the balance sheet receivable is subject to legal proceedings or is granted to the Bank by the court but is not collected;
- other criteria as per the provisions of Art. 178 of Regulation (EU) 575/2013.

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A performing exposure is an exposure that cannot be classified as non-performing.

A restructured exposure is an exposure in respect of which restructuring measures have been applied. The restructuring measures consist of concessions towards a debtor that is experiencing difficulties in meeting its financial commitments. An exposure is not regarded to be restructured when there are no indications that the debtor experience difficulties in meeting its financial commitments. The Modifications in the terms of the contract which applies concessions towards debtor that is experiencing difficulties in meeting its financial commitments may include, but are not necessarily limited to a reduction in the interest rate, principal, accrued interest or rescheduling of principal and/or interest repayment dates.

Policy and process of impairment of loans and advances to customers

Significant increase in credit risk following initial recognition

At each reporting date the Bank assesses whether the credit risk of a financial instrument has significantly increased following the instrument's initial recognition. In this assessment, the Bank considers the change in risk of default over the expected life term of the financial instrument, by comparing the risk of default of the financial instrument at the reporting date with the same risk at the date of initial recognition and considers the reasonable and grounded information accessible without incurring unnecessary costs or efforts which confirms a significant increase in credit risk following the initial recognition.

Objective evidence of a significant increase in the credit risk of the financial instrument following initial recognition:

- quantitative criteria: delay in loan payments by over 30 days, a significant increase in the probability of default over the next 12 months – as at the reporting date;
- qualitative criteria: change in the risk group of exposure to the customer from “Performing” to “Under-Performing”, “Non-Performing”, or “Loss”, which is not due to reclassification of exposures of the customer's related parties to the Bank; data from a filled-in questionnaire on assessment of the loan quality (the questionnaires examine the presence of increased credit risk or credit impairment since the date of loan disbursement, and the assessment is done based on a set of questions regarding the financial position, liquidity, legal status, etc., each of which has a certain weight in the final rating); other reasonable and grounded information.

Credit impairment following initial recognition:

The financial asset is credit-impaired following the initial recognition upon occurrence of a combination of events, which may include significant financial difficulties of the debtor, resulting in impossibility to repay the debt in full.

Objective evidence of credit impairment of the financial assets includes:

- quantitative criteria: delay in loan payments by over 90 days.
- qualitative criteria: change in the risk group of exposure to the customer to “Non-Performing” or “Loss” which is not due to reclassification of exposures of the customer's related parties to the Bank or classification as “Court” or “Awarded” status; reasonable and grounded information, data from a filled-in questionnaire on assessment of the loan quality.

Financial assets purchased or initially created with a big discount which reflects credit losses incurred are classified as “POCI” - Purchased or originated credit impaired) and are classified within credit-impaired financial assets.

Stages of classification of credit exposures

Depending on the presence of significantly increased credit risk following initial recognition and of credit impairment following initial recognition, credit exposures are classified in the following stages:

- Stage 1 – there no significantly increased credit risk of the exposure following its initial recognition;
- Stage 2 – there is a significant increase in the credit risk following initial recognition;
- Stage 3 – there is credit impairment.

The classification stage of loan exposures is determined at each reporting date based on the assessment of presence of a significant increase in the credit risk following initial recognition and of credit impairment.

Determining expected credit losses on loan exposures

Individual and collective impairment assessment of loan exposures

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Loan exposures individually assessed for impairment are all significant exposures (exposures exceeding BGN 500 thousand) at Stage 3 and other exposures based on the Bank's judgement. Loan exposures collectively assessed for impairment are all loan exposures which are not individually assessed for impairment. Upon determining the expected credit losses on loan exposures, the Bank uses different approaches, depending on whether the loan exposures is assessed for impairment individually or collectively.

Determining expected credit losses for loan exposures collectively assessed for impairment

The approaches used to determine expected credit losses take into consideration the historic behaviour of loan exposures and the expected future development of certain macro-economic, market, statutory and other factors that impact the borrowers' ability to service their payables under loan exposures. Expected credit losses are determined at loan level and are calculated using the formula $ECL = EAD \times PD \times LGD$, where:

- EAD (exposure at default) = current balance sheet exposure + CCF x unused part of the available limit, where CCF – credit conversion factor; EAD for off-balance sheet commitments = CCF x off-balance sheet commitment;
- PD (probability of default) – the probability of occurrence of default applicable for the loan, calculated based on the model of calculation of possibilities of default. For loans at Stage 1, probability of default over the next 12 months is used. For loans at Stage 2 and Stage 3, probability of default over the financial instrument's life term is used;
- LGD (loss given default) – loss upon occurrence of default – it is the difference between the loan exposure and the total amount of NRV (as defined below) of the available loan collaterals (if $NRV > 0$) and the amount of the loan exposure; if NRV of the collaterals exceed the credit exposure, $LGD = 0$;
- NRV (Net Realizable Value) – net realizable value of the collateral at the respective reporting date; determined as the sum of market values of the loan's collaterals calculated by using standard assumptions for (i) expected changes in value over time, (ii) expected realisation timeframe and (iii) expected realisation costs.

The parameter values, assumptions and rules for calculation are defined in detail in the Policy on classification, provisioning and impairment of financial assets and contingent liabilities.

Determining expected credit losses for loan exposures individually assessed for impairment

Expected credit losses are determined on a loan level. The loan exposure is assessed for impairment by comparing the gross amount of the exposure with the net present value of expected cash flows from operations, sale of collateral, or other sources. Expected cash flows have a forecast nature and at least two main scenarios are taken into consideration in the analysis: (i) a scenario in which the exposure is regularly serviced in accordance with the effective repayment schedule and (ii) a scenario in which the exposure is repaid by realisation of the collateral. The expected cash flows from realisation of the collateral are determined individually for the respective exposure. The net present value of the cash flows in the different scenarios is weighted to reach a total result, which is compared with the gross amount of the loan. The expected credit losses are the difference between the gross amount of the loan and the weighted net present value of the expected cash flows in the different scenarios.

In order to minimise the credit risk in the lending process, detailed procedures are applied for the analysis of the economic viability of each project, the types of collateral acceptable for the Bank, control over the use of the loans granted and the administration related to this activity. The Bank has adopted and monitors limits of credit exposure by sectors. These limits aim to restrict concentration of the loan portfolio which would result in increased credit risk.

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Quality of balances with the Central Bank

The table below provides information on the credit quality and maximum exposure to credit risk of exposures to the Central Bank according to the Bank's internal risk classification. The amounts presented reflect the movement in the amortised cost of exposures before the allowance for expected credit losses and the allowance for expected credit losses in the reporting period.

	2023 Stage 1		2022 Stage 1	
	Gross amortised cost	Allowance for expected credit losses	Gross amortised cost	Allowance for expected credit losses
Amount at 1 January	85,067	(4)	63,332	(6)
New exposures	3,897,136	(2)	2,604,386	-
Paid exposures	(3,856,894)	-	(2,582,651)	2
Amount at 31 December	125,309	(6)	85,067	(4)

Quality of receivables from banks

The table below provides information on the credit quality and maximum exposure to credit risk of exposures to banks according to the Bank's internal risk classification. The amounts presented reflect the movement in the amortised cost of exposures before the allowance for expected credit losses and the allowance for expected credit losses in the reporting period.

	2023 Stage 1		2022 Stage 1	
	Gross amortised cost	Allowance for expected credit losses	Gross amortised cost	Allowance for expected credit losses
Amount at 1 January	7,572	(1)	47,452	(2)
New exposures	680,548	-	440,736	-
Paid exposures	(683,613)	1	(480,616)	1
Amount at 31 December	4,507	-	7,572	(1)

Quality of debt and equity instruments at fair value through other comprehensive income

Note 7 provides information on the credit quality and maximum exposure to credit risk of exposures to debt and equity instruments at fair value through other comprehensive income according to the Bank's internal risk classification.

Quality of debt instruments at amortised cost

Note 8 provides information on the credit quality and maximum exposure to credit risk of exposures to debt and instruments at amortised cost according to the Bank's internal risk classification.

Quality of loans and advances to customers

The tables below provide information on the credit quality and maximum exposure to credit risk of exposures to customers according to the Bank's internal risk classification. The amounts presented reflect the movement in the amortised cost of exposures before the allowance for expected credit losses and the allowance for expected credit losses in the reporting period.

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Change in the gross amortised cost

	Stage 1	Stage 2	Stage 3	2023
Amount on 1 January 2023	195,152	35,410	24,127	254,689
New exposures	70,709	1776	173	72,658
Paid exposures	(54,146)	(12,155)	(2,549)	(68,850)
Transfer to Stage 1	8,757	(8,757)	-	-
Transfer to Stage 2	(10,530)	10,530	-	-
Transfer to Stage 3	-	(1,192)	1,192	-
Amounts written-off	-	-	(2,550)	(2,550)
Amount on 31 December 2023	209,942	25,612	20,393	255,947

Change in the impairment allowance

	Stage 1	Stage 2	Stage 3	2023
Amount on 1 January 2023	89	542	6,297	6,928
Impairment accrued	118	693	2,228	3,039
Reversed impairment	(52)	(326)	(965)	(1,343)
Increase in the impairment allowance for unrecognised interest on loans in Stage 3	-	-	70	70
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(7)	7	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	(2,550)	(2,550)
Amount on 31 December 2023	149	915	5,080	6,144

Change in the gross amortised cost

	Stage 1	Stage 2	Stage 3	2022
Amount on 1 January 2022	150,416	55,194	27,980	233,590
New exposures	84,609	2,934	324	87,867
Paid exposures	(40,425)	(19,607)	(5,080)	(65,112)
Transfer to Stage 1	6,130	(6,021)	(109)	-
Transfer to Stage 2	(5,578)	5,921	(343)	-
Transfer to Stage 3	-	(3,011)	3,011	-
Amounts written-off	-	-	(1,656)	(1,656)
Amount on 31 December 2022	195,152	35,410	24,127	254,689

Change in the impairment allowance

	Stage 1	Stage 2	Stage 3	2022
Amount on 1 January 2022	89	311	7,783	8,183
Impairment accrued	80	463	2,019	2,562
Reversed impairment	(80)	(189)	(1,968)	(2,237)
Increase in the impairment allowance for unrecognised interest on loans in Stage 3	-	-	76	76
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(43)	43	-
Amounts written-off	-	-	(1,656)	(1,656)
Amount on 31 December 2022	89	542	6,297	6,928

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The change in the amount of the commitments undertaken and financial guarantee contracts and the change in the provisions is presented in the tables below:

Change in the amount of the commitments undertaken and financial guarantee contracts

	Stage 1	Stage 2	Stage 3	2023
Amount at 1 January 2023	42,092	4,960	27	47,079
New exposures	36,903	975	-	37,878
Paid exposures	(26,086)	(3,706)	(27)	(29,819)
Transfer to Stage 1	1,650	(1,650)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amount at 31 December 2023	54,559	579	-	55,138

Change in the provision

	Stage 1	Stage 2	Stage 3	2023
Amount at 1 January 2023	23	42	-	65
Accrued	16	14	-	30
Reversed	(15)	(38)	-	(53)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amount at 31 December 2023	24	18	-	42

Change in the amount of the commitments undertaken and financial guarantee contracts

	Stage 1	Stage 2	Stage 3	2022
Amount at 1 January 2022	42,694	1,975	77	44,746
New exposures	25,833	4,210	-	30,043
Paid exposures	(27,197)	(436)	(77)	(27,710)
Transfer to Stage 1	762	(762)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(27)	27	-
Amount at 31 December 2022	42,092	4,960	27	47,079

Change in the provision

	Stage 1	Stage 2	Stage 3	2022
Amount at 1 January 2022	15	8	-	23
Accrued	19	37	-	56
Reversed	(11)	(3)	-	(14)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amount at 31 December 2022	23	42	-	65

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The classification of loans and advances to customers is as follows:

31 December 2023	Loans and advances to customers			Undrawn commitment	Guarantees		
	Amount	Share in %	Impairment	Amount	Amount	Share in %	Provision for credit losses
Performing	235,554	92.03	1,064	51,160	3,978	100.00	20
Non-performing	20,393	7.97	5,080	-	-	-	-
Total	255,947	100.00	6,144	51,160	3,978	100.00	20

31 December 2022	Loans and advances to customers			Undrawn commitment	Guarantees		
	Amount	Share in %	Impairment	Amount	Amount	Share in %	Provision for credit losses
Performing	230,562	90.53	632	41,209	3,609	99.26	21
Non-performing	24,127	9.47	6,296	77	27	0.74	-
Total	254,689	100.00	6,928	41,286	3,636	100.00	21

	31.12.2023		31.12.2022	
	Unimpaired	Impaired	Unimpaired	Impaired
Not overdue	109,620	108,442	133,609	79,026
up to 30 days past due	10,469	6,335	11,254	14,871
31 to 60 days past due	3,160	6,081	335	2
61 to 90 days past due	187	2	305	197
91 to 180 days past due	293	41	288	112
over 180 days past due	631	10,686	885	13,805
Book value	124,360	131,587	146,676	108,013
Allowance for impairment losses	-	(6,144)	-	(6,928)
Carrying amount	124,360	125,443	146,676	101,085

The impaired exposures include those on which the Bank stated impairment.

The following table presents the Bank's portfolio based on recognised types of collaterals:

	2023	2022
Secured by cash and government securities	458	679
Government guarantees	2,635	1,746
Secured by mortgage	211,183	210,745
Pledge on machines and equipment	7,827	7,286
Pledge on receivables	19,879	23,437
Other collaterals	12,982	10,117
Unsecured	983	679
Impairment	(6,144)	(6,928)
Total	249,803	247,761

The Bank accepts real estate as collateral of the *mortgage loans* it grants to its customers. The Bank monitors the collateralization of mortgage loans at Retail Banking, using the loan to value (LTV) ratio, which is calculated as the ratio between the gross loan amount to the collateral's market value. The collateral valuation is based on (1) external valuation by licensed appraisers from an approved list, which according to the Bank's internal rules is subject to annual review, and (2) additional review and adjustment of the value according to a technical opinion prepared by the Bank's experts. The amount of the collateral for home mortgage loans is usually based on the initial value of the collateral, updated based on changes in the home price index and respectively subject to periodic revaluation of

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collaterals according to the effective internal rules on lending activities. In addition, the Bank requires update of the collaterals' values upon each renegotiation, restructuring or upon commencing forced execution of individual exposures.

The table below shows mortgage loan exposures (those for the purpose of home purchase and those whose collateral is a residential property) based on LTV range. The collateral value used in LTV calculation is the lower of their market and insurance value.

	31.12.2023		31.12.2022	
	Gross amortised cost	Impairment loss allowance	Gross amortised cost	Impairment loss allowance
LTV ratio/loan-value ratio				
Below 50%	12,302	-	12,240	-
51-70%	12,068	-	12,529	-
71-90%	14,392	(31)	14,776	(19)
91-100%	705	(6)	1,854	(9)
Over 100%	2,352	(169)	3,010	(142)
Total	41,819	(206)	44,409	(170)

The table below provides information on the credit ratings upon determining the credit quality of the Bank's financial assets. The Bank uses as a main source of information on credit ratings data from Fitch credit agency; and when such data is not available, it has used the rating of another rating agency (S&P).

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	31.12.2023	31.12.2022
Balances with the Central Bank:		
rating BBB	125,303	85,063
Total balances with the Central Bank	125,303	85,063
Receivables from banks		
rating A	-	2,934
rating A-	3,530	836
rating BBB	778	3,791
rating BBB-	196	-
rating BB	-	10
rating BB+	2	-
no rating	1	-
Total receivables from banks	4,507	7,571
Financial assets at FVPL:		
no rating	315	249
Total financial assets at FVPL	315	249
Debt instruments at fair value through other comprehensive income		
rating BBB	27,291	32,238
rating BBB-	1,778	2,761
Total debt instruments at fair value through other comprehensive income	29,069	34,999
Equity instruments at fair value through other comprehensive income		
no rating	381	381
Total equity instruments at fair value through other comprehensive income	381	381
Debt instruments at amortised cost		
rating AA+	32,800	31,157
rating AAA	-	9,761
rating AA-	9,557	-
rating BBB	-	3,969
Total debt instruments at amortised cost	42,357	44,887

Financial assets held for trading with no rating are mainly corporate bonds and shares of domestic issuers for which there are no credit ratings from rating agencies. Investments in securities whose rating is lower than BBB/positive outlook (mainly debt securities of central governments) are subject to the explicit approval of the Assets and Liabilities Management Committee.

Concentration of credit risk

A significant percentage of the loan portfolio of the Bank is concentrated in a limited number of borrowers. Despite the regulatory restrictions on large exposures, there is a risk that the Bank's activities, its financial position and the result of its operations are negatively affected if some of the largest borrowers do not settle their obligations. Information on large exposures of the Bank other than exposures to credit institutions (exposures which represent 10% or more of the Bank's Tier 1 capital) at their carrying amount as of 31 December 2023 and 2022 is presented in the table below:

	2023		2022	
	BGN'000	% of Tier 1 capital	BGN'000	% of Tier 1 capital
Largest total exposure to a customer group	10,321	24.69%	10,279	26.67%
Total amount of the five largest exposures	46,086	110.23%	41,530	107.76%
Total amount of all exposures – over 10% of the Tier 1 capital	107,964	258.24%	108,198	280.74%

Concentration of credit risk by economic sectors is disclosed in Note 9.

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31.3. Liquidity risk

Liquidity risk arises from the maturity gap of the assets and liabilities and the probable lack of sufficient funds of the Bank to meet its obligations on its current financial liabilities, as well as to provide funding to increase the financial assets and the potential claims on off-balance sheet commitments.

The Bank's operations require stable cash flows to replace the existing deposits when they expired (at maturity) and to satisfy customer demand for additional loans.

In liquidity management, the Bank also considers commitments related to the not-utilized portion of loans granted and the level of all contingent liabilities.

To ensure the liquidity policy compliance, the Bank takes the following measures:

- develops rules and procedures for liquidity management;
- defines adequate liquid assets;
- establishes an information system to monitor liquidity based on a maturity table;
- sets liquidity measurement indicators;
- appoints a liquidity regulation body and defines its responsibilities and tasks;
- establishes a system for management and control of liquidity risk;
- develops scenarios for the Bank's action in normal circumstances - "going concern" and in a period of "liquidity crisis";
- sets the mandatory information for the current management needs, as well as for the reporting to the BNB.

The main parameters of the Bank's liquidity policy are determined by the Management Board, and the overall organization of its implementation is assigned to the Assets and Liabilities Management Committee, which is the main body responsible for the Bank's liquidity management. It is directly responsible for the liquidity status and its ongoing management, based on the decisions of the Management Board, as well as for the ongoing management of assets and liabilities. The Committee meets at least once a month, and if necessary (at the risk of a liquidity crisis) it meets daily, in order to overcome any liquidity difficulties.

The control and regulation of the liquidity for the Bank as a whole and by bank offices is carried out centralized by "Liquidity and Markets" division.

The level of liquid funds and the level of liquid funds for maintenance are monitored. On that basis the Bank monitors its ratio of available liquid funds to loans and other receivables.

The Bank maintains large amount of highly liquid assets as cash in hand and balances with the Central Bank, which guarantee Bank's ability to meet its liquidity requirements. As at 31 December 2023 and 2022, cash and balances with the Central Bank represent respectively 28% and 21% of the Bank's total assets.

As an additional instrument to provide high liquidity, the Bank uses loans granted to banks. These comprise mostly of deposits in first-class international and Bulgarian banks with maturity up to 7 days. As at 31 December 2023 and 2022, receivables from banks represent respectively 1% and 2% of the Bank's total assets.

Government securities owned by the Bank and not pledged as collateral as at 31 December 2023 and 2022 represent respectively 14% and 16% of the Bank's total assets. By maintaining 43% (2022: 39%) of its assets in highly liquid assets, the Banks ensures the ability to settle all maturities of financial liabilities.

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The gross (undiscounted) nominal cash outflow of financial liabilities of the Bank is as follows:

31 December 2023	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Deposits from banks	48	-	-	-	-	48
Deposits from customers	259,814	39,552	77,731	51,917	1,438	430,452
Lease liabilities	71	142	637	1,906	-	2,756
Subordinated debt	-	24	74	392	2,250	2,740
Other financial liabilities	702	-	-	-	-	702
Total financial liabilities	260,635	39,718	78,442	54,215	3,688	436,698

31 December 2022	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Deposits from banks	49	-	-	-	-	49
Deposits from customers	243,415	37,235	86,784	44,232	1,755	413,421
Lease liabilities	70	141	633	850	17	1,711
Subordinated debt	-	24	74	392	2,348	2,834
Other financial liabilities	803	-	-	-	-	803
Total financial liabilities	244,337	37,400	87,491	45,474	4,120	418,818

The financial liabilities of the Bank are mainly attracted funds on deposits – retail and corporate. Customers often prefer to sign a deposit agreement with one month term and to renegotiate it regularly for a longer period. As a result, one-month deposits are practically relatively permanent resource of the Bank.

No negative effects have been identified on the Bank's liquidity as a result of the military conflicts in Ukraine and the Middle East and the accelerated inflation and interest rates growth.

31.4. Market risk

Market risk is the risk that changes in the market prices of financial assets, interest or currency rates may have an adverse effect on the Bank's financial results and capital. Market risk arises on opened exposures in interest, currency and equity instruments, which are sensitive to general and specific market movements and affect the profitability of the Bank. Market exposure is managed by the Bank, in accordance with risk limits, set by the management.

The Bank manages its financial instruments, considering the changing market conditions. Exposure to market risk is managed in accordance with risk limits, set by the Bank's management by transactions with financial instruments or by opening a compensating position to hedge the risk.

To minimize the sources of market risk, the Bank has adopted rules for investments in financial instruments as follows:

- Foreign government securities – may be purchased only if they have a credit rating not lower than BBB/positive outlook on Standard & Poor's or an equivalent assessment of creditworthiness, and the maximum level of exposure is limited;
- Corporate bonds issued by banks – at issuer's credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness, and the maximum level of exposure is limited;
- Corporate shares – limited total exposure;
- Corporate bonds – may only be purchased if they have a credit rating not lower than BBB/ positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness. Otherwise, a precise analysis of quantitative and qualitative factors is performed to support the decision for their acquisition. The maximum level of exposure is limited.

Deviations from the limits set are only allowed with the explicit permission of the Assets and Liabilities Management Committee.

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Market risk management includes:

- Determination of securities and money market placements ratio. This ratio is a dynamic variable and as the ratio of investment/trading portfolio, it is determined, according to the maturity structure of the Bank's attracted funds, cash inflows and outflows, liquidity needs, income level and objectives of the Bank.
- Risk/return ratio analysis.

In accordance with principles and objectives adopted, the Bank applies approaches to market risk management as follows:

- VaR analysis, Duration of financial instruments and standardized interest rate shocks analysis to identify and analyse the effect of various risk factors on the value and profitability of the portfolio, in order to determine the optimal risk/return ratio;
- The Bank analyses the risk/return ratio, and at given level of risk the instrument with higher return is selected; at given level of return, the instrument with lower risk is selected.

The Assets and Liabilities Management Committee develops alternative action plans in circumstances of increased market risk, due to sudden changes in market conditions within the limits, provided for different types of operations. The Committee monitors and suggests actions to divert from the usual limits in order to overcome such situations.

To assess the interest rate sensitivity of the commercial portfolio, the Bank uses the modified duration of the portfolio, calculated on a daily basis.

To assess the potential impact of possible extreme fluctuations in interest rates on the value of trading portfolio, the Bank analyses the effect of certain standardized interest rate shocks. The price change in parallel shift of the yield curve by 100 basis points should not exceed 5% of the capital base, calculated in the last quarter.

Pursuant to Ordinance 7 of BNB, the Bank analyses the impact of change in interest rates by 200 b.p. as an expected effect on capital. The effect should not exceed 20% of the capital base.

No additional adverse effects have been indicated on the market risk for the Bank as a consequence of the military conflicts in Ukraine and the Middle East and the accelerated growth of inflation and interest rates.

31.4.1. Interest rate risk

Interest rate risk is the probability of possible changes in the net interest income or net interest margin, due to fluctuations in the general market interest rate levels. The interest rate risk management of the Bank aims to minimize the risk of decrease in the net interest income as a result of changes in interest rate levels.

The Bank uses the GAP analysis method (gap analysis) to measure and assess the interest rate risk, allocating the interest-bearing assets and liabilities in time ranges, depending on the moments of their revaluation (for instruments with floating interest rate) and maturity (for instruments with fixed interest rate). Using this method the management of the Bank identifies the sensitivity of the expected income and expenses to changes in interest rates. The Gap analysis method aims to determine the exposure of the Bank, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their effect on the net interest income. It assists the management of assets and liabilities and is also an instrument for securing sufficient and stable net interest profitability. To assess the effect of interest changes on the economic value of the capital, the Bank applies stress tests according to Appendix III of Guidelines EBA/GL/2018/02 on the management of interest rate risk in the loan portfolio (IRRBB). The management assesses the exposure of the Bank's portfolio to interest rate risk and its sensitivity to this type of risk as moderate in view of the volumes and structure of the operations.

In interest rate risk management, the Bank applies policy and procedures according to the nature and complexity of its operations. By managing the interest rate risk, the Bank aims at stable spread between the interest income and expense to provide an adequate profitability and maximum value at acceptable level of risk.

The interest rate risk management of the Bank is based on the assessment of the amount and sensitivity of the exposure to fluctuations in the market interest rates and the probability for occurrence of such fluctuations. The Bank has established a system for measurement of interest rate risk, which covers all sources of interest rate risk and assesses the effect of the fluctuations in interest rates.

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Interest rates for assets and liabilities denominated in BGN are usually determined on the basis of the movement of the basic interest rate determined by the Central Bank (BNB). Interest rates for assets and liabilities denominated in EUR are based on the quoted rates of the European Central Bank.

In cases of assets and liabilities with floating interest rates, the Bank is exposed to risk of fluctuations in the reference rates, which are used to estimate the interest rates.

Depending on the specific conditions, the Bank uses the following approaches to interest rate risk management, applying the gap analysis:

- Balance – providing parity between the sensitivity of the interest-bearing assets and liabilities.
- Restructuring of the portfolios of assets and liabilities when cyclical fluctuations in interest rates occur.
- Determining the level of the interest rates, and their type (fixed or floating) on the assets and liabilities of the Bank depending on the trends for development on the domestic and international financial markets.

In its operations, the Bank aims to achieve a positive gap in relation to the maturity of the assets and liabilities and a balanced position regarding the sensitivity of the interest-bearing assets and liabilities.

The interest-bearing assets and liabilities of the Bank, categorized by date of agreed change of interest rates by periods of interest rate change are as follows:

31 December 2023	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
<i>Interest-bearing assets</i>						
Receivables from banks	4,507	-	-	-	-	4,507
Loans and advances to customers	166,891	1,796	3,261	16,894	60,961	249,803
Debt instruments at FVOCI	1,778	-	-	27,291	-	29,069
Debt instruments at amortised cost	8,844	4,746	21,563	7,204	-	42,357
Total interest-bearing assets	182,020	6,542	24,824	51,389	60,961	325,736
<i>Interest-bearing liabilities</i>						
Deposits from banks	48	-	-	-	-	48
Deposits from customers	259,811	39,531	77,401	50,897	1,394	429,034
Subordinated debt	-	-	-	-	1,959	1,959
Lease liabilities	71	142	637	1,906	-	2,756
Total interest-bearing liabilities	259,930	39,673	78,038	52,803	3,353	433,797
Gap between interest-bearing assets and liabilities, net	(77,910)	(33,131)	(53,214)	(1,414)	57,608	(108,061)

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31 December 2022	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
<i>Interest-bearing assets</i>						
Receivables from banks	7,571	-	-	-	-	7,571
Loans and advances to customers	212,579	7,520	1,326	1,945	24,391	247,761
Debt instruments at FVOCI	-	1,979	4,864	28,156	-	34,999
Debt instruments at amortised cost	31,158	13,729	-	-	-	44,887
Total interest-bearing assets	251,308	23,228	6,190	30,101	24,391	335,218
<i>Interest-bearing liabilities</i>						
Deposits from banks	49	-	-	-	-	49
Deposits from customers	243,413	37,226	86,605	43,980	1,708	412,932
Subordinated debt	-	-	-	-	-	-
Lease liabilities	70	141	633	850	17	1,711
Total interest-bearing liabilities	243,532	37,367	87,238	44,830	1,725	414,692
Gap between interest-bearing assets and liabilities, net	7,776	(14,139)	(81,048)	(14,729)	22,666	(79,474)

The average effective interest rates on the Bank's interest-bearing financial instruments are as follows:

	31.12.2023	31.12.2022
<i>Interest-bearing assets</i>		
Receivables from banks	3.62	0.81
Financial assets at FVPL	-	5.32
Loans and advances to customers	5.79	4.12
Debt instruments at amortised cost	3.66	0.54
Debt instruments at FVOCI	0.50	0.59
<i>Interest-bearing liabilities</i>		
Deposits from banks	-	-
Deposits from customers	0.15	0.14
Lease liabilities	0.36	0.43
Subordinated debt	5.00	5.00

31.4.2. Currency risk

Currency risk is the possibility the Bank to realize losses due to changes in foreign currency exchange rates.

In the Republic of Bulgaria the exchange rate of the BGN is fixed to the EUR by the Currency Board Act. The open positions of the Bank in EUR bear no currency risk for the Bank.

The currency risk is the risk of negative effect of the fluctuations of prevailing exchange rates on the financial position and the cash flows of the Bank. Currency risk management is based on limits on open positions in certain currencies and the active management of open exposures for the purpose of reducing the Bank's exposure to this risk. The main part of the assets and liabilities of the Bank are denominated in EUR and BGN therefore an adverse change in exchange rates is immaterial. The Bank aims to not hold open positions in currencies other than EUR.

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The foreign currency structure of financial assets and liabilities by carrying amount is as follows:

31 December 2023	BGN	EUR	USD	JPY	Other	Total
<i>Assets</i>						
Cash and balances with the Central Bank	121,157	12,733	1,078	109	554	135,631
Receivables from banks	244	787	1,174	214	2,088	4,507
Financial assets at FVPL	315	-	-	-	-	315
Debt instruments at FVOCI	25,238	2,053	1,778	-	-	29,069
Equity instruments at FVOCI	381	-	-	-	-	381
Debt instruments at amortised cost	-	9,557	32,800	-	-	42,357
Loans and advances to customers	212,034	35,671	2,098	-	-	249,803
Total assets	359,369	60,801	38,928	323	2,642	462,063
<i>Liabilities</i>						
Deposits from banks	-	19	29	-	-	48
Deposits from customers	213,117	174,154	38,871	258	2,634	429,034
Subordinated debt	-	1,959	-	-	-	1,959
Lease liabilities	2,756	-	-	-	-	2,756
Other financial liabilities	365	254	-	79	4	702
Total liabilities	216,238	176,386	38,900	337	2,638	434,499
Net position	143,131	(115,585)	28	(14)	4	27,564

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31 December 2022	BGN	EUR	USD	JPY	Other	Total
<i>Assets</i>						
Cash and balances with the Central Bank	83,836	9,499	1,449	84	573	95,441
Receivables from banks	141	3,784	2,040	26	1,580	7,571
Financial assets at FVPL	249	-	-	-	-	249
Debt instruments at FVOCI	28,172	4,066	2,761	-	-	34,999
Equity instruments at FVOCI	381	-	-	-	-	381
Debt instruments at amortised cost	-	13,729	31,158	-	-	44,887
Loans and advances to customers	205,529	40,901	1,331	-	-	247,761
Total assets	318,308	71,979	38,739	110	2,153	431,289
<i>Liabilities</i>						
Deposits from banks	-	19	30	-	-	49
Deposits from customers	208,961	163,012	38,705	129	2,125	412,932
Subordinated debt	-	1,959	-	-	-	1,959
Lease liabilities	1,711	-	-	-	-	1,711
Other financial liabilities	798	5	-	-	-	803
Total liabilities	211,470	164,995	38,735	129	2,125	417,454
Net position	106,838	(93,016)	4	(19)	28	13,835

31.4.3. Price risk

Price risk is related to the fluctuations in market prices of financial assets and liabilities, which can cause losses for the Bank. The main risk for the Bank is the decrease of market prices of the financial instruments at fair value through profit or loss or through other comprehensive income, which are mainly government securities.

31.4.4. Sensitivity to market risk

In accordance with the adopted objectives and principals, the Bank applies: VaR (Value-at-risk) analysis, Duration analysis and Standardized interest rate shocks to identify and analyse the effect of different risk factors on the value and the profitability of the portfolio, and thus aims to find the optimal risk to return ratio.

As at 31 December 2023, the Bank performed an interest rate sensitivity analysis based on the assumption of parallel shift in the interest curve applied on the interest gap. The expected effect on 200 b.p. shift is +/- BGN 388 thousand (2022: +/- BGN 780 thousand). The calculated maximum effect of all scenarios under Guidelines EBA/GL/2018/02 of changes in the economic value of capital and changes in net interest income for a period of 1 year are respectively BGN-366 thousand (2022: BGN -689 thousand) and BGN-1,005 thousand (2022: BGN -665 thousand).

To assess the effect of potentially possible extreme fluctuations of interest rates, the Bank analyses the effect of several standardized interest rate shocks on the trading portfolio. The price fluctuation in the parallel shift of the yield curve by 100 basis points should not exceed 5% of the capital base calculated in the last quarter. As at 31 December 2023 there are no debt securities in the securities trading portfolio and the ratio amounts to 0.00% of the capital base (2022: 0.00%).

31.5. Fair value

Fair value of financial instruments

The Bank determines the fair value of its financial instruments based on the available market information or by using appropriate valuation techniques when no such information is available. Information about the carrying amounts and fair values of financial assets and liabilities is presented in Note 31.1.

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The tables below summarise information about the financial assets carried at fair value in the statement of financial position:

31 December 2023	Carrying amount	Level 1 – quoted market price	Level 2 – valuation technique – observable market data	Level 3 – valuation technique – unobservable market data
Assets measured at fair value				
Financial assets at FVPL	315	315	-	-
Debt instruments at FVOCI	29,069	-	29,069	-
Equity instruments at FVOCI	381	-	-	381
Total	29,765	315	29,069	381

31 December 2022	Carrying amount	Level 1 – quoted market price	Level 2 – valuation technique – observable market data	Level 3 – valuation technique – unobservable market data
Assets measured at fair value				
Financial assets at FVPL	249	249	-	-
Debt instruments at FVOCI	34,999	-	34,999	-
Equity instruments at FVOCI	381	-	-	381
Total	35,629	249	34,999	381

The tables below contain information on determining the fair value of financial assets and liabilities which are not carried at fair value in the statement of financial position:

31 December 2023	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Cash and balances with the Central Bank	10,328	125,303	-	135,631
Receivables from banks	-	4,507	-	4,507
Loans and advances to customers	-	-	258,003	258,003
Debt instruments at amortised cost	-	42,357	-	42,357
Total	10,328	172,167	258,003	440,498
<i>Financial liabilities</i>				
Deposits from banks	-	48	-	48
Deposits from customers	-	429,158	-	429,158
Subordinated debt	-	-	1,959	1,959
Lease liabilities	-	-	2,756	2,756
Other financial liabilities	-	-	702	702
Total	-	429,206	5,417	434,623

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31 December 2022	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Cash and balances with the Central Bank	10,378	85,063	-	95,441
Receivables from banks	-	7,571	-	7,571
Loans and advances to customers	-	-	252,936	252,936
Debt instruments at amortised cost	-	44,890	-	44,890
Total	10,378	137,524	252,936	400,838
<i>Financial liabilities</i>				
Deposits from banks	-	49	-	49
Deposits from customers	-	413,014	-	413,014
Subordinated debt	-	-	1,959	1,959
Lease liabilities	-	-	1,711	1,711
Other financial liabilities	-	-	803	803
Total	-	413,063	4,473	417,536

The fair value of loans to customers with a floating interest rate is close to their carrying amount. The fair value of loans with fixed interest rate is determined based on the Bank's current interest rates.

Fair value of non-financial assets

The tables below provide information on the main valuation methods and inputs used in determining the fair value of investment property (Note 11), assets acquired from non-performing loans (Note 14) and non-current assets held for sale (Note 10).

31 December 2023		Market comparables method – bid prices for sale used (EUR/square meter)	Income method – bid prices for rental used (EUR/square meter)
<i>Type of investment property</i>			
retail	6,168	442-1916	1-15
regulated landed property	159	35-44	-
Total	6,327		
<i>Assets acquired against debt from non-performing loans</i>			
holiday	408	150-720	-
retail	132	-	-
regulated landed property/landed property	641	1-91	-
industrial, administrative and other	10,043	33-990	2-5
residential	253	630-2200	5
	11,477		

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31 December 2022		Market comparables method – bid prices for sale used (EUR/square meter)	Income method – bid prices for rental used (EUR/square meter)
<i>Type of investment property</i>			
holiday	1,123	388-665	-
retail	9,431	235-3462	1-14
regulated landed property	159	35-39	-
Total	10,713		
<i>Non-current assets held for sale</i>			
holiday	271	150-400	-
Total	271		
<i>Assets acquired against debt from non-performing loans</i>			
holiday	207	231-368	1.0-3.0
retail	1,117	342-476	28-54
regulated landed property/landed property	723	1-68	-
industrial, administrative and other	10,710	126-800	3-6
residential	303	220-2167	5
	13,060		

The table below provides an analysis of the sensitivity of investment property.

	Significant unobservable inputs	Change in key unobservable inputs	Relation between significant unobservable inputs and fair value measurement
<i>Retail</i>			
	a. Rental prices	Increase/decrease by 5% of the forecast monthly rental	The fair value measured using the income method and the total amount of assets, respectively, the current profit/(loss) would increase by BGN 243 thousand or decrease by BGN 237 thousand.
Income approach	b. Discount rate	Increase/decrease by 1% of the discount rate	The fair value measured using the income method and the total amount of assets, respectively, the current profit/(loss) would decrease by BGN 404 thousand or increase by BGN 484 thousand.
	c. Operating expenses	Increase/decrease by 5% of the operating expenses	The fair value measured using the income method and the total amount of assets, respectively, the current profit/(loss) would increase/decrease by BGN 372 thousand.
Market approach	Market values	Increase/decrease by 5% of market values	The fair value measured using the comparative method and the total amount of assets, respectively, the current profit/(loss) would increase/decrease by BGN 298 thousand.
<i>Landed regulated property</i>			
Market approach	Market values	Increase/decrease by 5% of market values	The fair value measured using the comparative method and the total amount of assets, respectively, the current profit/(loss) would increase/decrease by BGN 8 thousand.

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31.6. Operational risk

Operational risk is the risk of a loss resulting from inadequately or poorly functioning internal processes, staff and systems or from external events. This risk includes legal and regulatory risk and excludes strategic and reputational risk. The main sources of the Bank's operational risk are staff, processes, systems, and external events. The occurrence of operational risk could be caused by internal and external causes. The management of operational risk mainly aims to keep it at a level (general and by individual categories) that is adequate to the Bank's operations, structure, and scope.

The Bank has developed internal rules for operational risk identification, assessment and control. In accordance with the regulatory and legal requirements, the Bank maintains a database of detailed characteristics of operational events (Register of operational events), and may upon its discretion collect additional information.

The losses resulting from the different combination of factors leading to an operational event are classified into seven different categories: internal fraud; external fraud; work safety and work process; clients, products and business practices; damage to physical assets; business interruption and system crashes; performance, delivery and process management.

For the purpose of operational risk analysis and assessment and forecasting expected losses on operational events, the Bank uses different statistical indicators to conduct stress tests and scenario analyses. The stress tests and scenario analyses are prepared and documented in line with the methodology developed and are reported to the Bank's MB.

The Bank's structure of operational risk management and control aims to create a working environment and a corporate culture to support the identification and resolution of issues related to operational risk at the Bank, to the involvement and contribution of all employees in prevention thereof. The unit responsible for the current monitoring and management of operational risk is the Operational Risk Management Department at the RMM Division. The bodies to which operational risks are reported are the Risk Management Committee and the MB.

There are three levels of protection in the Bank's organizational structure: (1) risk identification and management at different units and business lines; (2) independent function for operational risk assessment and reporting at the unit holding control functions for operational risk management at the RMM Division; (3) independent function for monitoring and assessment of the processes related to countering operational risk performed by the Internal Audit unit.

For the purpose of capital adequacy, the Bank applies the basis indicator method.

32. OTHER REGULATORY DISCLOSURES

According to the requirements of Art. 70, paragraph 6 of the Credit Institutions Act, banks are obliged to disclose certain quantitative and qualitative data related to key financial and other parameters separately for the Republic of Bulgaria to other countries - EU Member States and third countries in which the Bank has subsidiaries or has established branches.

As disclosed in Note 1, Tokuda Bank operates under a banking license granted by BNB, under which it may accept deposits in local and foreign currency, extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency abroad, conduct transactions with securities, foreign currency, and perform other banking operations and transactions permitted by the Credit Institutions Act.

The Bank has no subsidiaries and branches registered outside the Republic of Bulgaria.

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The summarised quantitative indicators related to mandatory disclosures required by the Credit Institutions Act are as follows:

	2023	2022
Total operating income	25,218	16,863
Operating profit before tax	8,087	2,412
Tax (expense)/benefit	(560)	21
Return on assets (%)	1.60%	0.54%
Equivalent number of full-time employees as at 31 December	193	205
State subsidies received	-	-

Return on assets is calculated based on the average monthly values of the assets.

The Bank provides services as an investment intermediary under the provisions of the Public Offering of Securities Act (POSA). As investment intermediary the Bank must meet certain requirements to protect the interests of customers under the Markets in Financial Instruments Act (MFIA) and Ordinance 38 issued by the Financial Supervision Commission (FSC). The Bank has established and applies organization, rules and internal control procedures related to the execution and performance of contracts with customers, information requests from clients, record keeping and custody of clients' assets in accordance with Ordinance 38, Art. 28-31.

33. CAPITAL MANAGEMENT

The Bank is subject to regulations in relation to meeting the requirements for capital adequacy in accordance with Directive 2013/36/EU on access to the activity of credit institutions, Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (package CRD IV), the Credit Institutions Act, Ordinance 2 of the BNB on licenses, approvals and permits issued by the Bulgarian National Bank pursuant to the Credit Institutions Act and other applicable statutory acts of the Bulgarian legislation. In Bulgaria, the minimum required paid-up capital upon a bank's incorporation shall be no less than BGN 10 million and there is an additional requirement that at any time the equity (the capital base) of the Bank should not fall below the required minimum.

Regulation (EU) 575/2013 (CIR) determines capital adequacy ratios as a percentage of the overall risk exposure, as follows:

- Common Equity Tier 1 capital ratio – 4.5%;
- Tier 1 capital ratio – 6%, and
- Total capital ratio – 8%.

The items of the common equity Tier 1 of the banking institution include:

- equity instruments meeting certain criteria;
- premium reserves related to the above stated equity instruments;
- retained earnings;
- accumulated other comprehensive income;
- other reserves;
- fund to cover general banking risks.

The items of the additional Tier 1 include:

- equity instruments, when certain conditions of the Regulation are met;
- premium reserves related to the above stated equity instruments.

The items and instruments of Tier 2 include:

- equity instruments, when certain conditions of the Regulation are met;
- premium reserves related to the above stated equity instruments;
- for institutions calculating the amount of risk-weighted exposures in accordance with certain conditions – the general credit risk adjustments, gross of tax effects, of up to 1,25 % of risk-weighted exposure amounts calculated in accordance with the conditions of the Regulation;
- for institutions calculating risk-weighted exposure amounts under certain conditions of the Regulation, positive amounts, gross of tax effects, resulting from the calculation laid down in the Regulation up to 0,6 % of risk weighted exposure amounts.

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Directive 2013/36/EU (CRD IV) introduced the setting up of 5 new capital buffers:

- Capital conservation buffer,
- Bank-specific countercyclical capital buffer,
- Systemic risk buffer,
- Buffer for global systemically important institutions - G-SII buffer,
- Buffer for other systemically important institutions - O-SII buffer.

Directive 2013/36/EU (CRD IV), in its part concerning capital buffers, has been transposed into the Bulgarian legislation by means of Ordinance 8 of the Bulgarian National Bank. It sets the additional capital buffers that banks shall maintain above the minimum capital requirements. The requirements applicable to Tokuda Bank and applicable as at 31 December 2023 are as follows:

- Capital conservation buffer, equal to 2.5% of the Bank's total risk exposure;
- countercyclical capital buffer – 2% of the Bank's total risk exposure;
- Systematic risk buffer – 3% of the Bank's total risk exposure.

The Bank monitors and analyses on monthly basis its capital position and prepares quarterly reports for supervisory purposes, which are submitted to the BNB in compliance with legal requirements. The capital management policy aims to provide an adequate coverage of risks arising in the normal course of banking activities, as well as risks of unforeseen circumstances. The main priority in the management of capital is compliance with the regulatory requirements for capital adequacy and maintenance of sufficient capital, which covers risks assumed and provides sufficient capital buffer for unforeseen events.

The Bank maintains capital adequacy above the minimum regulatory ratios. The total capital ratio as at 31 December 2023 is 20.65% (31 December 2022: 18.40%).

Additional information is presented in the table below:

	31.12.2023	31.12.2022
Equity	43,763	40,496
Common equity Tier 1 capital	41,807	38,540
Tier 2 capital	1,956	1,956
Capital requirements		
Total risk-weighted assets for credit risk, credit risk from the counterpart and risk of dilution and free supplies	174,333	183,289
Total exposures to position, currency and commodity risk	625	500
Total risk exposures to operational risk	27,513	25,688
Total risk exposures	202,471	209,477
Capital ratios		
Common equity Tier 1 capital ratio	20.65%	18.40%
Excess (+)/Shortage (-) of common equity Tier 1 capital	32,696	29,114
Tier 1 capital ratio	20.65%	18.40%
Excess (+)/Shortage (-) of Tier 1 capital	29,659	25,971
Total capital ratio	21.61%	19.33%
Excess (+)/Shortage (-) of total capital	27,565	23,738

34. EVENTS AFTER THE REPORTING PERIOD

On 16 April 2024, an agreement was reached between the Bank's owner, Tokushukai Incorporated, and Bulgarian American Credit Bank (BACB), for the purchase of the shares of Tokuda Bank by BACB. The transaction is subject to approval by the respective regulatory bodies and will be finalised after such approval has been obtained.

Except as disclosed above, no other events occurred that would result in additional adjustments and/or disclosures in the Bank's financial statements for the year ended 31 December 2023.