Tokuda Bank

Annual Management Activity Report and Corporate Governance Declaration

Independent Auditors' Report

Annual Financial Statements as at 31 December 2024

This is a translation of the Annual Financial Statements of Tokuda Bank EAD for the year ended 31 December 2024.

Table of contents:

Tokuda Bank

MANAGEMENT ACTIVITY REPORT 2024

TABLE OF CONTENTS:

I. Environment in which Tokuda Bank EAD operated in 2024

In 2024, the banking sector in Bulgaria continued to operate in an unstable environment, affected by geopolitical tensions and the restructuring of global logistics chains caused by the sanctions imposed on the Russian Federation. The industrial production index remained in negative territory for most of the year, despite partial compensation through fiscal stimulus measures, which in turn limited the potential for generating additional revenue in the banking system.

The European Central Bank's (ECB) decision to maintain high interest rates until the end of the first half of the year contributed to a gradual slowdown in inflation, albeit with some delay due to the time lag in the transmission of effects. At the end of 2024, the 12-month harmonised index of consumer prices (HICP) in Bulgaria reached 2.5%, which is still above the euro area average and exceeds the threshold of 150 basis points set for the inflation criterion, as the average value of the indicator for the three countries with the lowest levels (Lithuania, Finland and Italy) is 0.97%.

The slowdown in price dynamics against a backdrop of strong nominal wage growth (13.9% in 2024) helped to partially restore the purchasing power of local households and supported final consumption growth. but nevertheless pessimistic business sentiment persisted, with the current business situation index in industry reaching a four-year low of 24.3 in December 2024. The moderate increase in interest rates had no significant effect on the dynamics of lending to non-financial corporations (NFCs), and the growth rate of corporate loans rose slightly, from 7.91% at the end of 2023 to around 8.98% in December 2024. The maintenance of import concessions for agricultural products from Ukraine and the launch of a new round of negotiations on a trade agreement with the MERCOSUR countries in December triggered protests among farmers in some EU countries.

The unusually mild winter in 2024, coupled with the growing share of renewable energy sources (RES) and shrinking industrial production in the major European economies, contributed to a reduction in energy consumption in the EU, which led to a stabilisation of coal and crude oil prices.

The trend in raw materials (with some exceptions) reflects weakening economic activity, suggesting that financial institutions may face a more limited revenue base in 2025. At the same time, it can be expected that the limited fiscal space in the EU will prompt additional efforts to stimulate the economy through monetary policy instruments, which will also affect money supply in Bulgaria.

Condition of the banking system in Bulgaria

The state of the banking system in 2024 was characterised by a steady pace of lending, mainly supported by the reduction of accumulated liquidity buffers (and, accordingly, a lag in the pace of resource attraction); a slowdown in both revenue and core operating expenses; intense impairment charges (reaching over 60%) and a moderate increase in provisions (by BGN 158 million, of which over BGN 114 million are for consumer loans). Against a backdrop of growing uncertainty, Bulgarian banks remain stable, profitable and maintain high levels of liquidity and capital buffers.

In mid-2024, a gradual reduction in reference interest rates began. The trend started in July, when the ECB made the first of a series of cuts to its key interest rates, which in turn led to a reduction in interest rates on new loans denominated in the single European currency (in July, for example, the interest rate on new loans in euros for corporate entities fell by 84 basis points to 5.01%) and, three to four months later, due to a certain lag in the transmission of the effects of the ECB's monetary policy, also on interest rates on loans denominated in Bulgarian levs.

The banking system continues to adapt to the changing environment. With interest rates on loans rising automatically in the first half of the year and falling in the second half, gross interest income grew at a rate which is comparable to the growth rate of gross loans (14.4% and 13.6% year-on-year, respectively). Gross fee and commission income increased by 11.7% to BGN 2.080 billion in 2024. Together with the increase in the net interest margin, this led to a record profit for the sector of BGN 3.695 billion after tax (or 8.1% above the figure achieved in 2023).

Digitalisation in the sector continues, and some Bulgarian banks are already integrating artificial intelligence into their work processes. Experiments are being conducted with virtual and augmented reality, such as VR consultations and AR technologies for personal finance management. At the same time, the process of introducing new requirements for disclosure of information on climate change continues. In 2024 , the EU Corporate Sustainability Reporting Directive (CSRD) came into force, requiring large companies (with a balance sheet total of over €25 million, a turnover of over €50 million or at least 250 employees) to disclose information on the climate risks and social impacts of their activities.

The ECB is strengthening its supervision of banks on climate risk management and in June 2024 announced its intention to sanction those that fail to meet climate targets.

The upward trend in concentration (which has been sustained throughout the period since the start of the COVID-19 pandemic) has now come to a halt, with the share of the five largest banks remaining virtually unchanged at the end of the year (76.79% compared with 76.84% at the end of the previous year). This is due to the lack of mergers and acquisitions during the past year, but also to the lagging pace of assets of some of the large banks in this group, whose assets are growing more slowly than the average for the banking system.

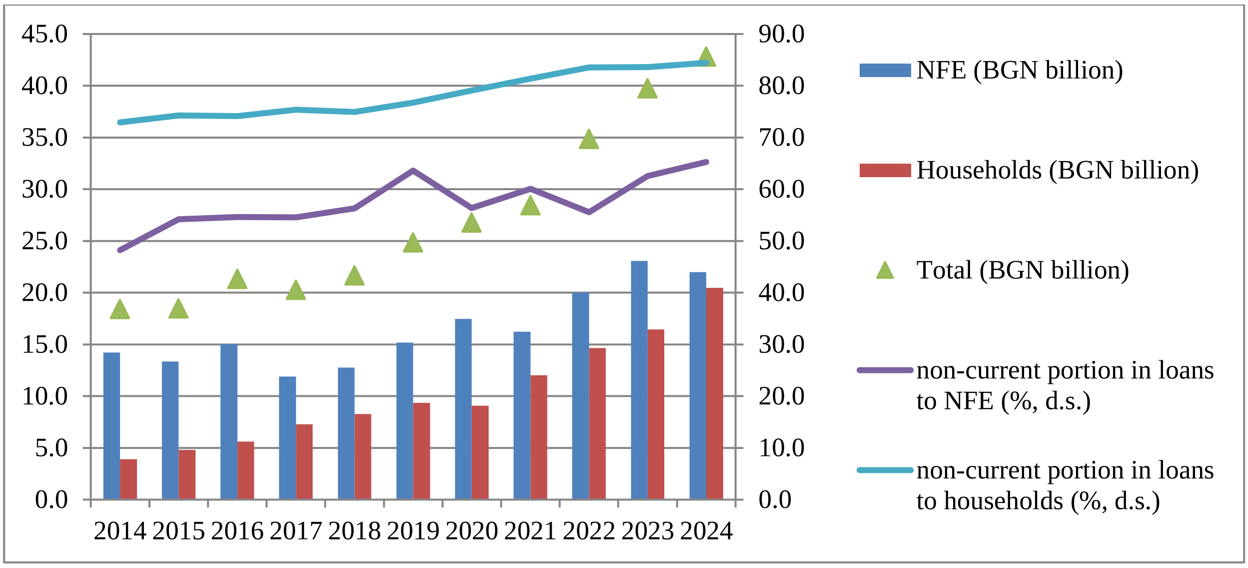
Lending activity

An analysis of monetary statistics (Figure 1) shows that the trend in new business loans to non-financial enterprises continued in 2024, with volumes in this segment declining by BGN 1.077 billion. The gross negative growth is comparable to that reported in 2021, when new loans to legal entities decreased by BGN 1.221 billion as a result of the closure of operating enterprises. Thus, the volume of new business in loans to non-financial enterprises shrank to BGN 22.0 billion, and the ratio between this volume and the balance sheet value of gross loans and advances in the segment (before impairment) at the end of December 2024 decreased to 41.61% (compared to 47.58% in 2023).

Despite the decline in lending activity, corporate loan receivables in 2024 have grown more intensively than in the previous year (by BGN 4.351 billion compared to BGN 3.552 billion in 2023), due to the increasing share of long-term loans, leading to a decrease in the volume of maturities. This trend can be traced back to 2014, after which, during the pandemic, the share of contracts with a maturity of over 5 years decreased from 63.6% to 55.5%, but later this share increased again. In the past year, BGN 14.343 billion of the contracted volumes in the segment had an original maturity of over 5 years, bringing the share of long-term loans to 65.29%, or 2.69 percentage points more than reported for 2023. It is noteworthy that the majority of long-term contracts were concluded in the second half of the year, which may partly explain the motives of borrowers, as the decline in interest rates on new business after June led to a decrease in the cost of borrowing and, accordingly, to an increase in demand for loan resources with longer repayment periods.

A comparison with interest rates in the euro area shows that the difference between interest rates on new business loans to enterprises in Bulgaria and the average level for the monetary union is between 40 and 50 basis points. Almost all CEE countries that have adopted the euro (Lithuania, Latvia, Estonia, Slovenia, Slovakia and Greece) have higher interest rates for corporate customers than Bulgaria. To a certain extent, the maintenance of relatively low interest rates in Bulgaria can be explained by the commercial banks' desire to expand their market share, with the surplus of liquid funds allowing most of them to do so on the basis of price competition. Over the past year, their actions have been mainly focused in this direction and the liquidity coverage ratio declined slightly (from 246.7% at the end of December 2023 to 241.0% at the end of December 2024), while the liquidity buffer reached BGN 56.9 billion. It can be expected that with such high levels of liquidity and a continuing decline in key interest rates, financial intermediaries will maintain their propensity to offer their excess free resources at low prices with a view to expanding the base for their effective placement.

Figure 1 New business volumes



Source: BNB, own calculations

The total amount of loans increased by 13.48% in 2024, and after excluding loans to credit institutions, the growth rate remained almost unchanged (13.57%) as exposure to this sector showed very similar dynamics. The reason for the moderate interest in borrowing from other banks is the weakened motivation of local financial intermediaries to transfer assets to settlement accounts, mainly abroad, as the ECB's reduction of key interest rates in the second half of the year has made this category of assets less attractive. A comparison with the expected return on loans to the non-financial sector favours the latter category (although the interest rate cut also affected this segment) and motivates Bulgarian banks to shift their preferences towards lending to households, which, in turn, leads to a slight decrease in the share of loans to financial institutions from 8.37% at the end of 2023 to 8.31% at the end of 2024 (Figure 2).

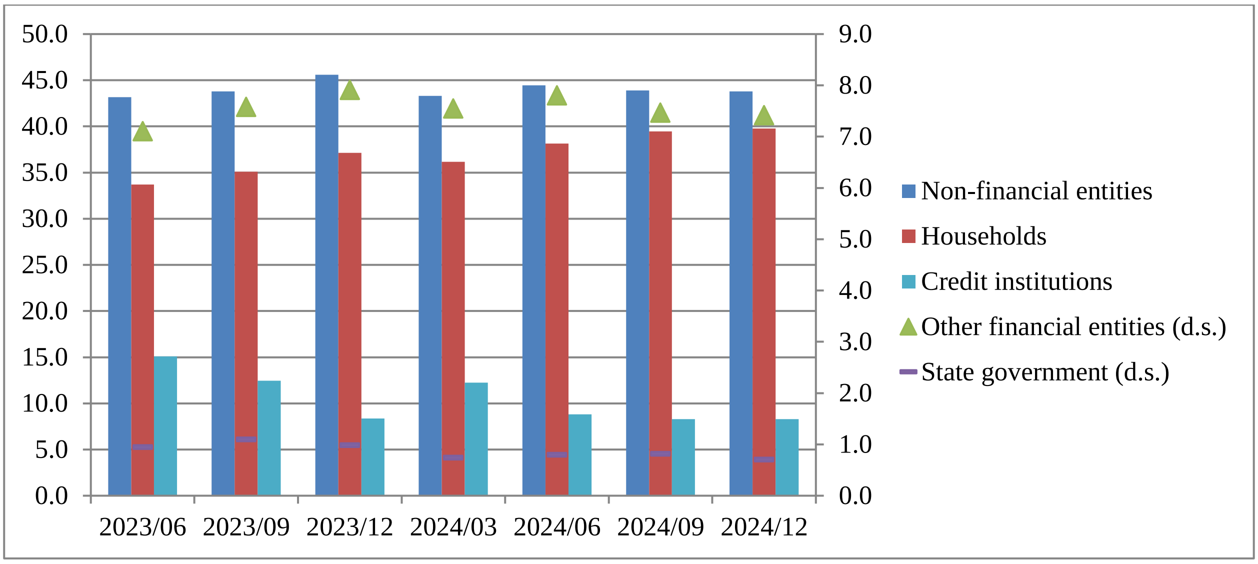
The share of new loans to enterprises also declines, falling by 181 basis points to 43.78% in 2024, due to partly lower demand for corporate loans (driven by revenue constraints in enterprises more affected by the reverse effect of the sanctions) and the desire to achieve better diversification of financial intermediaries' assets by increasing the share of smaller exposures to households. This is also one of the main reasons for the continued growth in the share of loans to households, which increased by 265 basis points in 2024, reaching 39.79% at the end of the year. The desire for diversification is probably also the reason for the faster growth in exposure to individuals and households among the largest banks in group 1 (21.91% compared to 19.72% for group 2 and 12.34% for the group of foreign bank branches).

A comparison of sector dynamics shows that more than half of the reported growth in corporate loans is attributable to manufacturing and real estate transactions, while energy and fuel production, construction and retail trade account for 12.07%, 14.71% and 15.45% of the total growth in the segment, respectively. Lending to most sectors with low exposure grew strongly. For example, loans to mining companies reached an annual growth rate of 18.34%, loans for administrative and support activities increased by 42.39%, and exposure to other activities increased by 64.54%. This is due both to the base effect of low initial exposure and to the natural desire to diversify portfolios amid growing uncertainty, with a search for expansion into less popular sectors.

Trends in retail lending

Retail lending continues to strengthen. Following the high activity reported in 2022 and 2023, the total volume of new business continues to grow, reaching BGN 20.473 billion in 2024, which is BGN 4.024 billion (or 24.46%) more than reported for 2023. This trend is sustainable over time, as the volume of new business loans to individuals has been growing steadily since 2010, with the exception of 2020. The share of long-term loans to households has been growing for six consecutive years, increasing by 84 bps in 2024 due to the continued growth in the share of housing loans to 50.67%.(just for comparison, in 2019 this share was below 38%, and during the debt crisis it ranged between 32-34%).

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



Source: BNB, own calculations

At the same time, the decision to set the contract term in 2024 is also influenced by positive household expectations, which are a result of the faster growth of their nominal incomes in recent years. Particularly indicative of these expectations is the change in this share of consumer loans, which, for example, at the beginning of the post-pandemic recovery period, rose from 70.56% to 73.45% (and has remained close to this value since then), while in the year when the Bulgarian economy experienced the initial shock of the financial crisis (2009), this share fell sharply from 77.41% to 71.20% and the downward trend continued uninterrupted until the end of the European debt crisis in 2016 (when the indicator reached 64.72%). In 2024, consumer loans accounted for about a quarter of total household loan growth, and their annual growth rate was one-third lower than the overall rate for the segment (16.45% versus 24.46%).

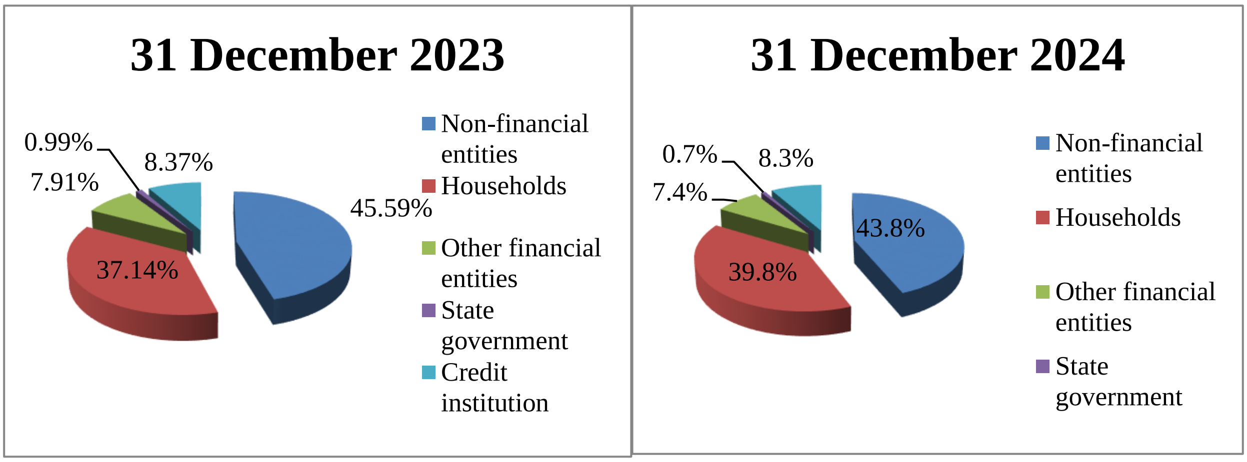
As in the previous five years, the housing loan portfolio grew at a rapid pace, increasing by 25.19% year-on-year to reach BGN 27.577 billion at the end of 2024. The good performance of the exposure in this segment is consistent with the strong growth of new business, which reached BGN 10.373 billion in 2024, up by one-third compared to 2023. Average interest rates on new housing loans in BGN during the past year continued to fluctuate within the narrow range formed in 2022 (2.4-2.6%), while loans in euros, for example, recorded values of over 3% in September and October, which is the main reason for their low popularity among the local population.

A comparison with ECB data shows that the average interest rate on housing loans in Bulgaria is lower than in all euro area Member States except Malta, which raises expectations of a possible increase after the date of potential accession.

Structure of commercial banks' assets

In 2024, the share of loans to non-bank financial institutions will stop growing. The rate reported for 2024 is five times lower than that achieved in the previous year (6.44% against 32.37%) and lags behind the overall rate, as a result of which the share of this category of loans decreases from 7.91% to 7.42% (Figure 3). Against the backdrop of the sharp increase in provisions for consumer loans, it can be assumed that there are some difficulties in collecting receivables from customers of non-banking institutions (which have lower creditworthiness and are therefore more vulnerable in periods of economic downturn) and this is the reason for the decline in interest in using this channel for realisation.

Figure 2 Structure of loans and advances

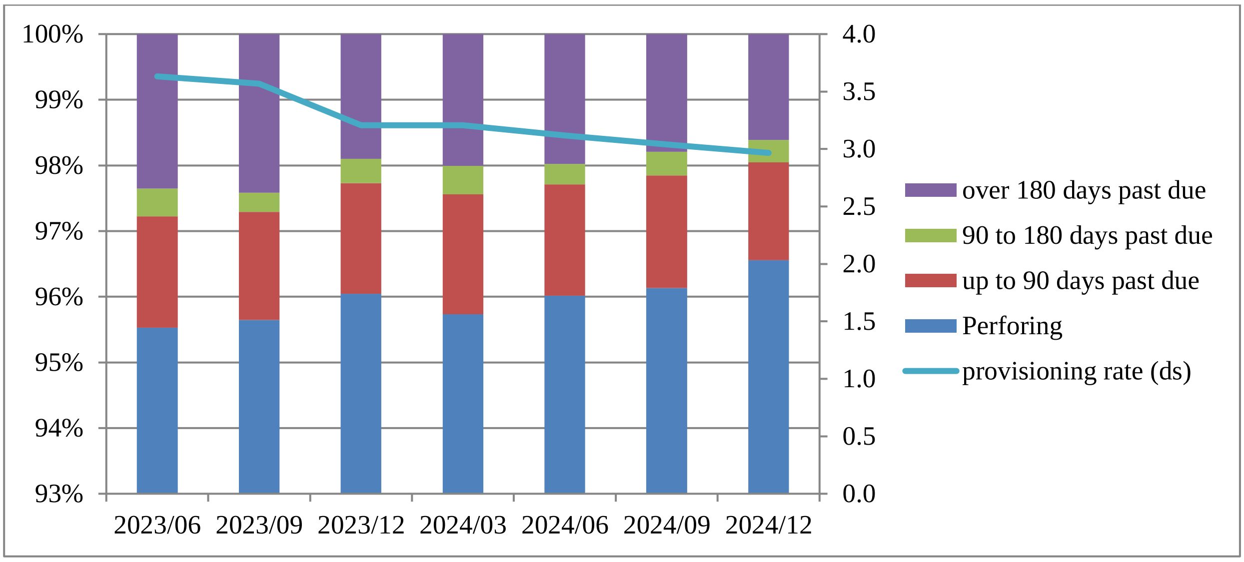


Source: BNB, own calculations

Against this backdrop, it can be assumed that the current practice whereby banks effectively transfer assets with high risk weights to (related) non-bank institutions in order to prevent a deterioration in capital adequacy ratios, will become less attractive and that the positive trend in the ratio of performing loans (Figure 4) will undergo some change.

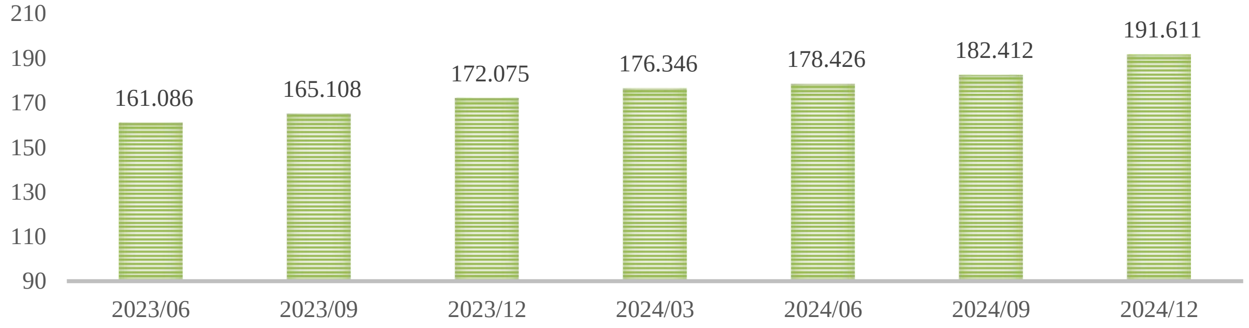
Depositors continue to increase their savings, motivated to some extent by the slight increase in interest rates on deposits. The total value of resources attracted from the non-financial sector grew by 8.90% year-on-year (which is comparable to the rate reported in 2023), mainly due to households, whose savings growth (BGN 9.643 billion) contributed to over 3/4 of the total growth in the deposit base. The continued low activity of legal entities is striking, as they increased their savings intensively by BGN 16.84 billion in 2022 (despite the introduction of fees on cash deposits), but in the following two years they will limit their propensity to save, and the reported growth in resources attracted from this source for 2023 and 2024 will be BGN 3.133 billion and BGN 2.954 billion, respectively.

Figure 3 Quality of the loan portfolio



Overall, in 2024, commercial banks continued to demonstrate sustainable performance and their assets continued to grow (Figure 5) despite the unfavourable conditions in which they operate, supported to a significant extent by the increase in spreads and net interest margins resulting from the rise in the base indices on which the dynamics of reference interest rates (and, consequently, the rate at which interest is charged on the outstanding amount of loans granted) depend. Data from unaudited reports show that the sector reported record profits, which were distributed proportionally, mainly in favour of the larger participants. A comparison by group shows that the five largest institutions (group I) managed to increase their net profit by BGN 229 million (to BGN 2.956 billion), while the profits of banks in group II increased by BGN 59 million and those in group III decreased by BGN 10 million.

Figure 4 Commercial banks' assets [BGN billion]



Source: BNB

In 2025, Regulation (EU) 2024/3172 will come into force, requiring large credit institutions to disclose semi-annual information on ESG risks, including the impact of climate change. The aim is to improve transparency and consistency in risk management. The progress of this process is likely to lead to a change in the risk appetite and risk profile of banking institutions, which in turn may lead to asset restructuring, increased administrative burdens and some revenue constraints.

The banking system will face numerous challenges, most of which are directly related to the indirect effects of the tariff increases, as well as the uncertainty surrounding developments in Ukraine and the related sanctions. There are no grounds for expecting a quick resolution of the disputes. Most member states have confirmed their intention to maintain all sanctions imposed, but also to further escalate the conflict by sending military contingents to Ukraine and increasing military aid. This, in turn, implies more moderate expectations for the banking system in the short term, namely a slowdown in credit growth and a decline in profitability and sustainability indicators in 2025.

In the event of further escalation, increased motivation for consolidation can be expected as a result of the heightened risk environment (which may prompt some investors in the sector to withdraw) but also as a result of the introduction of new burdens related to the need to finance increased military spending, as well as to service the introduction of uniform standards for reporting the environmental footprint of banking activities (development of models for assessing environmental risks, establishing systems of rules and procedures to implement the additional requirements in the procedure for assessing and approving candidates, supplementing reporting forms with new reporting components, etc.).

II. Operational overview of Tokuda Bank EAD in 2024

As at 31 December 2024, Tokuda Bank EAD's assets amounted to BGN 516.470 million, representing 0.27% of the total assets in the Bulgarian banking system (according to data from the Bulgarian National Bank). In relation to the assets of banks in the second group, which includes Tokuda Bank EAD, this share is 1.30%. The average monthly balance sheet total continued to grow, reaching BGN 504.8 million for the past year, compared to BGN 471.5 million in 2023.

Over the past year, the Bank successfully responded to the challenges of the environment and continued to adhere strictly to the key priorities of its strategy. For example, in relation to the priority of improving the structure of assets and liabilities, the following results can be highlighted: gross loans remained close to the previous year's level (BGN 246.947 million compared to BGN 255.947 million at the end of 2023) with reduced loan loss provisions and an increased share of performing loans; The share of the loan portfolio after impairment in the overall asset structure accounted for 46.83% of total assets at the end of 2024 (compared to 51.46% in the previous year), and its quality improved - during the past year, the Bank managed to reduce the share of non-performing loans by 88 basis points to 7.09% of the gross value of loans and receivables from customers.

The decline in the share of the loan portfolio in the asset structure is due to categories that carry lower risk but generate good income (such as debt instruments at fair value throughother comprehensive income), and this is one of the key challenges for the past year, against the backdrop of an uncertain environment and moderate lending rates, which are a natural result of the volatile economic climate and increased competition to attract customers with good creditworthiness.

The strengthening of the revenue-generating potential can also be traced through the dynamics of the ratio of total operating expenses to total operating income, which decreased by 1.40 percentage points over the past year (to 57.39%), as a result of the strong growth in total operating income before impairment and provisions for losses to BGN 27.142 million for 2024 (compared to BGN 25.218 million for 2023), which outpaced the growth in operating expenses, which increased by BGN 751 thousand (to BGN 15.578 million for 2024).

The successful fulfilment of the objectives can also be reported under another priority of the strategy and business plan, namely effective management and control of customer deposits in order to limit resource costs while maintaining stable financing. In 2024, the Bank reported a limited increase in the volume of funds attracted from customers (up 5.06% to BGN 450.727 million), with the share of more expensive financing from individuals and households increasing slightly (to 76.45% of the total structure at the end of the year, compared to 75.76% for the previous year), while the share of term deposits remained close to the level reached at the end of last year (44.99% compared to 44.58% for 2023). The cost of attracted funds broke its downward trend and interest expenses increased by BGN 934 thousand in 2024, despite relatively weak changes in the volume and structure of deposits.

In 2024, the Bank realised a net profit of BGN 9.338 million. The reported result is 24.06% better than in 2023, when the Bank's net profit amounted to BGN 7.527 million, mainly due to increased interest and fee income.

A factor that had an impact on the Bank's operations in 2024 was the agreement concluded in April between the Bank's main shareholder and BACB AD for the purchase of the shares of Tokuda Bank EAD from BACB. As of the date of this Report, namely 22 May 2025, this agreement has expired. Tokushukai confirms its support for the long-term development of Tokuda Bank EAD as an independent company.

II.1. Operating income and expenses

In 2024, the Bank generated operating income before impairment and provisions for losses in the amount of BGN 27.142 million (Table 1), which is BGN 1.924 million (7.63%) more than in 2023. Its dynamics over the past period continued to be influenced by the increase in market interest rates, leading to an acceleration in the growth of gross interest income, which, with a relatively constant volume of the performing portfolio for the past year, increased by 12.14% (BGN 2.308 million). The rate of interest expenses is higher (125.88%), with their growth reaching BGN 1.676 million for the past year.

The Bank continues to adhere to its conservative policy on administrative expenses. Within the framework of this policy, management exercises systematic control, which, in the context of rapid consumer price growth, leads to a moderate increase in most items in this category, resulting in an overall increase of BGN 751 thousand for the year under review (to BGN 15.578 million).

The ratio of total operating expenses to total operating income for the past year decreased by 1.40 percentage points (to 57.39%), which is due to the increase in total operating income before impairment and provisions for losses (from BGN 25.218 million in 2023 to BGN 27.142 million in 2024), whose rate exceeds that operating expenses (7.63% vs. 5.07%, respectively).

The changes in the asset structure, along with the interest rate trends, led to some changes in the income structure (Table 1). In 2024, the share of net interest income decreased by 0.07 percentage points and reached 72.35% of total income, while non-interest income accounted for 27.65% (for comparison, in the same period last year these figures were 72.42% and 27.58%, respectively). In addition to the continuing rise in interest rates, another factor contributing to the changes in this structure is the rapid growth of ‘other operating income,’ which increased by 36.62% year-on-year to BGN 1.623 million. This was due to the increased profit from assets held for sale (acquired against debt) by BGN 429 thousand, as well as income from insurance claims (up by BGN 85 thousand).

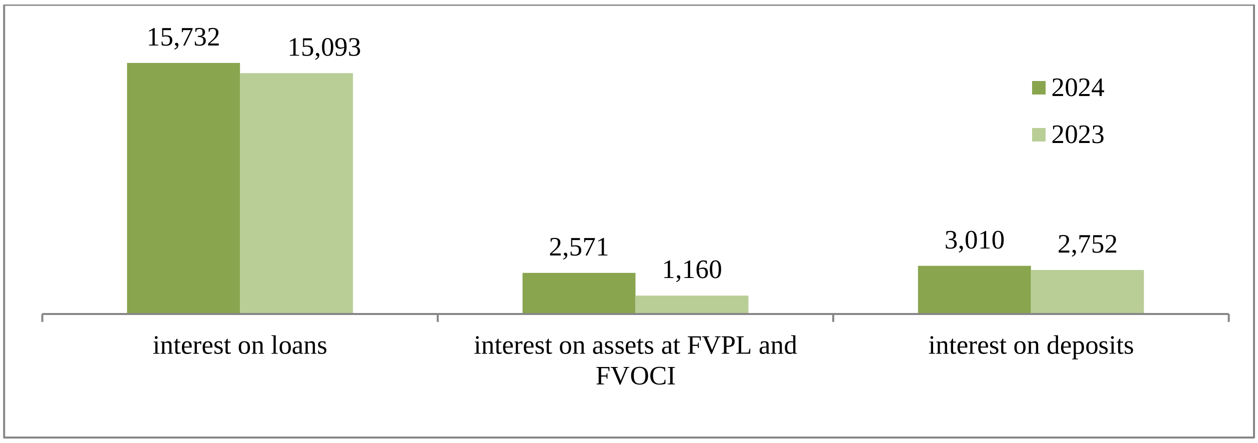
Gross interest income on loans and other receivables continued to account for the largest share of total interest income, increasing by BGN 639 thousand to BGN 15.732 million, which is due to the general market trend towards higher interest rates, but also to the increase in the share of performing loans. Tokuda Bank EAD continues to maintain a relatively small spread against the reference indices in order to achieve a balance between improving profitability and providing the best conditions for the Bank's customers in line with current market levels. The effect of the easing of conditions is somewhat offset by a reduction in the share of non-performing exposures, which decreased by 88 basis points to 7.09%. The growth of interest income on loans is slowing down (from 53.63% in 2023 to 4.23% in 2024), against the backdrop of the faster growth of interest income on other interest-bearing assets in 2024 the share of interest income on loans decreased by 5.60 percentage points compared to the previous year, reaching 73.81% at the end of the period.

Table 1. Operating income (BGN'000)

	2024	*2023*
Interest income	21,313	19,005
Interest costs	(1,676)	(742)
Net interest income	**19,637**	**18,263**
Income from fees and commissions	5,614	5,486
Expenses for fees and commissions	(453)	(431)
Net income from fees and commissions	**5,161**	**5,055**
Net profit from financial assets held for trading	**721**	**712**
Other operating income (expenses)	**1,623**	**1,188**
Total operating income	**27,142**	**25,218**

Interest income from the debt instrument portfolio (Figure 6) increased by BGN 1.411 million (or 121.64% compared to 2023) to BGN 2.571 million for the year ended, as a result of active purchases of securities during the year, leading to the replacement of maturing and sold issues in the Bank's portfolio with new ones with higher yields due to the overall change in market conditions. The accelerated growth rate of income from this source led to a significant increase in its share in total interest income for the year under review – from 6.10% to 12.06%.

Figure 5. Interest income by sources (BGN'000)



As a natural result of the increase in interest rates on interbank deposits (due to the effective transfer of the effects of the tightening of monetary policy in the Eurozone by the end of the first half of the year), total income from this source increased to BGN 3.010 million (compared to BGN 2.752 million for 2023). The effect of the increase in interest rates on income from this item was partially offset by the decrease in the average annual value of this group of assets during the reporting period (from BGN 35.536 million in 2023 to BGN 33.436 million in 2024).

The cost of attracted resources remains above the average for the banking system in the country, as deposits from individuals and households continue to account for a significant share of the Bank's deposit base (reaching 76.45% in 2024, compared to 75.76% in 2023). As a result of the general increase in current interest rates, interest expenses increased by BGN 934 thousand in the past year (up to BGN 1.676 million in 2024).

In 2024, the interest rate spread fluctuated within the range of 4.01-4.81 (Figure 7), with its dynamics influenced by the overall change in market conditions. A comparison of the profitability of interest-bearing assets shows that over the past year, the unweighted average rate of return increased by 32 basis points (from 4.57% in 2023 to 4.89% in

2024), mainly due to higher market interest rates, but also to the reduction in the share of classified loans with principal and interest arrears of over 180 days. The sustained momentum of the indicator is also supported by the stability of the cost-to-income ratio, which changed by 21 basis points on an annual average basis, from 0.18% in 2023 to 0.39% in 2024.

The change in consumer attitudes and the minimal increases in interest rates on term deposits in 2024 led to some changes in the maturity structure of attracted resources, with the share of current accounts decreasing by 0.41 percentage points (to 55.01%) for the year under review. This contributed to a more moderate increase in the cost of attracted resources, which, together with the higher reference indices for loans and the realisation of additional revenues (from collected awarded receivables) during the year, had a favourable effect on the interest rate spread. Thus, the cumulative indicator in 2024 reached 4.50% (compared to 4.40% for the previous year).

Figure 6. Interest spread components (%)

Non-interest income

In 2024, non-interest income increased by BGN 550 thousand (7.91%) on an annual basis, reaching BGN 7.505 million, mainly due to income not related to the core business.

During the past year, the item 'other operating income' increased by BGN 435 thousand (from BGN 1.188 million in 2023 to BGN 1.623 million in 2024).

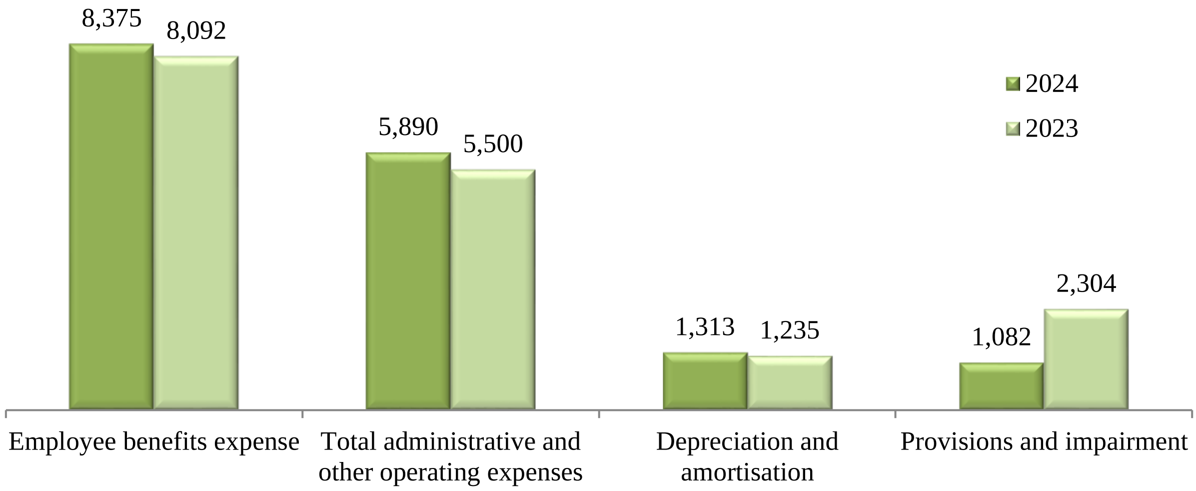
The largest share in this income group remains net income from fees and commissions, which increased by BGN 106 thousand (or 2.10% on an annual basis) to BGN 5.161 million in the past year, due to increased income from card services and loans granted (by BGN 80 thousand and BGN 117 thousand, respectively). These increases were partly offset mainly by lower income from account service fees, which decreased by BGN 84 thousand over the past year. The structure of fee and commission income remained largely unchanged over the past year, with the most significant increase in the share of loan fees (by 1.63 percentage points to 21.73% of gross fee income), while the most significant decrease was observed in bank account service fees (by 2.27 percentage points, to 31.46% of gross fee income).

Expectations of further cuts in key interest rates, which are gradually gaining momentum against the backdrop of still weak consumer price dynamics, are having a positive impact on income from securities trading, with net trading income rising to BGN 721 thousand for the year (compared to BGN 712 thousand for 2023).

Non-interest expenses

The Bank's non-interest expenses for 2024 amount to BGN 16.660 million (Figure 8), which is BGN 471 thousand or 2.75% less than reported for the previous year. This is due to a decrease in impairment expenses by BGN 1.222 million compared to 2023, partially offset by an increase in other items, such as personnel expenses (up 3.50% to BGN 8.375 million as a result of catching up with the overall increase in employers' remuneration costs for employees in the country). Other administrative expenses increased by BGN 390 thousand, reaching BGN 5.890 million for the past year as a result of the overall increase in price indices.

Figure 7. Non-interest expenses (BGN thousand)



The clearly expressed dynamics of most of the items in this group led to a change in its overall structure. For example, the share of personnel expenses (including wages and social security contributions) in the structure of non-interest expenses increased by 3.03 percentage points (from 47.24% to 50.27% for the past year), while the share of general administrative and other operating expenses increased by 3.25 percentage points - to 35.35%), mainly due to provisions and impairment charges, whose share decreased by 6.95 percentage points. Depreciation and amortisation expenses in 2024 accounted for 67 basis points less than in the previous year.

II.2. Loan portfolio

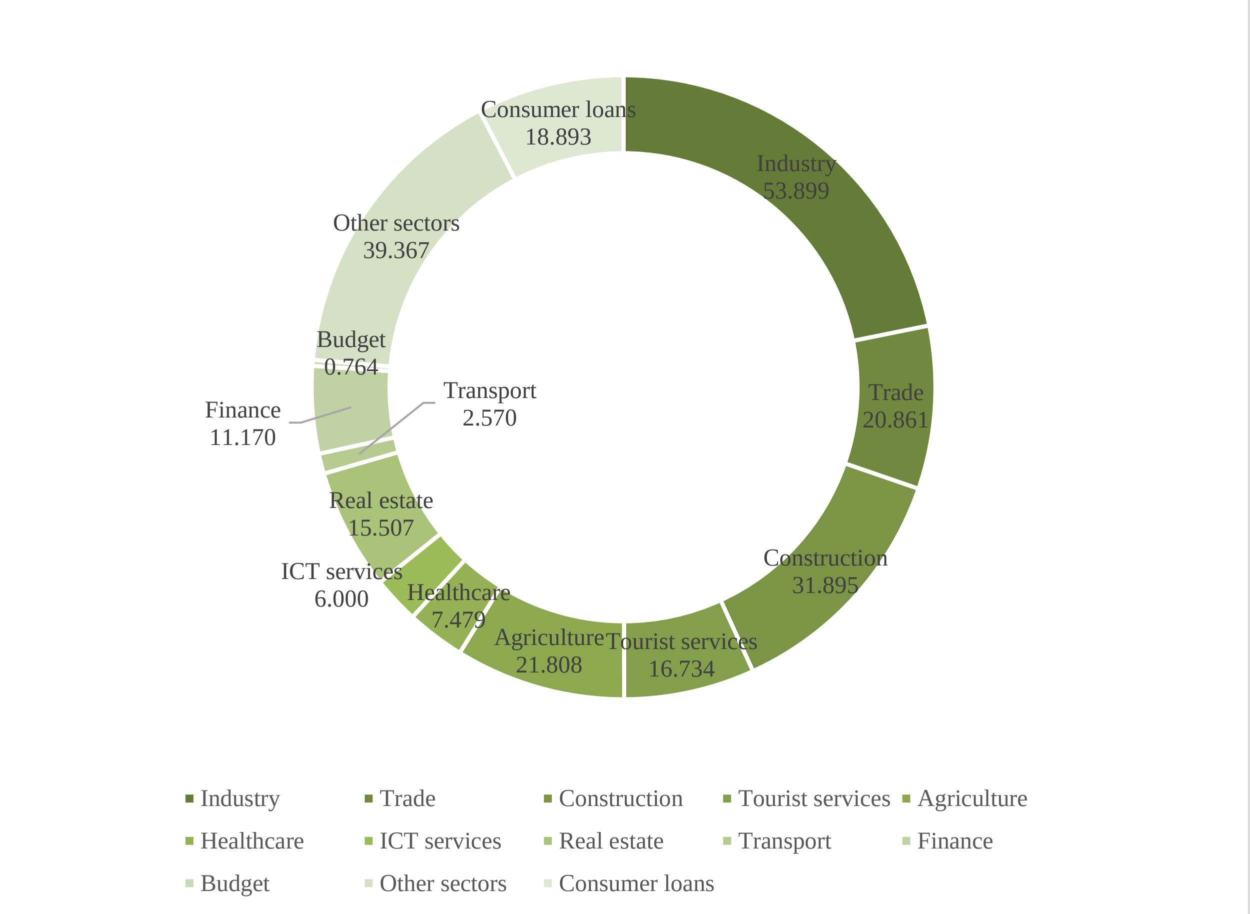
At the end of 2024, the gross amount of the Bank's loan portfolio was BGN 246.947 million. After reflecting a provision for loan losses of BGN 5.107 million, the net value of the portfolio amounted to BGN 241.840 million, which is BGN 7.963 million less than reported at the end of 2023. The negative growth is due to more conservative lending against the backdrop of volatile business climate indicators and the continuing high risk environment, expectations of a possible transaction involving the Bank's capital, as well as the activity in collecting receivables in the "*loss"* group, whose carrying amount after impairment decreased by BGN 5.036 million. The lag of loans behind the growth of total assets led to a decrease in the share of the loan portfolio after impairment in the overall asset structure by 4.63 percentage points to 46.83% of total assets at the end of 2024, compared to 51.46% in the previous year.

Loans to corporate customers decreased by BGN 2.250 million (to BGN 193.906 million before impairment), and their share in the structure of gross loans increased slightly compared to the previous year (by 1.88 percentage points, from 78.52% to 76.64%), which is due to the maintenance of almost full compliance between the structure of lending activity and that of the existing loan portfolio.

The changes in the 'individuals and households' segment are due to moderate activity in this category of borrowers. In absolute terms, the segment reported a negative growth of BGN 6.562 million, or 11.15% compared to the previous year, with its share in the total portfolio structure decreasing by 1.82 percentage points. - from 22.99% in the structure of gross loans in 2023 to 21.17% in 2024 due to the lagging pace in this segment compared to exposures to corporate customers.

In 2024, the Bank continued to work with companies in the industrial, trade, construction, tourism, agriculture, healthcare and other sectors (Figure 9). The share of loans to industry remained in first place, as in the previous year, increasing by 4.77 percentage points (to 21.83% of gross loans), while the trade sector decreased its share by 3.27 percentage points and ranked fourth in terms of relative share (8.45%) in the loan structure. Construction retained its second position, with its share decreasing slightly by 0.98% (to 12.92%). Agriculture climbed one position to third place (accounting for 8.83%), followed by tourism (6.78%), real estate (6.28%) and finance (4.52%).

Figure 8. Loan portfolio allocation [BGN million]



Over the past year, the Bank continued to adhere to its moderately conservative lending policy, approving new loans to borrowers meeting high reliability and creditworthiness criteria. The regular servicing of loans by new customers is indicative of the effectiveness of these criteria.

In response to the increased risk environment caused by domestic political instability, additional sanctions against Russia and heightened tensions in the Middle East, the Bank continues to adhere to a list of identified (particularly affected) sectors which should be approached with increased caution and on an exceptional basis when considering financing requests. In response to the new challenges, the list has been updated and refined, and the Bank continues to maintain close direct contact with existing borrowers, companies and individuals in order to ensure timely information on trends in the businesses financed.

The changes in the currency structure of the portfolio are moderate. The share of loans denominated in the single European currency decreased by 2.29 percentage points (to 11.99% of the balance sheet value of the loan portfolio after impairment), which was mainly offset by loans in Bulgarian levs (increasing by 1.89 percentage points to 86.78% of the balance sheet value of the loan portfolio after impairment) and loans in US dollars, accounting for 1.23% of the portfolio at the end of the year (0.39 percentage points above the figure reported for 2023).

In pursuit of one of its strategic objectives for the past year, the Bank managed to reduce the share of non-performing loans by 88 basis points to 7.09% of gross loans and advances to customers. The continuation of this trend is becoming even more challenging against the backdrop of ongoing conflicts and the growing risk of recession as a result of shrinking external demand, which is linked to expectations of a slowdown in real income growth. These factors will continue to weigh on economic activity and consumer spending, which in turn may lead to a slowdown in lending and, consequently, in the process of improving the quality of the loan portfolio.

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

	2024			2023		
	gross amount	impairment according to IAS	carrying amount	gross amount	impairment according to IAS	carrying amount
Serviced	229,443	1,161	228,282	235,554	1,064	234,490
Unserviced (non-performing)	17,504	3,946	13,558	20,393	5,080	15,313
Total	246,947	5,107	241,840	255,947	6,144	249,803

To cover the risk of losses from loan impairment and in accordance with the requirements of IFRS 9 as at 31 December 2024, the Bank has recognised an allowance for expected credit losses in the amount of BGN 5.107 million, with the coverage ratio decreasing from 2.40% to 2.07% due to the write-off of impairment losses in the amount of BGN 919 thousand. The coverage with impairment provisions for performing loans increased by 0.05 percentage points compared to the previous year (from 0.45% to 0.51%). Almost the entire impairment (77.27%) was recognised on non-performing loans (Table 2).

II.3. Securities

The securities portfolio grew by BGN 22.614 million to BGN 94.736 million at the end of 2024. Thus, its share in the total asset structure increased by 3.49 percentage points compared to the previous year, reaching 18.34%. The rate of change is intense (31.36%), as against the backdrop of the ECB's announced course towards easing monetary policy and heightened expectations regarding the Fed's policy, the Bank is seeking to increase the share of fixed-income instruments in the overall asset structure. Overall, the increase in the weight of this asset category reflects the Bank's policy of optimising the balance between risk taken and improving its profitability indicators.

The majority of securities (82.02%) are classified at fair value through other comprehensive income, whose volume increased from BGN 29.450 million to BGN 77.699 million. The portfolio of securities classified at amortised cost decreased by 60.71%, from BGN 42.357 million to BGN 16.644 million, while the portfolio under the FVPLincreased by BGN 78 thousand (to BGN 393 thousand).

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

	2024	2023
Stocks and shares in local enterprises	774	696
Bulgarian government securities (including Eurobonds)	37,509	27,291
Foreign government securities (including Eurobonds)	56,453	44,135
Corporate bonds of local and foreign issuers	-	-
Impairment charged in the year and credit loss allowance	-	-
TOTAL	94,736	72,122

Over the past year, investments in foreign government securities increased by BGN 12.318 million (to BGN 56.453 million), while their share in the total structure of the securities portfolio decreased by 1.61 percentage points (to 59.59%). Local government securities (Bulgarian government securities and Eurobonds) increased at a faster pace of 37.44% (BGN 10.218 million). Thus, the book value of assets in this category rose to BGN 37.509 million, and its share in the overall structure increased by 1.75 percentage points (to 39.59%).

The balance sheet value of shares and participations in local enterprises in 2024 increased by BGN 78 thousand to BGN 774 thousand. However, due to the lagging growth rate of this category (11.21%), its share in the total structure declined from 0.97% to 0.82% at the end of 2024.

II.4. Attracted funds

In 2024, the volume of funds attracted from customers increased by 5.06% and reached BGN 450.727 million at the end of the year. In a sense, the effect of the feeling of economic uncertainty is reflected in an increase in savings by non-financial enterprises and the population, and hence in the liquidity of the banking system. The majority of the Bank's attracted resources come from individuals and households (Table 4). During the reporting period, the share of resources from this source changed insignificantly, by 69 basis points (to 76.45% of the total structure), as a result of the Bank's targeted efforts to maintain a stable resource structure. The reported changes were mainly due to an increase in term deposits from individuals and households, whose share in the total structure increased by 0.82 percentage points to 39.75% at the end of 2024. (thus maintaining their first place in terms of share in the liability structure) and this was partially offset by a decline in demand deposits from the same source, whose share decreased by 0.13 percentage points to 36.70% at the end of 2024.

Corporate customer resources decreased, with the share of term deposits declining by 0.41 percentage points (to 5.20% of attracted funds) and that of current accounts increasing slightly by 0.07 percentage points to 17.85%. Deposits from budget administrators decreased by 0.37 percentage points, from 0.67% to 0.30%. The low share of funds attracted from non-bank financial institutions is explained by the growing liquidity indicators in the banking system. Over the past year, deposits from this source increased by BGN 140 thousand (to BGN 909 thousand), with their share in the total structure of attracted funds increasing from 0.18% to 0.20%.

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

	2024			**2023**		
	On-demand and savings deposits	Fixed term deposits	**Total**	On-demand and savings deposits	Fixed term deposits	**Total**
Accounts of local individuals	165,419	179,146	344,565	158,029	166,998	325,027
Budget accounts	1,361	0	1,361	2,880	0	2,880
Company accounts	80,445	23,447	103,892	76,275	24,083	100,358
NBFIs accounts	709	200	909	569	200	769
TOTAL	247,934	202,793	450,727	237,753	191,281	429,034

Tokuda Bank EAD is no exception to the banking system and continues to maintain high liquidity, which is why interest in attracting resources from banks remains low. The total value of deposits from credit institutions at the end of 2024 accounted for a negligible share of the Bank's liabilities (0.01%), increasing insignificantly from BGN 48 thousand to BGN 50 thousand at the end of 2024.

In 2024, measures to optimise the maturity structure of liabilities and update deposit interest rates continued with a view to offering better terms to the Bank's customers. As a result, the average agreed price of resources in 2024 increased to 0.45% (compared to 0.25% at the end of last year), while the structure remained unchanged, with the share of term deposits increasing by 0.41 percentage points to 44.99%, while the share of sight deposits decreased proportionally to 55.01%.

The changes in the currency structure of attracted resources are relatively weak and in favour of the US dollar, whose share increased by 0.18 percentage points to 9.24%, as well as deposits in yen (up by 0.02 percentage points to 0.08%), mainly at the expense of the Bulgarian lev, whose share in the past year shrank from 49.67% to 49.48%. Deposits in other currencies (CHF, GBP) decreased by 0.01 percentage points and at the end of the period reached 0.60% of the total 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 108,595 thousand as at 31 December 2024 (respectively BGN 135,631 thousand as at 31 December 2023) 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 2024 amount to BGN 49,139 thousand (respectively BGN 4,507 thousand as at 31 December 2023) 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 241,840 thousand as at 31 December 2024 (respectively BGN 249,803 thousand as at 31 December 2023) 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 2024, 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 2024, the Bank's cash and cash balances with the Central Bank represent 21.03% of the Bank's total assets (respectively 27.94% at the end of 2023).

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 2024, loans and receivables from banks constitute 9.51% of the Bank's total assets (respectively 0.93% at the end of 2023).

High-liquidity bonds owned by the Bank and not pledged as collateral as at 31 December 2024 amount to 18% of the Bank's total assets (compared to 14.00% at the end of 2023). 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 2024, Tokuda Bank EAD continued adhering to a conservative approach in risk management and assessment, including with respect to credit risk, forming 83% of all risk exposures as at 31 December 2024. 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 increased by BGN 9.765 million compared to 31 December 2023, to BGN 212.236 million at 31 December 2024.

Table 5 Risk-weighted assets

	2024-12-31		2023-12-31		change	
	BGN'000	*share*	*BGN'000*	*share*	*BGN'000*	*rate*
For credit risk	176,623	83%	174,333	86%	2,290	1%
For market risk	775	0%	625	0%	150	24%
For operating risk	34,838	17%	27,513	14%	7,325	27%
Total	**212,236**	**100%**	**202,471**	**100%**	**9,765**	**5%**

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 2024, the Bank's equity amounted to BGN 60.302 million, and the common equity according to the capital adequacy requirements for credit institutions is BGN 50.292 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 305 basis points, reaching 23,70%, which exceeds the required regulatory limits..

As at 31 December 2024, 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 shareholders' register maintained by the Central Depository, as at 31 December 2024, the Bank's sole shareholder is Tokushukai Incorporated, Japan, holding 100% of the capital (compared to 99.94% in 2023).

II.7. Office network

The Bank has a well-developed network consisting of 17 offices and outsourced workplaces in Bulgaria. The regional structure provides quick access to the Bank's potential customers, as the branches are located in the main administrative centres of the country, while the organisational and management structure creates conditions for direct and effective contact with existing and future customers with a view to offering solutions that meet their needs. In 2024, no action was taken to open new offices or close existing ones.

The structure of the branch network as at 31 December 2024 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 with all Bulgarian banks, as well as with leading banks abroad, pursuing a policy of continuous optimisation and expansion of its correspondent relationships. The Bank uses the services of two local banks for custodial services in connection with its activities related to the acquisition and disposal of financial instruments on Bulgarian and/or foreign markets.

II.9. Human resources

Human resources are a key factor in achieving the Bank's strategic goals, as proven by the rapid adaptation to all challenges in recent years. The Bank's management is developing a human resources management system through continuous optimisation of personnel administration processes (planning, selection, appointment, monitoring, evaluation, promotion and dismissal). Over the past year, the number of employees decreased from 194 to 176 as at 31 December 2024.

A decisive factor for the implementation of the Bank's mission and strategy is the quality of its employees – their qualifications, professional skills and loyalty. The Bank's employees also participate in various forms of training and communication related to their duties, as improving qualifications is one of the main and proven means of improving the working environment, the quality of service and the Bank's results. The team of Tokuda Bank EAD has overcome the challenges of the past year with a high level of commitment and adequate responses, maintaining the Bank's successful operations.

The policy of open doors, communication and cooperation between the various departments continues. The Bank continues to make efforts to retain and motivate valuable staff, provide training, ensure accountability, periodic monitoring and changes where necessary.

II.10. Information technologies

Over the past year, development of the updated e-banking platform continued, which was an important form of customer service in the context of physical contact restrictions. Promotion of the updated software platform serving debit and credit cards issued by the Bank continued. The aim of these initiatives is to improve customer service quality and provide reliable information on the behaviour of the Bank's customers. One of the challenges in this area in 2025 will be to use the capabilities of the new systems in a way that helps to better deliver Tokuda Bank EAD's products.

II.11. Bank branches

As at 31 December 2024, the Bank has no branches.

III. <u>Development prospects for 2025</u>

Overall, the Bank's business plan for 2025 provides for the continuation of measures to optimise business processes and complete ongoing projects, as well as the implementation of targeted measures aimed at organisational and technological improvements aimed at enabling the Bank to meet new regulatory requirements, customer needs and business expectations.

The Bank has prepared a capital plan for the period 2025-2028, which sets out the means and mechanisms to ensure compliance with regulatory requirements in view of the upcoming changes resulting from the latest amendments to European regulations. The document was approved by the Management Board with Protocol No. 1106/25.03.2025 and included as an integral part of the ICAA.

At present, the Bank's management intends to maintain a moderately conservative policy in the conduct of its core business with a view to further improving profitability ratios and conducting active marketing campaigns to increase its market share. The main objective for 2025 remains unchanged and is to strengthen lending activity while improving the quality of the portfolio. Preliminary estimates in the financial plan indicate that the planned increase in activity can be achieved, as the Bank has a relatively small market share and has the potential to achieve above-average lending growth for the system.

The guiding principle in determining the prospects for development is to keep risk within reasonable limits, which is why the main priority of the Bank's activities this year will continue to be the careful selection of suitable customers and the prudent assessment and management of credit risk.

In short, the main priorities for the Bank's development in 2025 remain as set out in its medium-term strategy and can be summarised as follows:

- Improving the quality of the loan portfolio and optimising the asset structure while pursuing a policy of acceptable credit risk and capital coverage;
- Improving the Bank's efficiency, reducing operational risks and building a solid foundation for sustainable long-term growth;
- Making full use of modern information technologies to reach a wide range of customers, which in turn will enable the Bank to improve the quality and expand the range of services offered;
- Strengthening activity in the retail lending segment with a view to achieving better risk diversification and improving return on equity;
- Expanding the Bank's market presence by conducting active campaigns to increase the popularity of the Tokuda Bank brand and achieve better recognition among potential customers;
- Ensuring stable income from core activities to guarantee a higher return on equity.

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

IV.1. Changes in share capital

In 2024, there was a change in the structure of the bank's share capital and, after Tokushukai Incorporated, Japan, acquired a 0.06% stake in Gama Holding Group AD, Bulgaria, the majority shareholder becomes the owner of 100% of the bank's share capital. As at 31 December 2024, Tokuda Bank EAD does not hold any treasury shares.

IV.2. Management

In 2024, the Bank preserved its two-layer management system. The composition of the Management Board and the 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 – Chairperson 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. The total amount of remunerations received over the reporting year by members of the Management Board is BGN 598 thousand (respectively BGN 571 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 2024 the Bank did not pay dividend. The 2025 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

No significant events have occurred after the date of preparation of the financial statements that would result in adjustments or additional disclosures in the financial statements.

An important event with an impact on the Bank's strategic decisions is the agreement announced on 16 April 2024 between the Bank's owner, TOKUSHUKAI INC., and BACB AD for the purchase of the shares of Tokuda Bank EAD from BACB. As at the date of this Report, namely 22 May 2025, this agreement has expired. Tokushukai confirms its support for the long-term development of Tokuda Bank EAD as an independent company.

IV.5. Participation of Board Members in other companies

Supervisory Board:

- Arthur Sterne – 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 Vouchev – 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. 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 2024 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 2024 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 GRANT THORTON OOD, which carried out a joint independent financial audit of the Bank's annual financial statements for 2024.

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

Dimitar Vouchev
Chairperson of the Management Board and
Executive Director

Anna Boneva
Member of the Management Board and
Executive Director

Sofia, 22 May 2025

ТОКУДА БАНК ЕАД
СОФИЯ

Токуда Банк

CORPORATE GOVERNANCE STATEMENT OF TOKUDA BANK EAD

(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 2024, Tokuda Bank EAD (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-ККУ 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 in June 2024.

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. Explanation by the Bank of which parts of the Corporate Governance Code under item 1, letter 'a' or letter 'b' it does not comply with and the reasons for this, or, where the Bank has decided not to apply any of the rules of the Corporate Governance Code, the reasons for this.

Tokuda Bank EAD operates in full compliance with the National Corporate Governance Code. There are no parts of the National Corporate Governance Code that the Bank does not comply with.

4. 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)

4.1. 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.

4.2. 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.

4.3. 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.

By decision of the Management Board dated 02.01.2025, the existing in the Bank Compliance Department assumed the functions of the Compliance Department in relation to the prevention of money laundering and terrorist financing (the change is a consequence of new requirements in Bulgarian legislation, arising from Section IVa of Regulation No. 10 of the Bulgarian National Bank of 24 April 2019 on the organisation, management and internal control in banks).

Since January 2025, the Regulatory Compliance Department has also been performing the functions of a Specialised Department for Control and Prevention of Money Laundering under Article 106 of the Money Laundering and Terrorist Financing Prevention Act (in connection with an amendment to Regulation No. 10 of the Bulgarian National Bank).

4.4. 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.

4.5. 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.

5. 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)

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

As at 31 December 2024, the Bank has no direct or indirect shareholdings within the meaning Art. 85 of Directive 2001/34/EC.

As at 31 December 2024, the shareholder structure of the Bank is as follows:

Shareholder	Number of shares	Share in capital (%)
Tokushukai Incorporated	**6 800 000**	**100,00**

Takeshi Tokuda and Hideko Tokuda hold respectively 66.66% and 33.33% of the capital of Tokushukai Incorporated, Tokyo, Japan.. Based on this, they have been identified as the ultimate beneficial owners - natural persons 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 circumstance has been duly announced in the Commercial Registry and the Register of Non-profit Legal Entities.

5.2. The Bank has not issued shares with special rights of controls and has no shareholders, which own shares with special control rights;

5.3. The Statute of the Bank does not specify restrictions over voting rights of shareholders.

5.4. The rules that establish the appointment or change of the MB and SB and changes in the Statute:

- Statute of Tokuda Bank EAD;
- Policy of Tokuda Bank EAD 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 EAD;
- Rules for activities of the Supervisory Board of Tokuda Bank EAD;
- Rules for activities of the Management Board of Tokuda Bank EAD.

5.5. The powers of the members of the Supervisory Board and Management Board of the Bank are established in:

- Statute of Tokuda Bank EAD;
- Rules for establishment of the responsibilities of the Management Board of Tokuda Bank EAD;
- Rules for activities of the Management Board of TOKUDA BANK EAD;
- Rules for activities of the Supervisory Board of TOKUDA BANK EAD.

5.6. The share capital of the Bank may be increased by means of a decision of the sole owner of the capital, in accordance with the provisions of the Articles of Association. The capital of the Bank may be reduced by a decision of the sole owner of the capital. The capital of the Bank may be reduced with the prior written consent of the Bulgarian National Bank in accordance with the procedure provided for by law: 1) by reducing the nominal value of the shares; 2) through redemption of shares.

6. 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 sole owner of the capital 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 2024 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 sole owner of the capital 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 2024, 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 2024, 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 EAD" and in the "Policy on Credit Activity of Tokuda Bank EAD". 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.

As at 31 December 2024, the first level of the Credit Committee consists of: 1/ The most senior of the following employees: credit expert/manager of the Retail Lending team/regional manager of Retail Lending/regional manager of Corporate Banking from the office submitting the credit proposal. For loans to legal entities, seniority is determined by an employee from the Corporate Banking Department in the office, and for loans to individuals, the most senior employee in the Retail Lending Department in the office votes and if there is no such employee or if they are the same as the person who prepared the credit proposal, then the most senior employee in the Corporate Banking Department votes, and 2/ Head of the Credit Risk – Small and Medium-sized Clients Department in the RMM Department *or* the head of the department, or team leader (if the position of department head is vacant) in the Retail Lending Department of the Retail Lending Division (for all loans that do not fall within the scope of Article 7, items 1-3 of the 'Rules for Granting Loans to Individuals'). In the event of a vote by a team leader and the presence of more than one employee in the department in that position, the relevant team leader shall not vote on credit proposals agreed by him/her.

As at 31 December 2024, the Second Level of the Credit Council consists of: 1/ Executive Director; 2/ Executive Director of the Corporate Banking Department *(votes on loans to legal entities)*; 3/ Head of the Corporate Banking Department *(voting on loans to legal entities) or* the most senior of the following employees: Head of Department/Division/Team in the Retail Lending Department *(voting on loans to individuals)*; 4/ Head of the Risk Management and Monitoring Department; and 5/ Chief Legal Adviser in the Legal Department.

As at 31 December 2024 the third level of the Credit Council consists of: 1/ Executive Director of the Corporate Banking Department; 2/ Executive Director; 3/ Head of the Corporate Banking Department; 4/ Head of the Risk Management and Monitoring Department; 5/ Head of the Legal Department.

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 Forclosure Department – Chairperson;
- Executive Director – Member;
- Executive Director – Member;
- Head of Workouts and Forclosure 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 sole owner of the capital 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 sole owner of the capital 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 2024, the members of the Audit Committee are:

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

7. 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, 22 May 2025

ТОКУДА БАНК ЕАД
СОФИЯ

INDEPENDENT AUDITORS' REPORT

To the sole owner of Tokuda Bank EAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Tokuda Bank EAD ("the Bank"), which comprise the statement of financial position as at 31 December 2024 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 accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards 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 and Assurance of Sustainability Reporting Act (IFAASRA) 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 IFAASRA 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
Impairment of loans to and receivables from customers The Bank's disclosures regarding the impairment of credit losses on loans to and receivables from customers are included in *Note 3.1.2. **Expected credit losses on loans and advances to customers**, Note 3.2.1.4. **Impairment of financial assets**, Note 9 **Loans to and advances to customers**, and Note 31.2 **Credit risk** to the financial statements.*	
Loans and advances to customers represent a substantial proportion (47%) of the Bank's total assets as at 31 December 2024. The gross carrying amount of these loans to and advances to customers as at 31 December 2024 is BGN 246,947 thousand, and the respective allowance for credit losses is BGN 5,107 thousand. The Bank applies an impairment model for expected credit losses (ECL) in accordance with IFRS 9 Financial Instruments. 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 management judgement from the Bank 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: • determining the credit quality of exposure, presence of low and/or significantly increased credit risk, and of exposures with objective evidence for impairment – to classify the	In this area, our audit procedures included, among others: • Inquiries and obtaining an understanding of the Bank's process of monitoring and impairment of credit losses on loans and advances to customers in the Bank. • Review and assessment of internal procedures and key controls at Bank 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 understanding, assessing the design and implementation, and respectively, testing the operational effectiveness of certain key controls appropriate for the audit, over the process of monitoring, risk staging, and determining the amount of impairment of credit losses on loans to and receivables from 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

individual credit exposures in the respective stages of impairment;

- determining the components ***"probability of default"*** (PD), ***"loss given default"*** (LGD) and ***"exposure at default"*** (EAD). The higher degree of judgement uncertainty is inherent to calculations of expected credit losses of loans and receivables;
- 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, the development of different scenarios, in determining ECL estimates;
- the assumptions and judgements applied by the management in the review of individually significant 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, with respect to the assumptions, judgements, parameters and resulting cash flows therefrom applied in the model.

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 to and advances to customers, according to the requirements of IFRS 9, we have considered this matter as a key audit matter.

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 future development of parameters used. Our focus was on analysing the reasonableness of the criteria for monitoring significant increases in credit risk and the parameters used for probability of default (PD) and loss given default (LGD) by reviewing supporting information on the key assumptions and inputs used.

- Analysis of the Bank's loan portfolio and other analytical procedures regarding its structure, composition and development trends, incl. the trends in the expenses stated and accumulated impairment losses versus trends in loan portfolio development, the quality of the available data and in the context of our understanding of the specifics and development of the Bank's loan portfolios.
- Performing detailed tests and analysis, based on risk-based samples of loans at all stages (from portfolio – individuals and portfolio – legal entities), for the purpose of assessing the relevance of the impairment charged of credit losses. For the respective exposures in the samples, we carried out the following main audit procedures:
  - analysis of the financial position and reported operating results of borrowers – legal entities, and inspection of information and documents related to loan servicing;
  - assessment of their appropriate classification in the relevant risk category (stage) by the Bank;
  - review of collateral valuation reports of the respective exposures; for some collaterals, our expert appraisers were used 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

<table>
<tr><td></td><td>- Bank's management upon calculation of specific provisions for credit losses on individually impaired exposures classified 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 model parameters.
• 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 granted to and advances to customers in accordance with the requirements of IFRS Accounting Standards.</td></tr>
<tr><td colspan="2">Estimates of the fair value of non-financial assets used for the purpose of subsequent measurement or impairment of those 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 10 Investment property, Note 14 Other assets, and Note 31.5 Fair value to the financial statements.</td></tr>
<tr><td>As at 31 December 2024, the Bank states investment property at the amount of BGN 5,518 thousand, and other assets acquired under non-serviced loans, at the amount of BGN 11,761 thousand, consisting mainly of real estate.
The Bank's accounting policy for the subsequent measurement of investment property following their recognition is based on the fair value model, and for other assets acquired from non-performing loans – at net realizable value (net selling price). The Bank applies a policy of conducting regular annual reviews and fair value assessments of other assets acquired from non-performing loans for the purposes of their impairment test (based on their fair value (expected selling price) less selling costs, i.e. their net realizable value), as well as for determining the fair value of investment properties for the purposes of their subsequent measurement and presentation in the financial statements. i.e. their net realizable value), as well as for determining the fair value of investment properties for the purposes of their</td><td>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 analyses 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 measurement.
• 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</td></tr>
</table>

subsequent measurement and presentation in the financial statements. The fair value of non-financial assets is determined based on valuations prepared by valuers appointed internally by the Bank and/or by external independent real estate appraisers engaged by the Bank. These estimates are based on a number of unobservable inputs, assumptions and models, and the fair value determined on this basis is classified at level 3 of the fair value hierarchy in accordance with IFRS 13. Due to the fact that the approximate fair value estimates of non-financial assets, investment properties and other assets acquired against debt on the Bank's non-performing loans there is a significant degree of uncertainty associated with the input data used and with the assumptions made for the purposes of fair value measurement and/or impairment review, which could have a material effect on both the carrying amount of these non-financial assets and on the calculation of the Bank's capital adequacy as at 31 December 2024, we have identified this matter as a key audit matter.	for the purpose of fair value measurement or review for impairment.

Information Other than the Financial Statements and Auditors' 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 auditors' 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 IFRS Accounting Standards as adopted by 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 auditors' 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 auditors' 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 auditors' 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 IFAASRA 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 and Assurance of Sustainability Reporting Act

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

- BDO AFA OOD and Grant Thorton OOD were appointed as statutory auditors of the financial statements of the Bank for the year ended 31 December 2024 by the General Meeting of Shareholders held on 7 October 2024, for a period of one year.
- The audit of the financial statements of the Bank for the year ended 31 December 2024 represents a seventh subsequent statutory audit engagement carried out by BDO AFA OOD and first subsequent statutory audit engagement carried out by Grant Thorton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit and Assurance of Sustainability Reporting Act.

- We hereby confirm that no prohibited non-audit services, referred to in Art. 64 of the Independent Financial Audit and Assurance of Sustainability Reporting Act, were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Audit firm
BDO AFA OOD
Reg. No 015

Valia Iordanova

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

38, Oborishte Street
1504-Sofia, Bulgaria

Audit firm
GRANT THORTON OOD.
Reg. No 032

Mariy Apostolov

Manager,
Legal representative

Georgi Stoyanov
Registered Auditor in Charge of the Audit

26, Cherni Vrah Boulevard
1421- Sofia, Bulgaria

22 May 2025

This is a translation from Bulgarian of the Independent Auditors' Report on the Financial Statements of Tokuda Bank EAD for the year ended 31 December 2024.

TOKUDA BANK EAD
STATEMENT OF FINANCIAL POSITION
As at 31 December 2024

(all amounts are in thousand BGN)

	Notes	31.12.2024	31.12.2023
ASSETS			
Cash and current accounts with the Central Bank	4	108,595	135,631
Receivables from banks	5	49,139	4,507
Financial assets at fair value through profit or loss	6	393	315
Debt instruments at fair value through other comprehensive income	7	77,318	29,069
Equity instruments at fair value through other comprehensive income	7	381	381
Debt instruments at amortised cost	8	16,644	42,357
Loans and advances to customers	9	241,840	249,803
Investment property	10	5,518	6,327
Property, equipment and right-of-use assets	11	3,094	3,880
Intangible assets	12	672	621
Deferred tax assets	13	-	160
Other assets	14	12,876	12,414
Total assets		**516,470**	**485,465**
LIABILITIES			
Deposits from banks	15	50	48
Deposits from customers	16	450,727	429,034
Other liabilities	17	3,380	4,469
Deferred tax liabilities	13	52	-
Subordinated debt	18	1,959	1,959
Total liabilities		**456,168**	**435,510**
EQUITY			
Share capital	19	68,000	68,000
Statutory and other reserves	19	12,912	5,385
Revaluation reserve of financial assets at fair value	19	(115)	(1,124)
Accumulated loss		(20,495)	(22,306)
Total equity		**60,302**	**49,955**
Total liabilities and equity		**516,470**	**485,465**

The accompanying notes 1 to 35 form an integral part of the annual financial statements.

The annual financial statements on pages 1 to 63 were approved for issue by the Management Board of Tokuda Bank EAD and were signed on 22 May 2025 by:

Anna Tsankova-Boneva
Member of the Management Board
Executive Director

Dimiter Voutchev
Chairman of the Management Board
Executive Director

Svetlin Todorov
Finance Director

ТОКУДА БАНК ЕАД СОФИЯ

Financial statements on which we issued an auditors' report dated 22 May 2025:

Valia Iordanova
Registered auditor in charge of the audit, Manager
BDO AFA OOD
Audit firm, Reg. No 015

Georgi Stoyanov
Registered auditor in charge of the audit
Grant Thorton OOD
Audit firm, Reg. No 032

Mariy Apostolov
Manager
Grant Thorton OOD
Audit firm, Reg. No 032

TOKUDA BANK EAD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2024

(all amounts are in thousand BGN)	Notes	2024	2023
Interest income		21,313	19,005
Interest expense		(1,676)	(742)
Net interest income	20	**19,637**	**18,263**
Fee and commission income		5,614	5,486
Fee and commission expense		(453)	(431)
Net fee and commission income	21	**5,161**	**5,055**
Net trading income	22	721	712
Other operating income	23	1,623	1,188
Operating income before impairment losses and provisions		**27,142**	**25,218**
Net impairment loss of assets and provisions	24	**(1,082)**	**(2,304)**
Personnel expenses	25	(8,375)	(8,092)
Depreciation and amortisation	11, 12	(1,313)	(1,235)
Other administrative and operating expenses	26	(5,890)	(5,500)
Profit before tax		**10,482**	**8,087**
Income tax expense	27	(1,144)	(560)
PROFIT FOR THE YEAR		**9,338**	**7,527**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Net change in fair value of debt instruments at fair value through other comprehensive income		1,009	1,098
Total other comprehensive income		**1,009**	**1,098**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,347**	**8,625**

The accompanying notes 1 to 35 form an integral part of the annual financial statements.

Anna Tsankova-Boneva
Member of the Management Board
Executive Director

Dimiter Voutchev
Chairman of the Management Board
Executive Director

Svetlin Todorov
Finance Director

ТОКУДА БАНК АД
СОФИЯ

Financial statements on which we issued an auditors' report dated 22 May 2025:

Valia Iordanova
Registered auditor in charge of the audit, Manager
BDO AFA OOD
Audit firm, Reg. No 015

Georgi Stoyanov
Registered auditor in charge of the audit
Grant Thorton OOD
Audit firm, Reg. No 032

Mariy Apostolov
Manager
Grant Thorton OOD
Audit firm, Reg. No 032

TOKUDA BANK EAD
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2024

(all amounts are in thousand BGN)	Notes	**Share capital**	**Statutory and other reserves**	**Revaluation reserve of financial assets at fair value**	**Accumulated loss**	**Total**
Balance at 1 January 2023		**68,000**	**2,952**	**(2,222)**	**(27,400)**	**41,330**
Transfer of profit to reserves		-	**2,433**	-	**(2,433)**	-
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		68,000	5,385	(1,124)	**(22,306)**	**49,955**
Transfer of profit to reserves		-	7,527	-	(7,527)	-
Profit for the year		-	-	-	9,338	9,338
Other comprehensive income for the year		-	-	1,009	-	1,009
Total comprehensive income for the year		-	-	1,009	9,338	10,347
Balance at 31 December 2024	19	**68,000**	**12,912**	**(115)**	**(20,495)**	**60,302**

The accompanying notes 1 to 35 form an integral part of the annual financial statements.

Anna Tsankova-Boneva
Member of the Management Board
Executive Director

Dimiter Voutchev
Chairman of the Management Board
Executive Director

Svetlin Todorov
Finance Director

Financial statements on which we issued an auditors' report dated 22 May 2025:

Valia Iordanova
Registered auditor in charge of the audit, Manager
BDO AFA OOD
Audit firm, Reg. No 015

Georgi Stoyanov
Registered auditor in charge of the audit
Grant Thorton OOD
Audit firm, Reg. No 032

Mariy Apostolov
Manager
Grant Thorton OOD
Audit firm, Reg. No 032

TOKUDA BANK EAD
STATEMENT OF CASH FLOWS
For the year ended 31 December 2024
(all amounts are in thousand BGN)

	Notes	2024	2023
Cash flows from operating activities			
Profit before tax		10,482	8,087
Depreciation and amortisation		1,313	1,235
Impairment and loss provisions		1,082	2,304
Net interest income		(19,637)	(18,263)
Dividend income		(28)	(36)
Net result on disposal of property and equipment and intangible assets		(15)	1
Gain on sale of investment property		(29)	(368)
Other non-monetary amounts recognized in profit or loss		(1,806)	1,067
Adjustments from non-cash operations		*(8,638)*	*(5,973)*
Interest received		17,587	16,523
Interest paid		(1,008)	(1,006)
Dividends received		28	36
Taxes paid		(760)	(380)
Cash flows from operations before changes in operating assets and liabilities		*7,209*	*9,200*
Increase in financial assets at fair value through profit and loss		(78)	(66)
(Increase)/Decrease in financial assets at fair value through other comprehensive income		(44,629)	7,112
Decrease/(Increase) in loans and advances to customers		8,503	(1,108)
(Increase)/Decrease in other assets		(989)	1,387
Increase/(Decrease) in deposits from banks		2	(1)
Increase in deposits from customers		21,034	16,366
Decrease in other liabilities		(585)	(503)
Net cash flows used in/ from operating activities		**(16,742)**	**23,187**
Cash flows from investing activities			
Acquisition of debt instruments at amortised cost		(18,703)	(207,498)
Proceeds from maturity of debt instruments at amortised cost		46,431	210,381
Acquisition of property and equipment		(314)	(225)
Proceeds from sale of property and equipment		15	1
Proceeds from sale of investment property		839	3,162
Acquisition of intangible assets		(214)	(226)
Net cash flows from investing activities		**28,054**	**5,595**
Cash flows from financing activities			
Lease payments	17	(925)	(856)
Net cash flows used in financing activities		**(925)**	**(856)**
Net increase/(decrease) in cash and cash equivalents		**17,596**	**37,126**
Cash and cash equivalents at the beginning of the year		140,138	103,012
Cash and cash equivalents at the end of the year	29	**157,734**	**140,138**

The accompanying notes 1 to 35 form an integral part of the annual financial statements.

Anna Tsankova-Bonova
Member of the Management Board
Executive Director

Dimiter Voutchev
Chairman of the Management Board
Executive Director

Svetlin Todorov
Finance Director

Financial statements on which we issued an auditors' report dated 22 May 2025:

Valia Iordanova
Registered auditor in charge of the audit, Manager
BDO AFA OOD
Audit firm, Reg. No 015

Georgi Stoyanov
Registered auditor in charge of the audit
Grant Thorton OOD
Audit firm, Reg. No 032

Mariy Apostolov
Manager
Grant Thorton OOD
Audit firm, Reg. No 032

1. CORPORATE INFORMATION ON THE BANK

1.1. Incorporation

Tokuda Bank EAD (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 2024, 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.

In November 2024, Tokushukai Incorporated acquired the shares of Gama Holding Group AD, thereby obtaining full ownership of the Bank's capital. On 14 March 2025, the new circumstance was recorded in the Commercial Register, whereby Tokuda Bank became a single-shareholder joint-stock company.

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 2024 and 2023, the Bank's activity was mostly related to rendering banking services related to granting loans to business entities, 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 2024, 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 2024, 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, Rumyana Asenova – Member, Violeta Milusheva – Member.
In 2024, the Bank operates through its Head Office and 17 offices and remote working places (2023: 17). As at 31 December 2024, 179 employees work at the Bank (2023: 194).

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.

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 2024.

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 (thousand BGN), unless otherwise stated.

2.2. Statement of compliance with IFRS endorsed by the EU

The annual financial statements of Tokuda Bank EAD have been prepared in accordance with all IFRS Accounting Standards, which comprise Financial Reporting Standards and the IFRS Accounting Standards Interpretations Committee 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 2024 and have been accepted by the Commission of the European Union**.** IFRS Accounting Standards 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 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 Bank has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board and approved by the EU, which are relevant and effective for the Bank's financial statements for the annual period beginning on 1 January 2024, but do not have a significant impact on the Bank's financial results or positions:

- Amendments to IAS 1 "Presentation of Financial Statements": Classification of liabilities as current and non-current, effective as from 1 January 2024, endorsed by the EU;
- Amendments to IAS 1 "Presentation of Financial Statements": Non-Current Liabilities with Covenants/Indicators, effective as from 1 January 2024, endorsed by the EU;
- Amendments to IFRS 16 "Leases" – Lease Liability in a Sale and Leaseback (in force for annual periods beginning on or after 1 January 2024, endorsed by EU;
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements, effective as from 1 January 2024, endorsed by the EU.

2.2.2. Amendments to existing standards which are not yet effective.

As at the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published but are not yet effective or have not been adopted by the EU for the financial year beginning on 1 January 2024 and have not been applied by the Bank on an earlier date. Management expects all standards and amendments to be adopted in the Bank's accounting policy in the first period beginning after their effective date. Information about these standards and amendments is presented below.

IFRS 18 "Presentation and Disclosure in Financial Statements" (in force for annual periods beginning on or after 1 January 2027, not endorsed by EU
IFRS 18 aims to improve the way in which entities disclose their financial statements, with a focus on information about financial performance in the income statement. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 Cash Flow Statements. IFRS 18 is effective from 1 January 2027. Companies are permitted to apply IFRS 18 before that date. IFRS 18 replaces IAS 1 Presentation of Financial Statements. The requirements in IAS 1 that have not been amended have been transferred to IFRS 18 and other standards. IFRS 18 will affect all entities in all industries. Although IFRS 18 will not affect how companies measure financial results, it will affect how companies present and disclose financial results. IFRS 18 aims to improve financial reporting by:

- Requirement for additional defined interim amounts in the profit or loss statement. The addition of defined interim amounts in the profit or loss statement facilitates the comparison of the financial results of companies and provides a consistent starting point for analysis by investors.
- Requirement to disclose management performance measures. The requirement for companies to disclose information about management performance measures enhances the discipline in their use and the transparency in their calculation.
- Addition of new principles for grouping (aggregation and disaggregation) of information. Specifying requirements as to whether information should be included in the main financial statements or in the notes and

providing principles for the necessary level of detail improves the effective communication of information.

As at the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued but are not yet effective or have not been adopted by the EU for the financial year beginning on 1 January 2024 and have not been applied by the Bank. They are not expected to have a significant impact on the Bank's financial statements. Management expects all standards and amendments to be adopted in the Bank's accounting policy in the first period beginning after their effective date. A list of changes in standards is provided below:

- 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, not endorsed by EU;
- Annual Improvements, in force for annual periods beginning on or after 1 January 2026, not endorsed by EU;
- Amendments to the classification and measurement of financial instruments (Amendments to IFRS 9 and IFRS 7), in force for annual periods beginning on or after 1 January 2026, not endorsed by EU;
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosure” – Contracts Referencing Nature-Dependent Electricity (in force for annual periods beginning on or after 1 January 2026, not endorsed by EU)
- IFRS 19 “Subsidiaries without Public Accountability: Disclosures” (in force for annual periods beginning on or after 1 January 2027, not endorsed by EU;
- IFRS 10 (amended) “Consolidated Financial Statements” and IAS 28 (amended) “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).

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. Management has analysed and assessed the Bank's ability to continue as a going concern in the foreseeable future and has concluded that, as at 31 December 2024, 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 the BNB with respect to all of its licensed activities, financial status and stability.

As at 31 December 2024, the Bank's equity is below the amount of its registered capital. Pursuant to Article 252(1) of the Commercial Act, the Bank shall take measures within one year to align its capital with the national regulatory requirements. The Bank's management has taken measures to optimise its equity, and Tokuda Bank has achieved positive financial results in recent reporting periods.

3. SIGNIFICANT ACCOUNTING POLICY INFORMATION

3.1. Accounting estimates

The presentation of financial statements in accordance with the IFRS Accounting 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 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 obligations in the short term is stable, and long-term adverse changes in economic conditions and 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.

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 the available information and 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 valuators.

Acquired assets classified as investment property are subsequently measured at fair value, whose amount is determined by independent external valuators 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 valuators 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
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 2024.

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 contractual cash flows and sell financial assets** – within this business model, the Bank holds 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.

<u>Financial assets at amortised cost</u>
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.

<u>Financial assets at fair value through other comprehensive income (FVOCI/OCI)</u>
The Bank classifies in this category debt and equity securities.

The Bank classifies and subsequently measures debt securities <u>at fair value through other comprehensive income</u>, 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 <u>equity instruments at fair value through other comprehensive income</u> 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.

<u>Financial assets at fair value through profit or loss (FVPL)</u>
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 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 in the statement of financial position 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: deposits from banks, deposits from customers, subordinated debt, 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 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 using the effective interest rate method.

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 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.

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.

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 2024, the incremental interest rate is 0.18% (2023: 0.16%). 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.

All amounts are in thousand BGN, unless otherwise stated

The Bank has elected to apply the exemption allowing it to not recognize right-of-use assets and lease liabilities for short-term leases and leases for which the 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 that 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 classifies 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), with 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.

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.

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 2024 is 10% (2023: 10%).

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), expect 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 2024 the deferred income taxes of the Bank are computed at a tax rate of 10%, which is also valid for 2024.

For 2024, the Group to which the Bank belongs does not fall within the scope of the Model Global Rules on Base Erosion and Profit Shifting under the project ‘Tax Challenges Arising from the Digitalisation of the Economy’. Accordingly, the Bank has not recognised any expenses for additional national tax under the Corporate Income Taxation Act.

3.11. Fair value of 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 for the purpose of subsequent measurement or impairment test.

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.

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 valuators in determining the fair value for the purpose of disclosures in the financial statements. The selection of valuators 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 valuators 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 valuators 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 10 provide information on the fair values of financial assets and liabilities, investment property, and assets held for sale.

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 do not have characteristics of investment properties or are not held for sale 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 thus 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 all directly attributable costs to the acquisition of the assets. They are subsequently measured at the lower of their carrying amount and net realisable value (net selling price). Net realisable value is the expected selling price in the ordinary course of business, less disposal costs. The net realisable value is based on the most objective evidence available at the time of the valuation and is determined with the assistance of expert valuers. A new valuation of the net realisable value is made for each subsequent reporting period. When circumstances that led to the reduction in the value of the asset below its acquisition value no longer exist or when there is clear evidence of an increase in the net realisable value due to a change in the economic situation, the impairment loss is reversed.

The impairment of assets acquired from collateral is included in the statement of comprehensive income (in profit or loss for the year).

Assets acquired from collaterals that meet the conditions of "non-current assets held for sale" (Note 3.14) and "investment property" (Note 3.3) respectively are reported in accordance with the rules of the respective IFRS Accounting Standards.

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 revaluation reserve of financial assets (debt and equity instruments) measured at fair value through other comprehensive income 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 revaluation reserve of debt financial assets at fair value through other comprehensive income is transferred to the current profit and loss in the statement of comprehensive income, when the financial assets are sold or in case of lasting and prolonged impairment. The 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.

All amounts are in thousand BGN, unless otherwise stated

4. CASH AND CURRENT ACCOUNTS WITH THE CENTRAL BANK

	31.12.2024	**31.12.2023**
Cash in hand	10,086	10,328
Cash with the Central Bank	98,515	125,309
	108,601	135,637
Allowance for credit losses	(6)	(6)
Total	**108,595**	**135,631**

As at 31 December 2024 and 2023 cash with the Central Bank includes mandatory minimum reserves at the amount of BGN 48,698 thousand and BGN 45,990 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 438 thousand and BGN 716 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:

	2024	**2023**
Balance on 1 January	**6**	**4**
Change in the impairment for expected credit losses	-	2
Balance on 31 December	**6**	**6**

5. RECEIVABLES FROM BANKS

Receivables from banks are as follows:

	31.12.2024	**31.12.2023**
Current accounts at local banks	713	734
Current accounts at foreign banks	1,457	576
Deposits at local banks	25,800	3,197
Deposits at foreign banks	21,169	-
	49,139	4,507
Allowance for credit losses	-	-
Total	**49,139**	**4,507**

Deposits placed with banks as at 31 December 2024 and 2023 have maturity of up to three months.

As at 31 December 2024 and 2023, receivables from banks are classified in Stage 1. Expected credit losses are calculated on an individual basis.

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

	2024	**2023**
Balance on 1 January	**-**	**1**
Increase in the impairment for expected credit losses	-	-
Reversal of the impairment for expected credit losses	-	(1)
Balance on 31 December	**-**	**-**

All amounts are in thousand BGN, unless otherwise stated

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2024	**31.12.2023**
Equity instruments at fair value through profit and loss		
Stocks and shares in local entities	393	315
Total	**393**	**315**

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

	31.12.2024	**31.12.2023**
Debt instruments at fair value through other comprehensive income		
Bulgarian government bonds	37,509	27,291
Foreign government bonds	39,809	1,778
	77,318	29,069
Equity instruments at fair value through other comprehensive income		
Shares and interest in local entities	381	381
	381	**381**
Total	**77,699**	**29,450**

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

	2024	**2023**
Balance at 1 January	**29,450**	**35,380**
Increase (purchases)	85,886	-
Decrease (sales and/or maturity)	(41,257)	(7,112)
Net effect of revaluation to fair value	1,009	1,098
Interest income accrued	1,381	160
Net foreign exchange remeasurement	1,230	(76)
Balance at 31 December	**77,699**	**29,450**

As at 31 December 2024 and 2023 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).

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

	2024	**2023**
Balance on 1 January	**16**	**25**
Increase in the impairment on credit losses on debt securities	34	4
Reversal of the impairment on credit losses on debt securities	(8)	(13)
Balance on 31 December	**42**	**16**

As at 31 December 2024, government securities with carrying amount of BGN 1,805 thousand are pledged as collateral with BNB to secure attracted funds from the State Budget (31 December 2023: BGN 3,282 thousand).

All amounts are in thousand BGN, unless otherwise stated

8. DEBT INSTRUMENTS AT AMORTISED COST

	31.12.2024	31.12.2023
Debt instruments at amortised cost		
Foreign government bonds	16,644	42,357
Debt instruments at amortised cost	**16,644**	**42,357**

	2024	2023
Balance at 1 January	**42,357**	**44,887**
Increase (purchases)	18,703	207,498
Decrease (maturity)	(46,431)	(210,381)
Decrease /(Increase) in the impairment of credit losses	2	(13)
Recognised interest income	1,190	1,000
Net foreign exchange remeasurement	823	(634)
Balance at 31 December	**16,644**	**42,357**

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

	2024	2023
Balance at 1 January	**15**	**2**
Increase in the impairment of debt securities at amortised cost	10	39
Reversal of the impairment of credit losses on debt securities at amortised cost	(12)	(26)
Balance at 31 December	**13**	**15**

As at 31 December 2024 and 31 December 2023 debt securities at amortised cost are classified as Stage 1.

9. LOANS AND ADVANCES TO CUSTOMERS

9.1. Analysis by type of customers

	31.12.2024	31.12.2023
Non-financial Entities	172,604	188,145
Households and individuals	52,277	58,839
State budget	764	952
Financial entities	11,170	-
Finance lease	10,132	8,011
Gross amount of loans and advances to customers	246,947	255,947
Allowance for credit losses	(5,107)	(6,144)
Total	**241,840**	**249,803**

All amounts are in thousand BGN, unless otherwise stated

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:

	31.12.2024	**31.12.2023**
Trade	20,861	29,987
Industry	53,899	43,647
Construction	31,895	35,564
Tourist services	16,734	24,304
Agriculture	21,808	24,414
Real estate transactions	15,507	9,048
Healthcare	7,479	3,357
Information and communication services	6,000	6,236
Finance	11,170	5,459
Transport	2,570	1,265
State budget	764	952
Other sectors	5,284	12,137
Individuals	52,976	59,577
	246,947	255,947
Allowance for credit losses	(5,107)	(6,144)
Total	**241,840**	**249,803**

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

	2024	**2023**
	Loans and advances	**Loans and advances**
Balance at 1 January	**6,144**	**6,928**
Accrued impairment	2,607	3,039
Increase in the allowance for impairment of unrecognized interest on loans in Stage 3	57	70
Reversed impairment	(2,782)	(1,343)
Impairment written off	(919)	(2,550)
Balance at 31 December	**5,107**	**6,144**

All amounts are in thousand BGN, unless otherwise stated

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

	31.12.2024	**31.12.2023**
Individually impaired		
Gross amount	15,193	16,416
Allowance for credit losses	(3,184)	(3,330)
Stage 3	12,009	13,086
Individually impaired	**12,009**	**13,086**
Collectively impaired		
Gross amount	188,774	209,942
Allowance for credit losses	(94)	(149)
Stage 1	188,680	209,793
Gross amount	40,805	25,612
Allowance for credit losses	(1,068)	(915)
Stage 2	39,737	24,697
Gross amount	2,175	3,977
Allowance for credit losses	(761)	(1,750)
Stage 3	1,414	2,227
Collectively impaired	**229,831**	**236,717**
Total	**241,840**	**249,803**

9.4. Analysis of finance lease receivables

Finance lease receivables are as follows:

	31.12.2024	**31.12.2023**
Up to 1 year	1,068	1,130
1 to 5 years	5,367	4,273
Over 5 years	7,546	6,307
Gross investments in finance leases, receivables	13,981	11,710
Less: unearned finance income	(3,849)	(3,699)
Net investments in finance leases	**10,132**	**8,011**

Net investments in finance leases are as follows:

	31.12.2024	**31.12.2023**
Up to 1 year	587	634
1 to 5 years	3,352	2,461
Over 5 years	6,193	4,916
	10,132	**8,011**

All amounts are in thousand BGN, unless otherwise stated

10. INVESTMENT PROPERTY

	2024	**2023**
Balance at the beginning of the year	**6,327**	**10,713**
Leased under finance leases	-	(1,037)
Sold	(815)	(3,306)
Enhancements	5	-
Net revaluation to fair value	1	(43)
Balance at 31 December	**5,518**	**6,327**

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 2024 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 2024 amounts to BGN 119 thousand (31 December 2023: BGN 219 thousand) and is included within "Rental income" in Note 23. The direct operating expenses for investment properties for the year ending 31 December 2024, which generate income, amount to BGN 41 thousand (31 December 2023: BGN 27 thousand), while for those that do not generate income, they amount to BGN 22 thousand (31 December 2023: BGN 23 thousand).

The expected future undiscounted cash flows from the operation of investment properties are presented in the table below:

	31.12.2024	**31.12.2023**
Within 1 year	126	118
1 to 5 years	309	280
	435	**398**

All amounts are in thousand BGN, unless otherwise stated

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE 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 2023	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
Additions	-	320	90	206	15	3	-	634
Transfer	-	-	-	-	-	-	-	-
Disposals	-	(440)	(239)	-	(55)	(19)	-	(753)
Sold	-	-	(4)	(157)	-	-	-	(161)
31 December 2024	751	6,818	2,137	638	482	339	-	11,165
Accumulated depreciation								
1 January 2023	(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)
Depreciation charge for the year	(15)	(920)	(175)	(21)	(16)	(3)	-	(1,150)
Depreciation written off	-	170	242	157	56	19	-	644
31 December 2024	(303)	(4,937)	(1,602)	(453)	(452)	(324)	-	(8,071)
Net carrying amount								
31 December 2023	463	2,751	621	-	30	15	-	3,880
31 December 2024	448	1,881	535	185	30	15	-	3,094

As at 31 December 2024, tangible fixed assets include assets with a book value of BGN 2,293 thousand (31 December 2023: BGN 2,666 thousand), which have been fully depreciated, but continue to be used in the Bank’s operations.

All amounts are in thousand BGN, unless otherwise stated

As at 31 December 2024, right-of-use assets are related to leases of office premises.

12. INTANGIBLE ASSETS

	Licenses	Software	Advances for acquisition of IA	Total intangible assets
Book value				
1 January 2023	514	1,593	63	2,170
Additions	-	179	47	226
Transfer	-	39	(39)	-
Disposals	-	(87)	-	(87)
31 December 2023	514	1,724	71	2,309
Additions	-	54	160	214
Transfer	-	8	(8)	-
Disposals	-	(15)	-	(15)
31 December 2024	514	1,771	223	2,508
Accumulated amortisation				
1 January 2023	(477)	(1,132)	-	(1,609)
Amortisation charge for the year	(32)	(134)	-	(166)
Amortisation written-off	-	87	-	87
31 December 2023	(509)	(1,179)	-	(1,688)
Amortisation charge for the year	-	(163)	-	(163)
Amortisation written-off	-	15	-	15
31 December 2024	(509)	(1,327)	-	(1,836)
Net carrying amount				
31 December 2023	5	545	71	621
31 December 2024	5	444	223	672

As at 31 December 2024, intangible assets include assets of book value BGN 535 thousand (31 December 2023: BGN 502 thousand), which have been fully amortised, but continue to be used in the Bank's operations. The Bank has no intangible assets pledged as collateral for its liabilities. As at 31 December 2024, the Bank has no significant commitments to acquire intangible assets.

All amounts are in thousand BGN, unless otherwise stated

13. DEFERRED TAX ASSETS AND LIABILITIES

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

	Balance at 31.12.2024	**Recognised in profit and loss 2024**	**Balance at 31.12.2023**	**Recognised in profit and loss 2023**	**Balance at 31.12.2022**
Deferred tax assets (liabilities):					
Impairment of assets acquired from collaterals	-	(79)	79	79	-
Accrual for bonuses	35	-	35	35	-
Long-term employee benefits	34	2	32	(5)	37
Unused paid leaves	4	(2)	6	(6)	12
Differences between accounting and tax depreciation and amortization	(95)	(100)	5	(120)	125
Revaluation of investment properties	(30)	(32)	2	2	-
Other	-	(1)	1	1	-
Total deferred tax assets/(liabilities)	**(52)**	**(212)**	**160**	**(14)**	**174**

Deferred tax assets and liabilities as at 31 December 2024 and 2023 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 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 2024 the Bank reported positive tax financial result. The Bank did not recognise deferred taxes at the amount of BGN 402 thousand (31 December 2023: BGN 406 thousand) for other temporary differences at the amount of BGN 4,018 thousand (31 December 2023: BGN 4,061 thousand), in so far as there is uncertainty regarding the future taxable profit against which they can be utilised.

14. OTHER ASSETS

	31.12.2024	**31.12.2023**
Assets acquired against debt from non-performing loans	11,761	11,477
Deferred expenses	351	244
Advance payments	72	136
Guarantee deposits	63	58
Other assets	629	499
Total	**12,876**	**12,414**

Assets acquired under non-performing loans
The Bank has performed its annual analysis for indications of impairment to the net realisable value of assets acquired from collaterals. For the purposes of the net realisable value analysis, the Bank engaged independent external valuers to perform asset-specific valuations using different valuation techniques, depending on the nature of the assets.

Additional information on the input data used to determine the net realisable value and the types of assets acquired from non-performing loans is presented in Note 31.5.

In 2024, an impairment loss of BGN 477 thousand (2023: BGN 297 thousand) was recognised (Note 24).

All amounts are in thousand BGN, unless otherwise stated

15. DEPOSITS FROM BANKS

The deposits from banks amount to BGN 50 thousand (31 December 2023: BGN 48 thousand) and have maturity of up to three months.

16. DEPOSITS FROM CUSTOMERS

	31.12.2024	**31.12.2023**
Individuals' accounts		
- Deposits on demand and savings accounts	165,419	158,029
- Term deposits	179,146	166,998
State Budget accounts		
- On demand deposits	1,361	2,880
Corporate accounts		
- On demand deposits	80,445	76,275
- Term deposits	23,447	24,083
Accounts of other non-bank financial institutions		
- On demand deposits	709	569
- Term deposits	200	200
	450,727	**429,034**

Customer deposits include amounts restricted by the Bank: for collateral of loans and bank guarantees at the amount of BGN 988 thousand (31 December 2023: BGN 1,298 thousand), as well as accounts under special conditions: accumulation accounts at the amount of BGN 1,328 thousand (31 December 2023: BGN 1,375 thousand).

17. OTHER LIABILITIES

	31.12.2024	**31.12.2023**
Lease liabilities	1,881	2,756
Long-term retirement benefit obligation	345	324
Payables to suppliers	430	361
Bonus accrual	350	350
Bank transfers in progress	8	341
Current tax liabilities	172	167
VAT payable	90	3
Accruals for unused paid leaves	33	50
Remeasurement of financial guarantees and loan commitments (Note 31.2)	17	42
Other liabilities	54	75
	3,380	**4,469**

Bank transfers
Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2024 and 2023 respectively, with value date within two days. The transfers are processed up to the second working day of 2025 and 2024, 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 2024 and 31 December 2023, the Bank accrued BGN 345 thousand and BGN 324 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 – 0.1989;
- 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.

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

	2024	**2023**
Balance at 1 January	**2,756**	**1,711**
Accrued interest	5	5
Principal payments	(925)	(856)
Interest payments	(5)	(5)
Extended	320	1,901
Terminated	(270)	-
Balance at 31 December	**1,881**	**2,756**

The maturity analysis of lease liabilities is presented in Note 31.3.

18. SUBORDINATED DEBT

As at 31 December 2024 and 2023, 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 CET 2 capital.

19. EQUITY AND RESERVES

19.1. Share capital

As at 31 December 2024 and 2023, the Bank's share capital is fully paid and is distributed in registered voting shares, as follows:

	31.12.2024	**31.12.2023**
Number of shares	6,800,000	6,800,000
Share nominal in BGN	10	10
Share capital (thousand BGN)	**68,000**	**68,000**

All amounts are in thousand BGN, unless otherwise stated

As at 31 December 2024 and 2023, the Bank’s shareholder structure is as follows:

	31.12.2024	**%**	**31.12.2023**	**%**
Tokushukai Incorporated	6,800,000	100.00	6,796,250	99.94
Gamma Holding Group AD	-	0.00	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:

	31.12.2024	**31.12.2023**
Statutory reserves	12,927	5,400
Reserve for remeasurement of liabilities on defined benefit retirement plans	(15)	(15)
Total statutory and other reserves	**12,912**	**5,385**
Revaluation reserve of financial assets at fair value though other comprehensive income	(115)	(1,124)
Total reserves	**12,797**	**4,261**

Statutory reserves (Reserve Fund)
According to At. 246 of the Commercial Act, 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.

Revaluation 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

	2024	**2023**
Interest income calculated using the effective interest method		
Receivables from banks	3,010	2,752
Loans and advances to customers	15,732	15,093
Debt instruments at FVOCI	1,381	160
Debt instruments at amortised cost	1,190	1,000
Total interest income	**21,313**	**19,005**
Interest expenses calculated using the effective interest method		
Deposits by individuals	*(1,458)*	*(591)*
Deposits by corporate clients	*(105)*	*(46)*
Interest on deposits	(1,563)	(637)
Current accounts at other banks and other assets	(10)	(2)
Lease liabilities	(5)	(5)
Interest on subordinated debt	(98)	(98)
Total interest expenses	**(1,676)**	**(742)**
Net interest income	**19,637**	**18,263**

All amounts are in thousand BGN, unless otherwise stated

In 2024 the Bank charged interest income on loans and advances to customers classified at Stage 3, at the amount of BGN 1,259 thousand (2023: BGN 1,195 thousand).

21. FEES AND COMMISSION INCOME/EXPENSE

	2024	**2023**
Fee and commission income		
Account servicing	1,766	1,850
Money transfers	1,225	1,162
Loans granted	1,220	1,103
Cash balance transactions	650	693
Card servicing	651	571
Guarantee servicing	71	82
Other	31	25
Total fee and commission income	**5,614**	**5,486**
Fee and commission expenses		
Card servicing	(348)	(331)
Account opening and servicing	(41)	(39)
Money transfers	(3)	(4)
Insurance	(1)	(2)
Other	(60)	(55)
Total fee and commission expenses	**(453)**	**(431)**
Net fee and commission income	**5,161**	**5,055**

22. NET TRADING INCOME

	2024	**2023**
Foreign exchange gains	641	644
Gain/(Loss) on revaluation of financial assets at FVPL	80	68
	721	**712**

23. OTHER OPERATING INCOME

	2024	**2023**
Gain on sale of non-current assets held for sale	-	35
Gain on sale of investment property	29	379
Gain on sale of assets acquired against debt from non-performing loans	939	125
Lease income	235	427
Revenue from insurance indemnities	85	-
Dividends	28	36
Net gain/(loss) on currency restatement	25	(11)
Gain on sales of property and equipment	15	1
Income on court loans	4	19
Net gain/(loss) on measurement of investment property to fair value	1	(43)
Net loss on assets written-off, other than assets held for sale	(1)	(3)
Net loss on sale of debt instruments at FVOCI	(1)	(1)
Other operating income (net)	264	224
	1,623	**1,188**

All amounts are in thousand BGN, unless otherwise stated

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

	2024	**2023**
Impairment reversal/(charge) on loans and advances to customers	175	(1,696)
Effect of modification of loans and advances to customers	(781)	(329)
(Charged)/Reversed impairment of debt instruments at FVOCI	(26)	9
(Charged)/Reversed impairment of debt instruments at amortised cost	2	(13)
Charged impairment of balances with the Central Bank	-	(2)
Remeasurement of financial guarantee contracts and loan commitments	25	23
Reversed impairment of receivables from banks	-	1
Accrued impairment of non-financial assets	(477)	(297)
	(1,082)	**(2,304)**

25. PERSONNEL EXPENSES

	2024	**2023**
Salary expenses	6,695	6,891
Social security contributions	679	668
Additional health insurance and food vouchers	511	67
Health insurance contributions	276	267
Expenses for additional mandatory pension insurance	153	147
Unused paid leaves	29	41
Expense/(income) for long-term benefits	21	(1)
Occupational medical care	11	12
	8,375	**8,092**

26. OTHER ADMINISTRATIVE AND OPERATING EXPENSES

	2024	**2023**
External services	1,515	1,383
IT licences and support	970	919
Contributions to the Deposit Insurance Fund	941	1,001
Unrecognised VAT expenses	769	581
Utility costs	338	342
Fees to cover administrative costs of BNB	297	245
Audit fees	137	110
Expenses on properties acquired	126	139
Office supplies	112	126
Court receivables written-off	104	64
Litigation costs	42	28
Low-value and short-term leases	15	15
Other expenses	524	547
	5,890	**5,500**

All amounts are in thousand BGN, unless otherwise stated

27. INCOME TAX EXPENSE

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

	2024	2023
Deferred tax expense	(212)	(14)
Current tax expense	(932)	(546)
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**(1,144)**	**(560)**

Reconciliation between profit before tax and the tax expense:		
Profit before income tax	10,482	8,087
Tax at 10% applicable tax rate for 2024 (2023: 10%)	(1,048)	(809)
Effect of unrecognized amounts in the tax return related to:		
increases	(167)	(142)
decreases	71	32
Effects of amounts recognised for deferred tax not recognised prior years	-	24
Tax loss deducted	-	335
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**(1,144)**	**(560)**
Effective tax rate	10.9%	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	2023 and 2024
GLOBAL-PRIME OOD	Companies under common control	2023 and 2024
AMERICA FOR BULGARIA FOUNDATION	Company related through key management personnel	2023 and 2024
CREDITLAND EOOD	Company related through key management personnel	2023 and 2024

The key management personnel is disclosed in Note 1.

All amounts are in thousand BGN, unless otherwise stated

As at 31 December 2024 and 31 December 2023, the Bank has receivables from and payables to related parties, as follows:

Related parties and balances	**31.12.2024**	**31.12.2023**
Main shareholders		
Deposits received	6,063	6,272
Subordinated term debt	1,959	1,959
Companies under common control		
Deposits received	1,401	1,507
Companies related through key management personnel		
Deposits received	3,912	3,721
Key management personnel		
Loans granted	24	34
Deposits received	236	185

The income and expenses of the Bank in 2024 and 2023 from related party transactions are as follows:

Related parties and types of transactions	**2024**	**2023**
Main shareholder		
Fee and commission income	3	1
Interest costs	113	101
Companies under common control		
Fee and commission income	1	2
Interest expense	3	1
Companies related through key management personnel		
Interest expense	19	17
Key management personnel		
Fee and commission income	1	1
Interest expense	1	-

Transactions with related parties were not carried out under special conditions and no guarantees were given or received.
The remuneration to the Supervisory Board members accrued and paid in 2024 amount to a total of BGN 77 thousand (2023: BGN 77 thousand). The remuneration to the Management Board members paid in 2024 amount to a total of BGN 598 thousand (2023: BGN 571 thousand).

All amounts are in thousand BGN, unless otherwise stated

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

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

	31.12.2024	**31.12.2023**
Cash with the Central Bank (Note 4)	98,509	125,303
Deposits to banks with original maturity of up to three months (Note 5)	46,969	3,197
Cash in hand (Note 4)	10,086	10,328
Current accounts with foreign banks (Note 5)	1,457	576
Current accounts with local banks (Note 5)	713	734
Total cash and cash equivalents in the statement of cash flows	**157,734**	**140,138**

During the reporting periods presented, the Bank has carried out the following investment and financial transactions that did not involve the use of cash or cash equivalents and are not reflected in the cash flow statement:

- The Bank has acquired assets with right of use under lease agreements in the amount of BGN 320 thousand (2023: BGN 1,901 thousand).
- The Bank sold investment properties under finance lease agreements in the amount of BGN 0 (2023: BGN 1,037 thousand).

30. COMMITMENTS AND CONTINGENCIES

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

	31.12.2024	**31.12.2023**
Guarantees	3,569	3,978
Undrawn loan commitments	22,220	51,160
	25,789	**55,138**

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. RISK MANAGEMENT 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;

All amounts are in thousand BGN, unless otherwise stated

- 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.

31.1. Financial assets and liabilities

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

31 December 2024	**Carrying amount**	**Fair value**
Financial assets		
Cash and current accounts with the Central Bank	108,595	108,595
Receivables from banks	49,139	49,139
Loans and advances to customers	241,840	243,270
Financial assets at fair value through profit and loss	393	393
Debt instruments at fair value through other comprehensive income	77,318	77,318
Equity instruments at fair value through other comprehensive income	381	381
Debt instruments at amortised cost	16,644	16,656
Total assets	**494,310**	**495,752**
Financial liabilities		
Deposits from banks	50	50
Deposits from customers	450,727	430,837
Lease liabilities	1,881	1,881
Subordinated debt	1,959	1,959
Other financial liabilities	1,499	1,499
Total liabilities	**456,116**	**436,226**

31 December 2023	**Carrying amount**	**Fair value**
Financial assets		
Cash and current accounts 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 fair value through profit and loss	315	315
Debt instruments at fair value through other comprehensive income	29,069	29,069
Equity instruments at fair value through other comprehensive income	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**

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

Among the main factors affecting the Bank are the military conflicts in Ukraine and the Middle East, the increasing number of hot spots around the world, the economic activity in Europe, and the rate of inflation. The Bulgarian banking system remains liquid and highly competitive, with historically high profits. The spread between deposit and loan interest rates on the local market remains substantial.

Cash and balances with the Central Bank, at the amount of BGN 108,595 thousand and BGN 135,631 thousand, respectively as at 31 December 2024 and 31 December 2023, 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 49,139 thousand and BGN 4,507 thousand respectively as at 31 December 2024 and 31 December 2023 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 counterpart level.

Counterpart 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 0 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 risks 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 counterpart 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, Tompson Bank Watch, Standard & Poor's, Fitch;
- working rating – the rating of the respective bank as prepared by Tokuda Bank EAD 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 EAD 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 counterpart'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 393 thousand and BGN 315 thousand respectively as at 31 December 2024 and 31 December 2023 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 77,318 thousand and BGN 29,069 thousand as at 31 December 2024 and as at 31 December 2023. The maximum exposure to credit risk for these instruments is their carrying amount.

Debt instruments at amortised cost amount to BGN 16,644 thousand as at 31 December 2024 and BGN 42,357 thousand as at 31 December 2023. 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.

In 2024 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. In 2024 the Bank was focused on and invested mainly in lower-risk and short-term securities.

The contingent liabilities of the Bank consist of guarantees issued and undrawn loan amounts, whose amount of BGN 25,789 as at 31 December 2024 and BGN 55,138 thousand as at 31 December 2023 (Note 30) is the Bank's maximum credit exposure.

Loans and advances to customers with carrying amount of BGN 241,840 thousand and BGN 249,803 thousand, respectively, as at 31 December 2024 and 31 December 2023, 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;
- Electricity and heating, gas and water supply
- 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.

Additional measures to limit the impact of military conflicts in Ukraine and the Middle East and the increased inflation and interest rates on lending include:

- Effective 31 December 2022, the Bank applies a recalibrated PD calculation model. The changes to the model aim to reflect current trends in loan migration in the portfolio and macroeconomic parameters. The services of an external consultant, Deloitte Bulgaria, were used for the recalibration.
- In 2024, the first validation of the recalibrated PD model was performed with data as at 30 June 2024.
- A list of potentially risky economic sectors and industries was approved, for which the PD increases (adjustments) described above are applied when calculating ECL and Pillar II capital requirements. The list was updated at the end of 2024 and adopted by a decision of the Management Board in January 2025.
- Changes to loan portfolio expected credit losses (ECL) calculation model:
    - Adjustment to the probability of default (PD) calculated through the re-calibrated model for calculation of PD for risk sectors – in 2024 and as at 31 December 2024 a 50% increase was applied.
    - The Bank retained the extended terms for realization of collaterals in the LGD of collectively impaired loans:
        - 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 of ECL on individually impaired loans managed by Corporate Banking.
- 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.

<u>Internal structure and units involved in credit risk management</u>

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;
- 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 EAD.

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.

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
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

All amounts are in thousand BGN, unless otherwise stated

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 x PD x 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 services 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.

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.

	2024		**2023**	
	Stage 1		**Stage 1**	
	Gross amortised cost	**Allowance for expected credit losses**	**Gross amortised cost**	**Allowance for expected credit losses**
Amount at 1 January	125,309	(6)	85,067	(4)
New exposures	3,825,363	-	3,897,136	(2)
Paid exposures	(3,852,157)	-	(3,856,894)	-
Amount at 31 December	**98,515**	**(6)**	**125,309**	**(6)**

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

All amounts are in thousand BGN, unless otherwise stated

	2024		2023	
	Stage 1		Stage 1	
	Gross amortised cost	Allowance for expected credit losses	Gross amortised cost	Allowance for expected credit losses
Amount at 1 January	4,507	-	7,572	(1)
New exposures	699,308	-	680,548	-
Paid exposures	(654,676)	-	(683,613)	1
Amount at 31 December	**49,139**	**-**	**4,507**	**-**

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.

All amounts are in thousand BGN, unless otherwise stated

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2024**
Amount on 1 January 2024	**209,942**	**25,612**	**20,393**	**255,947**
New exposures	66,711	2,700	165	69,576
Paid exposures	(65,424)	(5,027)	(7,206)	(77,657)
Transfer to Stage 1	718	(718)	-	-
Transfer to Stage 2	(20,265)	21,968	(1,703)	-
Transfer to Stage 3	(2,908)	(3,730)	6,638	-
Amounts written-off	-	-	(919)	(919)
Amount on 31 December 2024	**188,774**	**40,805**	**17,368**	**246,947**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2024**
Amount on 1 January 2024	149	915	5,080	6,144
Impairment accrued	67	764	1,773	2,604
Reversed impairment	(110)	(685)	(1,984)	(2,779)
Increase in the impairment allowance for unrecognised interest on loans in Stage 3	-	-	57	57
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(3)	76	(73)	-
Transfer to Stage 3	(9)	(2)	11	-
Amounts written-off	-	-	(919)	(919)
Amount on 31 December 2024	**94**	**1,068**	**3,945**	**5,107**

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	1,776	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**

All amounts are in thousand BGN, unless otherwise stated

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

Change in the amount of the undrawn commitments and financial guarantee contracts	**Stage 1**	**Stage 2**	**Stage 3**	**2024**
Amount at 1 January 2024	**54,559**	**579**	**-**	**55,138**
New exposures	11,453	618	47	12,118
Paid exposures	(41,134)	(333)	-	(41,467)
Transfer to Stage 1	242	(242)	-	-
Transfer to Stage 2	(765)	765	-	-
Transfer to Stage 3	-	-	-	-
Amount at 31 December 2024	**24,355**	**1,387**	**47**	**25,789**

Change in the provision	**Stage 1**	**Stage 2**	**Stage 3**	**2024**
Amount at 1 January 2024	**24**	**18**	**-**	**42**
Accrued	3	10	-	13
Reversed	(20)	(18)	-	(38)
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amount at 31 December 2024	**8**	**9**	**-**	**17**

Change in the amount of the undrawn commitments 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**

All amounts are in thousand BGN, unless otherwise stated

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

31 December 2024	Loans and advances to customers			Undrawn commitment	Guarantees		
	Amount	Share in %	Impairment	Amount	Amount	Share in %	Provision for credit losses
Performing	229,443	92.91	1,161	22,173	3,569	100.00	10
Non-performing	17,504	7.09	3,946	47	-	-	-
Total	**246,947**	**100.00**	**5,107**	**22,220**	**3,569**	**100.00**	**10**

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**

	31.12.2024		**31.12.2023**	
	Unimpaired	**Impaired**	**Unimpaired**	**Impaired**
Not overdue	111,301	110,961	109,620	108,442
up to 30 days past due	3,623	8,152	10,469	6,335
31 to 60 days past due	2,593	3,976	3,160	6,081
61 to 90 days past due	186	24	187	2
91 to 180 days past due	441	94	293	41
over 180 days past due	265	5,331	631	10,686
Book value	118,409	128,538	124,360	131,587
Allowance for impairment losses	-	(5,107)	-	(6,144)
Carrying amount	**118,409**	**123,431**	**124,360**	**125,443**

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:

	2024	**2023**
Secured by cash and government securities	214	458
Government guarantees	2,588	2,635
Secured by mortgage	197,482	211,183
Pledge on machines and equipment	12,966	7,827
Pledge on receivables	27,079	19,879
Other collaterals	5,660	12,982
Unsecured	958	983
Impairment	(5,107)	(6,144)
Total	**241,840**	**249,803**

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 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.

All amounts are in thousand BGN, unless otherwise stated

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.

	31.12.2024		**31.12.2023**	
LTV ratio/loan-value ratio	**Gross amortised cost**	**Impairment loss allowance**	**Gross amortised cost**	**Impairment loss allowance**
Below 50%	10,801	-	12,302	-
51-70%	10,320	-	12,068	-
71-90%	13,749	(3)	14,392	(31)
91-100%	381	-	705	(6)
Over 100%	1,566	(147)	2,352	(169)
Total	**36,817**	**(150)**	**41,819**	**(206)**

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).

	31.12.2024	**31.12.2023**
Balances with the Central Bank:		
rating BBB	98,509	125,303
Total balances with the Central Bank	**98,509**	**125,303**
Receivables from banks		
rating A	21,168	-
rating A-	3,583	3,530
Rating A+	21,174	-
rating BBB	-	778
rating BBB-	196	196
rating BBB+	3,011	-
rating BB+	7	2
no rating	-	1
Total receivables from banks	**49,139**	**4,507**
Financial assets at fair value though profit and loss:		
no rating	393	315
Total financial assets at fair value through profit and loss	**393**	**315**
Debt instruments at fair value through other comprehensive income		
rating AA+	27,214	-
rating BBB	37,508	27,291
rating BBB-	12,596	1,778
Total debt instruments at fair value through other comprehensive income	**77,318**	**29,069**
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+	7,632	32,800
rating AA-	3,909	9,557
rating BBB-	5,103	-
Total debt instruments at amortised cost	**16,644**	**42,357**

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 2024 and 2023 is presented in the table below:

	2024		**2023**	
	BGN'000	% of Tier 1 capital	BGN'000	% of Tier 1 capital
Largest total exposure to a customer group	11,096	22.06%	10,321	24.69%
Total amount of the five largest exposures	45,769	91.01%	46,086	110.23%
Total amount of all exposures – over 10% of the Tier 1 capital	67,896	135.00%	107,964	258.24%

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

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.

All amounts are in thousand BGN, unless otherwise stated

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 2024 and 2023, cash and balances with the Central Bank represent respectively 21% and 28% 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 2024 and 2023, receivables from banks represent respectively 10% and 1% of the Bank's total assets.

Government securities owned by the Bank and not pledged as collateral as at 31 December 2024 and 2023 represent respectively 18% and 14% of the Bank's total assets. By maintaining 49% (2023: 43%) of its assets in highly liquid assets, the Banks ensures the ability to settle all maturities of financial liabilities.

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

31 December 2024	**up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Total**
Deposits from banks	50	-	-	-	-	50
Deposits from customers	269,069	42,622	83,698	56,046	1,447	452,882
Lease liabilities	79	159	713	930	-	1,881
Subordinated debt	-	24	74	392	2,152	2,642
Other financial liabilities	438	-	-	-	-	438
Total financial liabilities	**269,636**	**42,805**	**84,485**	**57,368**	**3,599**	**457,893**

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**

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.

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.

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.

When determining interest rate risk, in addition to the data obtained using the interest rate risk calculation methodology based on the GAP distribution of assets and liabilities, a stress test was performed to reduce net interest income (NII) as a result of a parallel shift in interest rate curves by 200 basis points.

The Bank analyses the effect of a 200 bps change in interest rates as an expected impact on capital. The effect should not exceed 20% of the capital base.

To assess the effect of potentially possible extreme fluctuations in interest rates on the value of the trading portfolio, the Bank analyses the effect of 100 basis points, which should not exceed 5% of the capital base calculated in the last quarter.

From 2024, the Bank shall prepare stress tests using the Simplified Standardised Approach for IRRBB in accordance with Article 84(6) of Directive 2013/36/EU and Guidelines EBA/GL/2022/14. As at 31 December 2024, the following results were reported:

- Change in EVE in the worst-case scenario from BGN 4,236 thousand or 8.42% of Tier 1 capital with a regulatory limit of 15% and

All amounts are in thousand BGN, unless otherwise stated

- Change in NII in the worst-case scenario of BGN 1,701 thousand or 3.38% of Tier 1 capital, with a regulatory limit of 5%.

Management assesses the Bank's exposure to interest rate risk in the banking portfolio and its sensitivity to this risk as moderate, given the volumes and structure of the business.

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.

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 2024	**up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Total**
Interest-bearing assets						
Receivables from banks	49,139	-	-	-	-	49,139
Loans and advances to customers	138,004	232	8,363	33,976	61,265	241,840
Debt instruments at fair value through other comprehensive income	10,987	-	14,890	42,223	9,218	77,318
Debt instruments at amortised cost	-	-	5,713	5,828	5,103	16,644
Total interest-bearing assets	**198,130**	**232**	**28,966**	**82,027**	**75,586**	**384,941**
Interest-bearing liabilities						
Deposits from banks	50	-	-	-	-	50
Deposits from customers	269,064	42,584	83,178	54,526	1,375	450,727
Subordinated debt	-	-	-	-	1,959	1,959
Lease liabilities	79	159	713	930	-	1,881
Total interest-bearing liabilities	**269,193**	**42,743**	**83,891**	**55,456**	**3,334**	**454,617**
Gap between interest-bearing assets and liabilities, net	**(71,063)**	**(42,511)**	**(54,925)**	**26,571**	**72,252**	**(69,676)**

All amounts are in thousand BGN, unless otherwise stated

31 December 2023	**up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Total**
Interest-bearing assets						
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 fair value through other comprehensive income	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**
Interest-bearing liabilities						
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)**

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

	31.12.2024	**31.12.2023**
Interest-bearing assets		
Receivables from banks	3.57	3.62
Financial assets at fair value through profit or loss	-	-
Loans and advances to customers	6.04	5.79
Debt instruments at amortised cost	4.58	3.66
Debt instruments at fair value through other comprehensive income	2.39	0.50
Interest-bearing liabilities		
Deposits from banks	-	-
Deposits from customers	0.35	0.15
Lease liabilities	0.23	0.36
Subordinated debt	5.00	5.00

As at 31 December 2024, the gross value of loans with floating interest rates based on Euribor is BGN 28,154 thousand (31 December 2023: BGN 35,365 thousand).

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.

All amounts are in thousand BGN, unless otherwise stated

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

31 December 2024	**BGN**	**EUR**	**USD**	**JPY**	**Other**	**Total**
Assets						
Cash and current accounts with the Central Bank	86,181	20,725	1,155	159	375	108,595
Receivables from banks	218	43,648	2,687	212	2,374	49,139
Financial assets at fair value through profit or loss	393	-	-	-	-	393
Debt instruments at fair value through other comprehensive income	31,207	18,897	27,214	-	-	77,318
Equity instruments at fair value through other comprehensive income	381	-	-	-	-	381
Debt instruments at amortised cost	-	9,012	7,632	-	-	16,644
Loans and advances to customers	209,857	29,006	2,977	-	-	241,840
Total assets	**328,237**	**121,288**	**41,665**	**371**	**2,749**	**494,310**
Liabilities						
Deposits from banks	-	19	31	-	-	50
Deposits from customers	223,015	182,945	41,658	378	2,731	450,727
Subordinated debt	-	1,959	-	-	-	1,959
Lease liabilities	1,881	-	-	-	-	1,881
Other financial liabilities	434	4	-	-	-	438
Total liabilities	**225,330**	**184,927**	**41,689**	**378**	**2,731**	**455,055**
Net position	**102,907**	**(63,639)**	**(24)**	**(7)**	**18**	**39,255**

All amounts are in thousand BGN, unless otherwise stated

31 December 2023	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and current accounts 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 fair value through profit or loss	315	-	-	-	-	315
Debt instruments at fair value through other comprehensive income	25,238	2,053	1,778	-	-	29,069
Equity instruments at fair value through other comprehensive income	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**
Liabilities						
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**

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 2024, 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 435 thousand (2023: +/- BGN 388 thousand).

Since 2024, the Bank has been conducting stress tests using the Simplified Standardised Approach for IRRBB in accordance with Article 84(6) of Directive 2013/36/EU and Guidelines EBA/GL/2022/14. As at 31 December 2024, the following results were reported:

- Change in EVE in the worst-case scenario from BGN 4,236 thousand or 8.42% of Tier 1 capital with a regulatory limit of 15% and
- Change in NII in the worst-case scenario of BGN 1,701 thousand or 3.38% of Tier 1 capital, with a regulatory limit of 5%.

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 2024 there are no debt securities in the securities trading portfolio and the ratio amounts to 0.00% of the capital base (2023: 0.00%).

All amounts are in thousand BGN, unless otherwise stated

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. All fair values presented are considered to be periodic estimates of fair values.

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

31 December 2024	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 fair value through profit or loss	393	393	-	-
Debt instruments at fair value through other comprehensive income	77,318	-	77,318	-
Equity instruments at fair value through other comprehensive income	381	-	-	381
Total	**78,092**	**393**	**77,318**	**381**

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 fair value through profit or loss	315	315	-	-
Debt instruments at fair value through other comprehensive income	29,069	-	29,069	-
Equity instruments at fair value through other comprehensive income	381	-	-	381
Total	**29,765**	**315**	**29,069**	**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 2024	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and current accounts with the Central Bank	10,086	98,509	-	108,595
Receivables from banks	-	49,139	-	49,139
Loans and advances to customers	-	-	243,270	243,270
Debt instruments at amortised cost	-	16,644	-	16,644
Total	**10,086**	**164,292**	**243,270**	**417,648**
Financial liabilities				
Deposits from banks	-	50	-	50
Deposits from customers	-	430,837	-	430,837
Subordinated debt	-	-	1,959	1,959
Lease liabilities	-	-	1,881	1,881
Other financial liabilities	-	-	438	438
Total	**-**	**430,887**	**4,278**	**435,165**

All amounts are in thousand BGN, unless otherwise stated

31 December 2023	Level 1	Level 2	Level 3	Total
Financial assets				
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**
Financial liabilities				
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**

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 by using discounted cash flows for the remaining term of the instruments.

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 10), assets acquired from non-performing loans (Note 14). All fair values presented are considered to be periodic fair value measurements, as the Bank has a permanent process in place for monitoring the fair values of properties.

31 December 2024		Market comparables method – bid prices for sale used (EUR/square meter)	Income method – bid prices for rental used (EUR/square meter)
Type of investment property			
retail	5,359	295-2050	2.5-16
regulated landed property	159	39-44	
Total	**5,518**		
Assets acquired against debt from non-performing loans			
holiday	4,531	150-797	
retail	120		
regulated landed property/landed property	567	0.77-55	
industrial, administrative and other	6,381	104-893	5
residential	162	1150-2200	5
	11,761		

All amounts are in thousand BGN, unless otherwise stated

31 December 2023		Market comparables method – bid prices for sale used (EUR/square meter)	Income method – bid prices for rental used (EUR/square meter)
Type of investment property			
retail	6,168	442-1916	1-15
regulated landed property	159	35-44	-
Total	**6,327**		
Assets acquired against debt from non-performing loans			
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		

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**
Retail			
Income approach	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 420 thousand or decrease by BGN -405 thousand.
	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 -132 thousand or increase by BGN 144 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 160 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 297 thousand.

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.

All amounts are in thousand BGN, unless otherwise stated

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 EAD 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.

The summarised quantitative indicators related to mandatory disclosures required by the Credit Institutions Act are as follows:

	2024	**2023**
Total operating income	27,142	25,218
Operating profit before tax	10,482	8,087
Tax (expense)/benefit	(1,144)	(560)
Return on assets (%)	1.85%	1.60%
Equivalent number of full-time employees as at 31 December	187	193
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.

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 EAD and applicable as at 31 December 2024 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.

All amounts are in thousand BGN, unless otherwise stated

The Bank maintains capital adequacy above the minimum regulatory ratios. The total capital ratio as at 31 December 2024 is 23.70% (31 December 2023: 20.65%).

Additional information is presented in the table below:

	31.12.2024	**31.12.2023**
Equity	52,248	43,763
Common equity Tier 1 capital	50,292	41,807
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	176,623	174,333
Total exposures to position, currency and commodity risk	775	625
Total risk exposures to operational risk	34,838	27,513
Total risk exposures	**212,236**	**202,471**
Capital ratios		
Common equity Tier 1 capital ratio	23.70%	20.65%
Excess (+)/Shortage (-) of common equity Tier 1 capital	40,741	32,696
Tier 1 capital ratio	23.70%	20.65%
Excess (+)/Shortage (-) of Tier 1 capital	37,558	29,659
Total capital ratio	24.62%	21.61%
Excess (+)/Shortage (-) of total capital	35,269	27,565

34. EVENTS AFTER THE END OF 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 EAD by BACB. As of the date of this report, namely 22 May 2025, this agreement has expired. Tokushukai Incorporated confirms its support for the long-term development of Tokuda Bank EAD as an independent company.

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 2024.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2024 (including comparative information) were approved for issue to the Supervisory Board by the Management Board on 22 May 2025.