PROCREDIT BANK (BULGARIA) EAD
SEPARATE FINANCIAL STATEMENTS
31 DECEMBER 2023

The separate financial statements in English are a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Independent Auditors' Report

To the sole shareholder of ProCredit Bank (Bulgaria) EAD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of ProCredit Bank (Bulgaria) EAD (the Bank) as set out on pages 1 to 83, which comprise the separate statement of financial position as at 31 December 2023 and the separate statement of profit or loss, separate statement of other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2023, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 Separate Financial Statements" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have determined the following key audit matter:

Expected credit losses ("ECL") related to loans and advances to customers

As at 31 December 2023, the separate financial statements include:

- Gross loans and advances to customers of BGN 2,977,968 thousand (31 December 2022: BGN 2,809,922 thousand) and related ECL allowance of BGN 46,504 thousand (31 December 2022: BGN 44,175 thousand), as disclosed in note 18 to the separate financial statements;

and, for the year ended:

- Impairment charge for credit losses on loans and advances to customers recognized in the separate statement of profit or loss of BGN 4,978 thousand (2022: BGN 12,543 thousand), as disclosed in note 7 to the separate financial statements.

Also refer to the following notes to the separate financial statements:

- 3 h Loss allowance
- 4 c Credit risk

Key audit matter	How this key audit matter was addressed in our audit
Impairment allowances for loans and advances to customers (collectively, "loans", "exposures") represent the Bank's best estimate of expected credit losses ("ECL") associated with these exposures at the reporting date. Measurement thereof requires the Bank to make complex judgements and assumptions. As described in note 3 h, the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures. For performing exposures (stage 1 and stage 2 loans in the IFRS 9 hierarchy), as well as stage 3 exposures not exceeding specific thresholds, the expected credit losses are determined based on statistical models using the Bank's historical debt service data and also forward-looking information and macroeconomic scenarios. The key assumptions in this area are, among other things, the probability of borrower's default ("PD"), the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default", "LGD") and of	Our audit procedures performed, where applicable, with the assistance of our financial risk management, valuation and IT audit specialists, included among others: — Evaluating the appropriateness of the loan impairment accounting policies and related methods and models against the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; — Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL estimation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for access and program change; — Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the appropriateness of the

the amount of exposure at default ("EAD"). In the wake of the economical volatility caused by the ongoing post-pandemic normalisation of global trade, heightened geopolitical tensions and weak economic activity in the euro area, measurement of the collective impairment allowance was associated with additional complexities and an increased estimation uncertainty. Among other things, the application of post-model adjustments was required from management in arriving at the year-end estimate of collective impairment losses. For Stage 3 exposures in excess of specific thresholds, expected credit losses are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the sale of the related collateral and minimum period for collateral disposal. Given the above factors and complexities, we considered impairment of loans and advances to be associated with a significant risk of material misstatement in the separate financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.	classification of exposures into performing and non-performing, calculation of days past due, stage allocation and calculation of the ECL; — For a sample of loans, critically assessing, by reference to the underlying loan documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2023; For ECLs estimated on a collective basis: — Obtaining the Bank's relevant macroeconomic forecasts and critically assessing the forward-looking information and macroeconomic scenarios used in the calculation of the ECL by inspecting publicly available information; — Challenging the collective PD, LGD and EAD parameters for a sample of the Bank's portfolios, by reference to, among other things, our own analysis of the Bank's data on past default occurrence, realized losses on those defaults, contractual cash flows and contractual lifetime; — Testing post-model related adjustments to reflect the current market volatility not reflected in the original ECL models. As part of the procedure, we evaluated the data, assumptions and methods used in calculating the adjustments; — Recalculating the expected credit losses as of 31 December 2023 based on the Bank's ECL model for a sample of the Bank's portfolios; For ECLs estimated on an individual basis: — For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows in the impairment calculation, including time to sell and any realizable value of the collateral, by reference to the underlying collateral agreements and appraisals, whose relevance and reliability we independently assessed; For loan exposures in totality: — Examining whether the Bank's ECL-related disclosures in the separate financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate annual activity report, the separate corporate governance declaration and the separate non-financial declaration, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate annual activity report, the separate corporate governance declaration and the separate non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, 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 the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 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 and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

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

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

- KPMG Audit OOD and Baker Tilly Klitou and Partners EOOD were appointed as a statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2023 by the minutes of an extraordinary session of the sole owner of the capital of the Bank held on 25 August 2023 for a period of one year. The audit engagement was accepted by signing the Joint Audit Engagement Letter on 1 November 2023.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2023 represents fourth total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and seventh total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.
- 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 Act.

- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Sofia, 10 April 2024

For KPMG Audit OOD:

Sevdalina Dimova
Authorised representative and registered auditor, responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО
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Рег. № 045
КПМГ ОДИТ ООД

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

For Baker Tilly Klitou and Partners EOOD:

Galina Lokmadjieva
Authorised representative and registered auditor, responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

5 Stara Planina Str., 5th floor
Sofia 1000, Bulgaria

Separate Statement of Profit or Loss

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2023	**2022**
Interest income calculated using the effective interest rate method	6	142,521	84,434
Other interest income	6	237	-
Interest and similar expenses	6	(19,019)	(6,216)
Net interest income		**123,739**	**78,218**
Fee and commission income	8	36,023	31,933
Fee and commission expenses	8	(6,912)	(4,047)
Net fee and commission income		**29,111**	**27,886**
Result from foreign exchange transactions	9	10,798	10,310
Other income	10a	1,962	3,787
Other expenses	10b	(2,337)	(760)
Personnel expenses	11	(31,969)	(24,339)
Administrative expenses	12	(50,114)	(37,507)
Loss allowance	7	(5,418)	(13,245)
Profit before income tax		**75,772**	**44,350**
Income tax expense	13	(11,614)	(4,910)
Profit for the year		**64,158**	**39,440**

These separate financial statements on pages 1 to 83 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit and
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
Registered Auditor responsible for the audit and
Authorised representative
For Baker Tilly Klitou and Partners EOOD

ПРОCREDIT BANK (BULGARIA) EAD SOFIA

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

The notes set out on pages 6 to 83 form an integral part of these separate financial statements.

Separate Statement of Other Comprehensive Income

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2023	**2022**
Profit for the year		64,158	39,440
Items that will not be reclassified to profit or loss			
Change in revaluation reserve from financial assets at fair value through other comprehensive income (shares), net of tax		1,566	(275)
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from financial assets at fair value through other comprehensive income (debt securities), net of tax		1,076	(1,400)
Other comprehensive income for the year, net of tax		**2,642**	**(1,675)**
Total comprehensive income for the year		**66,800**	**37,765**

These separate financial statements on pages 1 to 83 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit and
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
Registered Auditor responsible for the audit and
Authorised representative
For Baker Tilly Klitou and Partners EOOD

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ЕООД

The notes set out on pages 6 to 83 form an integral part of these separate financial statements.

Separate Statement of Financial Position

(all amounts expressed in thousands of BGN)

	Notes	31.12.2023	31.12.2022
ASSETS			
Cash and central bank balances	14	847,539	561,028
Loans and advances to banks	15	178,398	245,476
Investment securities (FVOCI)	16	117,768	72,545
Investments in subsidiaries	17	8,632	8,632
Loans and advances to customers, net	18	2,931,464	2,765,747
Property, plant and equipment	19	45,716	41,079
Intangible assets	19	17,393	10,095
Derivative financial assets	26	9,125	15,117
Other assets	21	10,469	8,599
Total assets		**4,166,504**	**3,728,318**
LIABILITIES			
Liabilities to banks	22	6,641	16,230
Liabilities to customers	23	3,484,805	3,060,800
Liabilities to financial institutions	24	251,076	230,716
Lease liabilities	25	11,975	10,905
Derivative financial liabilities	26	1,888	47
Other liabilities	27	6,551	4,623
Provisions	28	2,108	2,067
Current tax liabilities		4,782	1,722
Deferred tax liabilities	20	169	76
Total liabilities		**3,769,995**	**3,327,186**
EQUITY			
Share capital and share premium	29	265,497	236,160
Legal reserve		22,704	22,704
Retained earnings		103,598	140,200
Revaluation reserve		4,710	2,068
Total equity		**396,509**	**401,132**
Total equity and liabilities		**4,166,504**	**3,728,318**

These separate financial statements on pages 1 to 83 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit and
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
Registered Auditor responsible for the audit and
Authorised representative
For Baker Tilly Klitou and Partners EOOD

The notes set out on pages 6 to 83 form an integral part of these separate financial statements.

Separate Statement of Changes in Equity

(all amounts expressed in thousands of BGN)	Share capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total
Balance as of 1 January 2022	**232,664**	**3,496**	**19,770**	**103,694**	**3,743**	**363,367**
Comprehensive income for the year						
Change in revaluation reserve, net of taxes	-	-	-	-	(1,675)	(1,675)
Profit for the year	-	-	-	39,440	-	39,440
Total comprehensive income for the year	-	-	-	**39,440**	**(1,675)**	**37,765**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Transfer	-	-	2,934	(2,934)	-	-
Total contributions by and distributions to owners	-	-	**2,934**	**(2,934)**	-	-
Balance as of 31 December 2022	**232,664**	**3,496**	**22,704**	**140,200**	**2,068**	**401,132**
Comprehensive income for the year						
Change in revaluation reserve, net of taxes	-	-	-	-	2,642	2,642
Profit for the year	-	-	-	64,158	-	64,158
Total comprehensive income for the year	-	-	-	**64,158**	**2,642**	**66,800**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Capital increase (note 4i)	29,337	-	-	-	-	29,337
Distributed dividends	-	-	-	(100,760)	-	(100,760)
Total contributions by and distributions to owners	**29,337**	-	-	**(100,760)**	-	**(71,423)**
Balance as of 31 December 2023	**262,001**	**3,496**	**22,704**	**103,598**	**4,710**	**396,509**

These separate financial statements on pages 1 to 83 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit and
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

PROCREDIT BANK (BULGARIA) EAD SOFIA

The notes set out on pages 6 to 83 form an integral part of these separate financial statements.

Separate Statement of Cash Flows

(all amounts expressed in thousands of BGN)

	Notes	Year ended 31 December	
		2023	2022
Profit for the year		64,158	39,440
Non-cash items and transition to the cash flow from operating activities			
Loss allowance	7	5,418	13,245
Net result from derivative financial instruments		1,015	(731)
Depreciation	12	7,904	6,502
Unrealised gains from currency revaluation	9	(449)	(472)
Gains from Property, plant and equipment and intangible assets		-	(27)
Net interest income	6	(123,739)	(78,218)
Income tax expense	13	11,614	4,910
Increase/ decrease of assets and liabilities from operating activities after non-cash items			
Required reserve with the central bank		(135,090)	(45,071)
Loans and advances to banks		9,779	(9,779)
Loans and advances to customers		(168,047)	(434,665)
Derivative financial assets		6,562	906
Other assets		(2,094)	(3,888)
Short term liabilities to banks and financial institutions		(9,589)	15,906
Liabilities to customers		423,400	420,197
Derivative financial liabilities		1,555	(1,045)
Other liabilities		1,969	905
Interest received		138,790	84,959
Interest paid		(15,264)	(3,831)
Interest paid on lease liabilities		(216)	(138)
Income tax paid		(8,461)	(3,570)
Cash flow from operating activities		**209,215**	**5,535**
Cash flows from investing activities			
Purchases of Property, plant and equipment and Intangible assets		(18,812)	(14,801)
Income from sale of Property, plant and equipment and intangible assets		1,841	460
Securities purchased		(68,848)	(25,167)
Securities matured		25,186	19,558
Cash flow used in investing activities		**(60,633)**	**(19,950)**
Cash flow from financing activities			
Dividends paid		(100,760)	-
Shares issued		29,337	-
Proceeds from long term liabilities to banks and financial institutions		58,675	97,792
Repayments from long term liabilities to banks and financial institutions		(39,549)	(35,599)
Lease liabilities		(2,017)	(1,649)
Cash flow from/(used in) financing activities		**(54,314)**	**60,544**
Net increase in cash and cash equivalents		**94,268**	**46,129**
Cash and cash equivalents at the beginning of the year		**510,221**	**464,092**
Cash and cash equivalents at the end of year	14	**604,489**	**510,221**

These separate financial statements on pages 1 to 83 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

PROCREDIT BANK (BULGARIA) EAD SOFIA

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit and
Authorised representative
For KPMG Audit OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

For Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
Registered Auditor responsible for the audit and
Authorised representative
For Baker Tilly Klitou and Partners EOOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

The notes set out on pages 6 to 83 form an integral part of these separate financial statements.

1 Reporting entity

ProCredit Bank (Bulgaria) EAD (“ProCredit Bank“, “the bank” or “the institution”, UIC 130598160) was founded in October 2001 by an alliance of international development-oriented investors, many of which are shareholders in ProCredit Holding AG („ProCredit Holding”) today. Since the beginning of 2013 the sole shareholder of the bank is ProCredit Holding.

The bank is part of the international group of financial institutions owned by ProCredit Holding. ProCredit Holding is the ultimate parent and ultimate controlling party of the ProCredit group of banks (“the ProCredit group”). The bank has three subsidiaries – ProCredit Properties EAD, ProCredit Education EAD and Private High School “Denis Diderot” EAD (referred to collectively as “the Group”), which are wholly owned.

The bank is supervised through a Supervisory Board consisting of five members and a Management Board consisting of four members as of December 2023 which are elected for a period of three years.

ProCredit Bank is a development oriented full service bank, which aims to be a house bank for businesses and private clients. Business clients, serviced by the bank, are companies, agricultural producers and self-employed persons. They are categorised as Small and Medium enterprises (SMEs) in accordance to their business potential. Private clients are regular income receivers (salary, pension or other) and business owners. The bank strives to have comprehensive knowledge about its customers and to implement an individual approach and strategy for servicing each client, being based on the client’s profile. Strategically, the bank focuses on production companies, agricultural producers, green and energy efficiency financing.

2 Basis of preparation

a Compliance with International Financial Reporting Standards

ProCredit Bank prepares its Separate Financial Statements in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the IFRS Interpretations Committee (“IFRS IC”) as adopted by the European Union (“EU”). IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act “International Accounting Standards” (IASs). The financial statements were prepared on a separate basis according to the Accountancy Act. The users of these separate financial statements should review them together with the consolidated financial statements of the Group as at 31 December 2023 to be able to obtain full information on the financial position, financial result and changes in the financial position of the Group as a whole (ProCredit Bank (Bulgaria) EAD, ProCredit Properties EAD, ProCredit Education EAD and Private High School Denis Diderot EAD). The separate financial statements were approved by the Management Board on 8 April 2024.

The Separate Financial Statements comprise the Separate Statement of Profit or Loss, the Separate Statement of Other Comprehensive Income, the Separate Statement of Financial Position, the Separate Statement of Changes in Equity, the Separate Statement of Cash Flows and the Notes to the Separate Financial Statements.

The principle accounting policies have been consistently applied to all the years presented, unless otherwise stated. All amounts are presented in thousands of Bulgarian leva (BGN), unless otherwise stated. The fiscal year of the bank is the calendar year.

2 Basis of preparation (continued)

b Measurement basis

The separate financial statements have been prepared on a historical cost basis, except for the following:

- Financial assets and liabilities (including derivative instruments), measured at fair value.
- Assets held for sale - measured at fair value less costs to sell.
- Retirement benefit obligations – measured at present value of the retirement benefit obligation.

c Use of assumptions and estimates

The bank's financial reporting and its financial result are influenced by assumptions, estimates and management judgements, which necessarily have to be made in the course of preparation of the Separate Financial Statements. Actual results may differ from these estimates.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are evaluated on continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. The accuracy of accounting estimates and judgments is monitored regularly.

The bank makes estimates and judgments for the purposes of the accounting and disclosure. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management judgements for certain items are especially critical for the bank's results and financial situation due to their materiality in amount. This applies to the following positions:

Impairment of credit exposures
Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with various stages. ProCredit Bank reports the balance sheet items "Central bank balances", "Loans and advances to banks", "Investment securities (FVOCI)", "Loans and advances to customers" and "Other assets" net (including loss allowances). Further information on the bank's accounting policy on loan loss provisioning can be found in Note 4c.

Measurement of deferred tax asset
The bank recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised. The profit projection is based on the latest business planning as of December 2023 approved by the Supervisory Board of the bank and therefore reflects management's view of future business prospects. The tax planning period of the bank is five years. For details on the recognised amounts see notes 13 and 20.

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

2 Basis of preparation (continued)

c Use of assumptions and estimates (continued)

For leases of premises, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options for offices leases have not been included in the lease liability, because the bank could replace the assets without significant cost or business disruption.

As at 31 December 2023 there are no potential future cash outflows which have been excluded from the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, there was no financial effect of revising lease terms to reflect the effect of exercising extension and termination options.

d New and amended standards

(i) Standards, amendments and interpretations that are already effective

- Amendments to IAS 1 and to IFRS Practice Statement 2: “Making Materiality Judgements” have a negligible impact on the separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 8: “Definition of accounting estimates” have a minor impact on the separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 12: "Deferred Taxes related to Assets and Liabilities arising from a Single Transaction" have a minor impact on the measurement of deferred taxes. The amendments are effective for annual periods beginning on or after 1 January 2023.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the separate financial statements: IFRS 17 “Insurance Contracts”, amendments to IFRS 17 "Insurance Contracts" and amendments to IAS 12 "International Tax Reform - Pillar Two Model Rules".

2 Basis of preparation (continued)

d New and amended standards (continued)

(ii) Standards, amendments and interpretations issued but not yet effective

- Amendments to IAS 1: “Classification of Liabilities as Current or Non-Current” and “Non-current Liabilities with Covenants” have a minor impact on the separate financial statements. The amendments, endorsed by the EC, are effective for annual periods beginning on or after 1 January 2024.
- Amendments to IFRS 16: “Lease Liability in a Sale and Leaseback” have a minor impact on the separate financial statements. The amendments, endorsed by the EC, are effective for annual periods beginning on or after 1 January 2024.
- Amendments to IAS 7 and IFRS 7: “Supplier Finance Arrangements” have no impact on the separate financial statements. The amendments, endorsed by the EC, are effective for annual periods beginning on or after 1 January 2024.
- Amendments to IAS 21: “Lack of Exchangeability” have no impact on the separate financial statements. The amendments, endorsed by the EC, are effective for annual periods beginning on or after 1 January 2025.

There was no early adoption of any standards, amendments and interpretations not yet effective.

3 Summary of material accounting policies

This note provides a list of the material accounting policies adopted in the preparation of these separate financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Foreign currency translation

(a) Functional and presentation currency
Items included in the separate financial statements are measured using the currency with which the entity operates in its primary economic environment (“the functional currency”). The financial statements are presented in Bulgarian leva, which is the bank’s functional and presentation currency. All amounts stated within the separate financial statements are presented in thousands of Bulgarian leva unless otherwise specified.

(b) Transactions and balances
Foreign currency assets and liabilities are translated into the functional currency using the closing exchange rates, and items of income and expenses are translated at the fixing at the moment of the operation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Separate Statement of Profit or Loss (results from foreign exchange transactions).

3 Summary of material accounting policies (continued)

a Foreign currency translation (continued)

In the case of changes in the fair value of financial assets at fair value through other comprehensive income denominated in foreign currency a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences on financial assets (debt instruments) at fair value through other comprehensive income are recognised in the Separate Statement of Profit or Loss.

Non-monetary items measured at historical cost denominated in foreign currency are translated at the exchange rate as of the date of the transaction.

As of 31 December 2023, monetary assets and liabilities denominated in foreign currency were translated into Bulgarian leva at the official central bank exchange rate: BGN 1.95583 for EUR 1 and BGN 1.76998 for USD 1 (2022: BGN 1.95583 for EUR 1 and BGN 1.83371 for USD 1).

b Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised in profit or loss using the effective interest rate method in the period in which they arise. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Payments received in respect of written-off loans are not recognised in net interest income, but rather under "Loss allowances".

3 Summary of material accounting policies (continued)

c Fee and commission income and expenses

The bank provides banking services to private individuals and corporate customers (mainly SMEs), including account opening and management, provision of loan facilities, debit and credit cards, payment services in local and foreign currencies, cash operations on machines and others. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed by the bank. Fee and commission expenses concern fees incurred by the bank in dealings with other banks and are recognised on the date of the transaction.

Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

d Result from foreign exchange transactions

"Results from foreign exchange transactions" refers primarily to the results of foreign exchange dealings with and for customers. The bank does not engage in any foreign currency trading on its own account. This position also includes unrealised foreign currency revaluation effects.

e Financial instruments

ProCredit Bank classifies its financial assets according to their underlying business model. Differentiation is made between the following business models:

- "Hold to collect": The financial assets are held with the aim of collecting the contractual cash flows through interest and principal payments (Solely Payments of Principal and Interest ("SPPI") conform;
- "Hold to collect and sell": The financial assets are held with the aim of both collecting the contractual cash flows and selling the financial assets;
- "Other": This business model is used for financial assets that are neither allocated to the "hold to collect" business model nor to the "hold to collect and sell" business model.

The bank's business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. This is a discretionary decision by the management. The following criteria, among others, are taken into account:

- the business and risk strategy of ProCredit Bank (and ProCredit group);
- the way in which the development of the business model is evaluated and reported to the Management and the Supervisory Board of the bank;
- if there were sales in previous periods, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

As a result, the balance sheet items allocated to the "hold to collect" business model are: "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other assets". "Investment securities (FVOCI)" (which are debt securities) are allocated to the "hold to collect and sell" business model. Furthermore, a small amount of shares are allocated to the "hold to collect and sell" business model, included in the balance sheet under "Investment securities (FVOCI)". "Derivative financial assets" are allocated to the "other" business model.

There is no offsetting of any financial assets and financial liabilities.

3 Summary of material accounting policies (continued)

e Financial instruments (continued)

Subsequent recognition of financial liabilities is generally performed at amortised cost. Only derivative financial liabilities are recognised at fair value.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets allocated to the “Other” business model are recognised at fair value through profit or loss. This includes “Derivative financial assets”. “Derivative financial liabilities” are recognised as financial liabilities at fair value through profit or loss.

Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under “Derivative financial assets”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Derivative financial liabilities”. The bank designates certain derivatives as hedging instruments in qualifying hedging relationships (hedge accounting) in accordance with IFRS 9. At the inception of the hedging relationship, we formally document the relationship between the hedging instrument(s) and hedged item(s), including risk management objectives and strategies for undertaking the hedge, and the method of assessing effectiveness. The bank assess compliance with the effectiveness requirements both at the inception of the hedging relationship and on an ongoing basis.

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the Separate Statement of Profit or Loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the bank commits to purchase or sell the instrument. Subsequently, the financial instruments are also carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Separate Statement of Profit or Loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

(b) Financial assets at amortised cost

A financial asset is classified “at amortised cost” when the financial asset is assigned to the “hold to collect” business model with the objective to solely collect contractual cash flow through interest and principal payment (SPPI conform). These arise when the bank provides capital directly to a contracting party with no intention of trading the receivable.

These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Expected credit losses are basically recognised using a three-stage model (see Note 3h for the accounting policy for impairment of credit exposures, as well as Notes 7 and 18). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Separate Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the gross carrying amount which would have been incurred as of the valuation date if there had not been any impairment. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

3 Summary of material accounting policies (continued)

e Financial instruments (continued)

(c) Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income

A financial asset is classified and recognised as "at fair value with changes in fair value recognised in Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model.

In general, "investment securities FVOCI" are allocated to this business model. The cash flow criterion is checked individually. All debt investment securities fulfil the cash flow criterion (SPPI conform) but can be sold if required. Furthermore, a small amount of shares (also included under the position "Investment securities FVOCI") are allocated to this business model. In general, there is no intention to trade or sell these shares.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Separate Statement of Other Comprehensive Income under "Revaluation reserve". If the financial asset is derecognised or impaired (for details on impairment, see Note 3h), the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Separate Statement of Profit or Loss. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Separate Statement of Profit or Loss. For the FVOCI equity instruments, any dividend payments are recognised in the Separate Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the bank has transferred substantially all risks and rewards of ownership.

(d) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the Separate Statement of Profit or Loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Fair value measurement principles

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at amortised cost. In general, financial instruments at fair value are measured on a recurring basis in the financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

3 Summary of material accounting policies (continued)

e Financial instruments (continued)

ProCredit Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

Level 1 Inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if market transactions with the asset or liability occur there sufficiently frequently and in sufficient volumes to ensure the ongoing availability of pricing information.

Level 2 Inputs
Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

f Investments in subsidiaries

Subsidiary is an entity controlled by the bank. Control over a subsidiary is achieved when ProCredit Bank is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Investments in subsidiaries are measured at cost less impairment. The bank recognises dividend income from its subsidiaries.

g Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity including: cash, balances with the Bulgarian National Bank ("BNB") and the Bank of Greece excluding the minimum required reserve, and amounts due from other banks.

Cash and central bank balances comprise cash and balances with the BNB and the Bank of Greece, recognised at their nominal value.

h Loss allowance

The bank establishes loss allowance in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet financial instruments. In general, a three-stage model is used to report loss allowance. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

3 Summary of material accounting policies (continued)

h Loss allowance (continued)

ProCredit Bank sets aside loss allowance for the balance sheet items “Central bank balances”, “Loans and advances to banks”, “Loans and advances to customers”, “Investment securities FVOCI” and for the financial assets under “Other assets”. These are generally recognised at net value within the corresponding balance sheet positions, except for the item “Investment securities FVOCI” (debt securities), which are reported at fair value. The respective loss allowance is recognised in shareholders’ equity under “Revaluation reserve”.

Net change in loss allowance

The net change in loss allowance includes additions, reversals and change in loss allowance due to non-substantial modifications.

Recognition of loss allowance uses a three-stage model based on expected credit losses. Allocation to stages requires discretionary decisions to be made with regard to the definition of default, stage transfers and the determination of criteria as to whether there has been a significant increase in credit risk since recognition in the balance sheet:

- Stage 1: Financial assets are generally classified as “Stage 1” when they are recognised for the first time. ProCredit Bank establishes loss allowance in an amount equivalent to the expected credit losses that result from default events that are possible during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as “Stage 2” and loss allowance is established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3: Defaulted financial assets are classified as “Stage 3” and loss allowance is likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowance is determined on the basis of recoverable cash flows. For insignificant exposures, loss allowance is determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowance). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowance is established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

For the “Other assets” position, loss allowance is established using the simplified approach. As a rule, loss allowance is recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

Migration between the stages is possible in both directions, provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowance already recorded is reversed.

Substantial and non-substantial modification

Any changes of contractual cash flows that have not been agreed in the original contract with the client are considered as modification. To determine if the modification is substantial the bank takes into consideration all relevant qualitative and quantitative factors.

3 Summary of material accounting policies (continued)

h Loss allowance (continued)

The following qualitative factors are considered as substantial modifications:

- change of the existing debtor of the credit facility (loan, Credit Line, Overdraft). Exception would be change within the same group of consolidated entities.
- modifications to the currency on which the financial instrument is denominated for future debt repayments. Exception constitutes currencies that are bound to another currency with a fixed exchange rate (BGN and EUR)
- contractual changes that are non-compliant with the SPPI criterion

The quantitative analysis, also called “10% NPV test”, is performed according to the principal requirements for the modification (IFRS 9 B3.3.6). That is, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset. In case the change is less than 10%, the modification is classified as non-substantial modification and the difference between the present value of the modified cash flows and the gross carrying amount of the existing asset at the date of modification is the modification gain or loss recognised in profit or loss at the date of modification. In case the change is more than 10%, the modification is classified as substantial modification and leads to derecognition of the original asset and recognition of a new asset with gains or loss from derecognition recognised in the profit or loss.

Write-offs, recoveries and direct write-offs
When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Separate Statement of Profit or Loss under “Loss allowance”.

Restructured credit exposures
Restructuring is defined as any modification of the terms and conditions of a credit exposure by agreement between the bank and the client to modify the payment plan of a credit exposure agreement in response to an increase in the current or future credit default risk associated with the client. Restructured credit exposures are assigned to Stage 3 at the moment of restructuring if either of the following conditions are met: the exposures is in arrears by more than 90 days, and/or cannot be expected to be repaid in full due to serious payment problems faced by the client. Otherwise, restructured loans are assigned to Stage 2.

Assets acquired in exchange for loans (repossessed property)
Repossessed properties are non-financial assets acquired in exchange for loans as part of an orderly realisation and are reported as “Other assets”. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. Repossessed properties are held for sale and no depreciation is charged for the respective assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Separate Statement of Profit or Loss in “other expense”. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in “other income”, together with any realised gains or losses on disposal.

3 Summary of material accounting policies (continued)

i Intangible assets

Software and licences

Acquired or developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has an expected useful lifetime of 5 years and is tested for impairment if there are indications that impairment may have occurred. Computer software is carried at cost less accumulated amortisation less impairment losses. Amortization is calculated as follows:

Licences	7 years
Software	5 years

j Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses, as decided by the management. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Separate Statement of Profit or Loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the depreciable amount of the asset over its useful live, as follows:

Buildings	40 years
Furniture	10 years
Leasehold improvements	10 years
Computers	5 years
Motor vehicles	5 years
Other fixed assets	7 years

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

In addition, all assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The impairment is recognised within "administrative expenses".

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "other income" or "other expenses" in the Separate Statement of Profit or Loss.

3 Summary of material accounting policies (continued)

k Leases

ProCredit Bank as lessee
At contract initiation, the bank assesses whether the agreement constitutes or contains a lease. This is the case when the agreement grants the right to control the use of an identified asset for a specified period of time in return for a fee. The bank uses the option to account for each leasing component and all related non-leasing components as a single leasing component. ProCredit Bank recognises an asset for the right of use granted as well as a lease liability on the commencement date. The right of use is recognised at acquisition costs. These include the amount of the lease liability, plus all lease payments made at or before the commencement date, initial direct costs and estimated dismantling and removal costs, less any incentives received. The right of use is amortised on a straight-line basis until the end of the lease term. Any impairment losses are also taken into account. The lease liability is recognised at the present value of the lease payments not yet made at that time. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.

Short-term leases or leases on low-value assets are not recognised in the balance sheet; instead, the lease payments are recognised under administrative expenses in the separate statement of profit or loss over the term of the lease.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The right-of-use asset is presented as part of “Property, plant and equipment” on the separate statement of financial position.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the lessee’s incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- The amount of the initial measurement of lease liability.

3 Summary of material accounting policies (continued)

k Leases (continued)

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation periods for the right-of-use assets are as follows:

- Office premises: 10 years

(a) Bank's leasing activities
The bank leases office premises. Leases are negotiated on an individual basis, but in general contain similar terms and conditions (incl. termination and renewal rights). The main lease features are summarised below:

- Office premises in general rented for a period of 10 years. The lease payments are fixed. 70% of the total lease liabilities are towards the bank's subsidiary company ProCredit Properties EAD.

(b) Extension and termination options
Extension and termination options are included in the leasing contracts. These are used to maximise operational flexibility in terms of managing the assets used in the bank's operations. For critical judgements in determining the lease term, please refer to Note 2.

(c) Low-value leases
The costs for low value leases are recognised on a straight-line basis during the reporting period. The total cost of low-value leases is disclosed in Note 25.

l Income taxes

Taxation has been provided for in the separate financial statements in accordance with Bulgarian legislation.

(a) Current income tax

Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date and is recognised as an expense in the period in which taxable profits arise. Taxes other than on income are recorded under "administrative expenses".

(b) Deferred income tax

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Separate Financial Statements prepared in conformity with IFRS, as adopted by the EU. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets and liabilities are determined using Bulgarian tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax planning period is five years.

3 Summary of material accounting policies (continued)

l Income taxes (continued)

Changes of deferred taxes related to financial instruments carried at fair value are charged to the Separate Statement of Other Comprehensive Income. The presentation in the Separate Statement of Other Comprehensive Income is made on a net basis. At the time of sale, the respective deferred taxes are transferred to current income tax.

m Provisions

Provisions are recognised if:
- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense. For the provisions for expected credit losses from off-balance sheet items and for provision for untaken vacation, the outflow of economic benefits is expected during the next one or two years.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the bank, they are not recognised in the financial statements but are disclosed in the notes to the financial statements (see Note 31).

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated annual leave as a result of services rendered by employees up to reporting date.

n Financial guarantee contracts

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the Statement of Profit or Loss the fee income earned on a straight line basis over the life of the guarantee and the loss allowance determined in accordance with IFRS 9 at reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Management.

3 Summary of material accounting policies (continued)

o Employee benefits

Defined benefit plans

The bank has an obligation to pay certain amounts to each employee who retires with the bank in accordance with Art. 222, § 3 of the Labour Code ("LC"). According to the regulations in the LC, when a labour contract of a bank employee, who has acquired a pension right, is ended, the bank is obliged to pay the employee compensation equivalent to two gross monthly salaries. In the event that the employee's length of service in the bank or in any entity from the group is equal to or exceeds 10 years, as of the date of retirement, then the compensation shall amount to six gross monthly salary payments. As of reporting date, the Management of the bank estimates the approximate amount of the potential expenditure for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The bank recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses for the period.

4 Risk management

a Business model and business strategy

ProCredit Bank aims at being a leading partner providing a complete range of financial services for small and medium enterprises, since these businesses have vital significance for the economic development and the creation of new jobs. The bank also focuses on serving private individuals who appreciate modern banking services, who have the capacity to save and who prefer to do their banking through electronic channels. ProCredit Bank functions in a responsible and transparent way, focusing on building long-term relationships with its clients and providing an inclusive range of professional and flexible business solutions, both for the businesses and private individuals. The main competitive advantages of ProCredit Bank are the personal approach to the individual needs of the clients and the high quality of the services provided.

By offering simple and accessible deposit facilities the bank promotes a culture of savings, which contributes to greater security and stability of households. At the same time ProCredit Bank does not offer complex financial products or asset management services. ProCredit Bank takes an individual approach to its clients, aiming to know their needs in order to develop a strategy for serving them effectively. The bank adheres to its concept of “Know your Customer”, which is based on the assumption that if clients and their businesses are accurately identified, the bank will be able to provide to them the most suitable banking services. A strategic focus of the work with clients is on encouraging investments in energy efficiency, renewable energy, and environmental protection as well as funding production companies and agricultural producers. To achieve more efficient, effective and better-quality service, the bank provides 24-hour access to self-service as well as easily accessible Internet banking operations (ProBanking).

The ProCredit Bank business strategy has two main purposes – to have a positive effect on the development of the economic and social environment, and to earn a commercial profit. The business model is straightforward, with asset-side operations dominated by credit issued to clients, while the liabilities basically comprise attracted funds from clients.

The business strategy is based on a focused approach to staff development. The bank carefully recruits and trains its staff to work responsibly and professionally with clients. ProCredit Bank is an institution based on professionalism, communication and trust and it aims at a high level of satisfaction both for the staff and the clients. To this effect, the bank makes significant investments in training its personnel.

Since November 2015 the bank operates a branch in Thessaloniki, Greece offering full range of banking services to the local businesses and providing professional service and advice. The location in Thessaloniki is equipped with modern self-service area available to customers 24 hours and 7 days a week.

b Risk management strategy

ProCredit Bank is exposed to risks in the course of its business activities. An informed and transparent approach to risk management is a central component of its socially responsible business model. This is also reflected in the risk culture and the risk appetite, resulting in decision-making processes that are well-balanced from a risk point of view.

By following a consistent group-wide approach to managing risks, the bank aims to ensure that its liquidity and capital adequacy continues to be sustainable and appropriate at all times, as well as to achieve steady results. The risk management principles and the risk strategy of the bank have not changed significantly compared to the previous year.

4 Risk management (continued)

b Risk management strategy (continued)

In general, the last few years have been characterised by adverse macro-financial and geopolitical shocks. This trend is expected to continue and uncertainty will remain high. So far, the impact on the bank has been limited. Nevertheless, these factors will also determine the focus of the institution’s risk management activities in 2024. ProCredit Bank will continue to closely monitor the macroeconomic situation in order to assess the impact and, if necessary, take measures in a timely manner. In addition, the regulatory requirements are constantly evolving. In general, a tightening of requirements and expectations can be observed.

The bank complied with internal limits as well as all applicable regulatory requirements at all times during the 2023 financial year. Even in light of the above-mentioned uncertainties, the bank’s overall risk profile remains appropriate. This is based on an overall assessment of the individual risks, as presented in this risk report.

Risk Management System
The principles of the bank’s business activity, as listed below, provide the foundation for its risk management. The consistent application of these principles significantly reduces the risks to which the bank is exposed.

Focus on core business
The business model is clear and straightforward: ProCredit Bank focuses on the provision of financial services to small and medium businesses as well as to private clients. The bank applies strict selection criteria and use a holistic approach with its customers. This also includes an individual assessment of ESG (Environmental, Social and Governance) aspects for all business customers. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the bank’s other operations are performed mainly in support of the core business. ProCredit Bank therefore assumes mainly credit risk, interest rate risk, operational risk and liquidity risk in the course of its day-to-day operations. At the same time, ProCredit avoids or largely limits all other risks involved in banking operations.

Diversification and transparent services
ProCredit’s focus as a „Hausbank” for small and medium-sized businesses and private clients entails a very high degree of diversification in both loans and deposits. Geographically, this diversification spans the main business areas of Bulgaria and the Thessaloniki region in Greece. In terms of customer groups, this diversification spans economic sectors, client groups (SMEs and private clients) and income groups. The diversification of the loan portfolio is a central pillar of the bank’s credit risk management policy. A further characteristic of the approach is that the bank seeks to provide its clients with simple, easily understandable services. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and bank’s simple, transparent services and processes result in a reduction of the bank’s risk profile.

4 Risk management (continued)

b Risk management strategy (continued)

Careful staff selection and intensive training
Responsible banking can only succeed with employees who identify with ProCredit Bank's values and goals, and who actively work to implement them. Therefore, ProCredit group has set strict standards for staff selection and training; these are based on mutual respect, a high level of personal responsibility and long-term commitment and loyalty to the ProCredit group. The bank has invested heavily in staff training over many years. The bank's intensive training efforts not only produce a high level of professional competence, but also and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to thinking critically voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Organisation of the risk management and risk reporting
The overall responsibility for risk management is assumed by the Management Board of the bank, which regularly analyses the risk profile and decides on the measures to be taken. The risk controlling function required by MaRisk is headed by a member of the Management Board. Risk management is supported conceptually and implemented operationally by the General Risk Management Department, Risk Management Department and Credit Risk Department and various risk management and finance functions. Various committees support and advise the Management in the performance of the risk management function.

The General Risk Assessment Committee, Credit Risk Management Committee and Operational Risk Management Committee develop the framework for risk management decision taking bodies and monitor the risk profile of the bank and the individual risks. This includes the monitoring of individual risk positions and limit compliance. The Asset and Liability Committee (ALCO) is responsible for monitoring the liquidity reserve and liquidity management and the internal and regulatory capital adequacy of the bank, coordinating measures aimed at securing funding for ProCredit Bank.

The rules regulating risk management at the bank are part of the internal regulations and determine:

- The process and the purposes of risk management at the bank;
- The structure, composition and powers of the competent internal bodies of the bank, their activities and the measures they undertake;
- The employees' duties related to monitoring, reporting, management and analysis of various risks;
- The establishment and functioning of internal control systems and the competences of the relevant management levels and of the regular staff for taking part in risk management.

Strong risk awareness on the part of all employees is a core element of risk management. This awareness supports the ability of organisational units and committees to provide timely information to the Management on relevant risk events and on the risk profile of the bank. Training programmes are conducted to strengthen capacity in all areas of risk management. Moreover, regular group-wide meetings and training events are held to support the exchange of best practices and the development and enhancement of risk management.

4 Risk management (continued)

b Risk management strategy (continued)

Risk positions are analysed regularly, discussed intensively and documented in standardised reports. The General Risk Management Department reports regularly to the different risk functions at ProCredit Holding, and the Supervisory Board is informed on at least a quarterly basis about all risk-relevant developments. Monitoring of the bank's risk situation is carried out through a review of these reports and of additional information generated. If necessary, additional ad-hoc reporting occurs for specific topics. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

Internal control system, compliance and auditing

The bank has a compliance management system supported by the bank's Code of Conduct, which is binding for all staff, and by its approach to staff selection and training. Legal and Compliance Department bears responsibility for the implementation of a group-wide system to ensure fulfilment of all regulatory requirements. ProCredit Bank has a compliance function, which bears responsibility for adhering to national banking regulations and reports regularly and on an ad-hoc basis to the Management of the bank and to ProCredit Holding. Any conduct, which is inconsistent with the established rules, can be reported anonymously both to an e-mail address established for the ProCredit group, or to an e-mail address on a local level.

Processes and procedures have been implemented to ensure adequate internal control. This system is based on the principles of segregation of duties, dual control and the separation of front and back office for all risk-relevant operations up to the management level; this ensures that risk management and risk control are performed independently of front-office functions. The bank's core values include the Know-Your-Customer (KYC) approach and ethical behaviour, as set out in the Code of Conduct which all employees commit to uphold each year. Internal controls are supported by IT solutions.

The concept of three lines of defense is of central importance for risk management and risk culture, as it establishes that appropriate risk management and protection against undesirable risks is not limited to the risk functions.

- The bank has revenue-generating business units that form the first line of defense for the internal control system. Control and risk management responsibility lies with the set procedures for client onboarding, client risk classification and client due diligence. The control duties in the first line of defense also underscore the dual responsibility of these departments, which both generate business and at the same time keep watch on the associated risks and controls.
- The second line of defense comprises the various risk management and compliance functions in the bank. By defining group-wide minimum standards, ProCredit Holding strengthens the second line of defense in all ProCredit institutions in accordance with German and EU regulatory standards. ProCredit Holding also ensures that these requirements are embedded in the ProCredit group's policies and procedures.
- The third line of defense is composed of the Internal Audit Department of the bank, which is supported by Group Audit at ProCredit Holding. Group Audit is responsible for quality assurance, monitoring and technical guidance of the third line of defense in the ProCredit banks. Each internal audit function carries out risk assessments of the respective institution at least once per year in order to arrive at a risk-based annual audit plan. The Internal Audit Department reports to the bank's Audit Committee, which generally meets on a quarterly basis. The Group Audit team monitors the quality of the audits conducted in ProCredit Bank and provides technical guidance.

4 Risk management (continued)

b Risk management strategy (continued)

Furthermore, there are additional external control levels that complement the ProCredit Bank's three existing internal lines of defense. These include external auditors and banking supervisory authorities.

Key elements of risk management
The risk appetite provides the framework for risk management. This is a conscious decision about the extent to which the bank is prepared to take risks in order to achieve its strategic objectives. The risk appetite is defined for all material risks and is presented in the risk strategy. ProCredit Bank's strong awareness of environmental and sustainability aspects (ESG risks) also informs this process.

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the bank takes account of the German supervisory "Minimum Requirements for Risk Management" (MaRisk), of relevant publications by national and international regulatory authorities and of the knowledge of the markets acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in ProCredit Bank are presented below:

- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes;
- All risks assumed are managed to always ensure an adequate level of capital, in both the normative and economic perspective, as well as adequate liquidity levels at all times;
- All ProCredit institutions apply a single common risk management framework, which defines group-wide minimum standards. The risk management policies and standards are approved by the Management of ProCredit Bank and are updated at least annually. These specify the responsibilities at bank and establish minimum requirements for managing, monitoring and reporting;
- Monitoring and control of material risks and possible risk concentrations is carried out using comprehensive analysis tools. For all material risks, early warning indicators (reporting triggers) and limits are set and the corresponding utilisation is monitored. The effectiveness of the chosen measures, limits and methods is continuously checked;
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories;
- Regular and ad-hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries;
- Suitable processes and procedures for an effective internal control system are in place. This is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions;
- All new or significantly changed products/services, business processes, instruments, IT systems or organisational structures undergo a thorough analysis (New Risk Approval process) before being implemented or used for the first time. This also applies to activities in new markets and via new distribution channels. This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

4 Risk management (continued)

b Risk management strategy (continued)

Management of Individual Risks

The material risks for ProCredit Bank are credit risk, market risks (foreign currency risk and interest rate risk), liquidity and funding risk, operational risk, risks arising from money laundering, terrorist financing and other acts punishable by law, business risk and model risk.

ESG risks are environmental, social or corporate governance events or conditions whose occurrence may have an actual or potential negative impact on financial position and financial performance as well as on reputation. The bank deliberately does not give separate treatment to ESG risks, as it would hardly be possible to isolate such risks. Managing ESG risks is an integral part of the business strategy. ESG risks can have a material impact on all of the identified risks, contributing as a factor in their materiality. ESG risks have the greatest impact on credit risk arising from business with clients, i.e. the impact that ESG risks have on the clients and the corresponding business models and thus on their ability to survive.

The management of material risks in the ProCredit group is described in greater detail in the following section.

c Credit risk

The bank defines credit risk as the risk that losses will be incurred if the party to a transaction cannot fulfil its contractual obligations at all, not in full or not on time. Within overall credit risk the bank distinguishes between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk facing ProCredit Bank, and customer credit exposures account for the largest share of that risk.

Maximum exposure to credit risk

Exposure types	31 Dec 2023	31 Dec 2022
Loans and advances to banks	**178,398**	**245,476**
Investment securities (FVOCI)	**109,055**	**65,393**
Fixed interest rate debt securities	109,055	65,393
Loans and advances to customers, net	**2,931,464**	**2,765,747**
Loans and advances to customers, net	2,931,464	2,765,747
Other assets	**7,631**	**7,200**
Other financial assets	7,631	7,200
Contingent liabilities and commitments	**653,903**	**595,998**
Guarantees	96,621	110,978
Letters of credit	1,689	2,705
Credit commitments (revocable loan commitments)	555,593	482,315

4 Risk management (continued)

c Credit risk (continued)

Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. Thanks to the diversification of operations across Bulgaria and Greece and to the experience that ProCredit Bank has gained over the past years, the bank has extensive expertise with which to limit customer credit risk effectively.

ProCredit Banks serves a clear target group. It ranges from relatively small business clients with increasingly formalised structures to larger SMEs as well as private individuals. For the lending operations, the bank applies the following principles, among others:

- Intensive analysis of the debt capacity and repayment capacity of borrowers, taking account for expected future cash flows as well as assessing ESG aspects;
- Carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties;
- Strictly avoiding over indebtedness among the loan clients;
- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure in the regular monitoring reports;
- Strictly monitoring the repayment of credit exposures;
- Applying closely customer-oriented, intensified loan management in the event of arrears;
- Collateral collection in the event of insolvency.

The framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the bank's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, risk provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment, consideration of ESG aspects) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The bank divides its credit exposures into three categories: small and medium-sized business credit exposures and credit exposures to private clients. Small exposures are between EUR 100,000 and EUR 750,000. There are two sub-categories of Small credit exposures: Lower Small credit exposures up to EUR 250,000 and Upper Small credit exposures, which do not exceed EUR 750,000. Medium exposures are above EUR 750,000. There are two sub-categories of Medium credit exposures: Lower Medium credit exposures are credit exposures that do not exceed EUR 1,500,000 and Upper Medium credit exposures are credit exposures over EUR 1,500,000. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: The degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for exposures over EUR 500,000.

4 Risk management (continued)

c Credit risk (continued)

The experience of the bank has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions are therefore based predominantly on an analysis of the client's financial situation and creditworthiness. ProCredit Bank maintains regular contact with its clients, including regular on-site visits to ensure that the bank gives adequate consideration to their specific risk profile and needs. For private customers, the assessment is mainly based on the amount and source of income and their overall debt.

Assessment of ESG risks as part of credit risk

The credit risk assessment takes ESG risks into account at all levels of the lending and monitoring process. The process starts at the loan application stage with a screening of potential borrowers against bank's exclusion and watch lists for environmental and social impact. As a matter of principle, ProCredit Bank does not wish to enter into business relationships with customers who are exposed to significant governance, environmental and/or social risks, nor do the bank wants to finance projects and economic activities that have a negative impact on the environment or society. All business customers are assigned an environmental category based on the environmental impact caused by their business operations. Customers with a high environmental impact are generally subject to a more detailed and comprehensive assessment, including governance and climate change aspects regarding the environmental and social risks of their business model. Environmental and social risk assessments at borrower level are carried out to varying degrees, depending on the environmental category of the borrower, the level of individual credit risk and, in the case of renewable energy project finance, based on installed capacity. This internal risk assessment is part of the annual monitoring process. When analysing the financial situation of borrowers, particularly their payment capacity, the possible impact of risks inherent in their industry and other factors identified in the risk assessment are taken into account. The portfolio is also analysed with regard to the potential impact of transition risks and physical climate risks. Transition risk, which results from political and regulatory decisions, is very limited given the bank's portfolio structure. The analysis of physical risks is based on sector and location data for individual exposures, which are assessed using short, medium and long-term climate projections.

Approval process for credit exposures

All credit decisions are taken by credit committee. Its members have approval limits that reflect their expertise and experience. Granting of medium credit exposures is carried out exclusively by credit committees at the bank' head offices. If the exposures are particularly significant on account of their size, the decision is confirmed by the Supervisory Board of the bank, usually following a positive vote issued by the responsible Group Credit Risk Management team at ProCredit Holding.

The most important basis for decision-making within the credit committee is the proposal for the financing and collateral structure, which is tailored to the customers' needs and dependent on their risk profile. In this context, the main parameters that affect the security are the loan exposure, maturity of the loan, quality of the documentation, provided by the client, and risk classification.

4 Risk management (continued)

c Credit risk (continued)

The credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the maturity of the exposure, loans may also be disbursed without being fully collateralised. As a general rule, credit exposures are covered with collateral security, mostly through immovable property.

As a rule, the valuation of collateral is based on assessments conducted by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, plausibility checks of the collateral value are performed when there are indicators of impairment and at least annually. The appraisals must be updated at regular intervals, with plausibility checks being carried out by specialised bank's staff.

Based on the bank's collateralisation requirements, securing loans with immovable properties is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions and economic sectors, similar to the distribution of the loan portfolio of the bank. In this context, the concentration risk via collateral is considered to be low. The distribution of the loans and advances to customers by type of collateral is presented in the table below:

Collateral held	**31 Dec 2023**	**31 Dec 2022**
Mortgage	42%	42%
Guaranties from the EIF	18%	23%
Machines and vehicles	13%	8%
Cash collateral	11%	7%
Other types of collateral	7%	5%
Without collateral	9%	15%
Total	**100%**	**100%**

The table below sets out the carrying amount and the value of identifiable collateral held against loans and advances to corporate customers measured at amortised cost, other than reverse sale-and-repurchase agreements. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

	2023		**2022**	
	Gross carrying amount	Collateral	Gross carrying amount	Collateral
Stages 1 and 2	2,952,926	2,220,293	2,780,790	2,234,432
Stage 3 & POCI	25,042	20,549	29,132	27,107

The following table stratifies credit exposures housing loans to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

LTV ratio	**31 Dec 2023**	**31 Dec 2022**
Less than 50%	48,679	39,641
51%-70%	62,671	49,360
71%-90%	92,959	89,010
90%-100%	33,769	36,039
More than 100%	46,618	48,825
Total	**284,696**	**262,875**

4 Risk management (continued)

c Credit risk (continued)

The bank has disbursed loans to small and medium enterprises under the auspices of JEREMIE program (Joint European Resources for Micro to Medium Enterprises), which is a joint initiative launched by the European Commission and the European Investment Bank ("EIB") / European Investment Fund ("EIF") to improve access to finance for Micro, Small and Medium-sized Enterprises in the EU. Two more programs for financing of SMEs were launched in 2016 jointly with the EIF – InnovFin SME Guarantee Facility and SME Initiative Guarantee Facility. The subloans disbursed under the programs are partially guaranteed by the ("the EIF"). In 2020 there was an extension of the InnovFin program for a portfolio of loans to SMEs including COVID-19 support transactions. During 2020 new guarantee programs with the EIF were launched: JEREMIE Bulgaria - Documentary Finance Guarantee for a portfolio of loans and documentary operations, ESIF EAFRD Greece for a portfolio of loans to agricultural producers and ESIF ERDF Greece for a portfolio of loans to SMEs. New guarantee programs with the EIF was launched in 2021 under the Pan European Guarantee Fund for a portfolio of loans to SMEs. Additionally, in Greece guarantee agreement was signed with the Hellenic Development Bank (HDB) for a portfolio of loans to SMEs. The total customers loan portfolio outstanding under the programs described above were BGN 601,817 thousand as of end 2023 (2022: BGN 696,318 thousand).

In 2023, ProCredit Bank concluded a financial guarantee agreement with the European Investment Fund covering a portfolio of business loans in the amount of EUR 300 million. The transaction is a synthetic securitisation in which the bank transfers credit risk through financial guarantee.

Early risk detection and monitoring
The early detection of increases in credit risk at the level of a credit exposure is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients. This is done at the individual customer level and for a specific part of the loan portfolio (e.g. for clients in a specific industry or region) based on the currently available and relevant information such as customer financial data or market information.

Supplementary to that assessment, the bank has early warning indicators based on quantitative and qualitative risk features; these indicators are implemented and monitored at portfolio level. These are in part client-specific and include: declining account turnover or balance, high usage of granted credit lines and overdrafts over a longer period of time, blocked bank accounts, arrears, and changes in the ownership structure or registered address of the business. In addition, the bank identifies potential risks for customers with common risk factors, such as those arising from specific economic sectors or geographical regions. Such risk factors can also lead to limits on exposures to certain groups of customers. If the bank cannot rule out an increase in the credit risk of a customer, they are added to a watch list and monitored regularly and more carefully; this acts as a preliminary stage of intensified management. Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to branch management, the bank's head office and in aggregated form to ProCredit Holding. Additionally, on a quarterly basis, the General Risk Management Department prepares a report examining the bank's loan portfolio for concentration by economic sectors / sub-sectors and geographic regions as well as the portfolio quality trends in these economic sectors / sub-sectors. Also the bank regularly monitors changes in the external environment to assess their potential impact on its loan portfolio.

4 Risk management (continued)

c Credit risk (continued)

Relevant credit risk events

The bank monitors its loan portfolio continuously for possible risk-relevant developments. During the 2023 financial year, several macroeconomic developments were identified as negative factors influencing credit risk and the repayment capacity of our customers. These include the rise in interest rates following the restrictive monetary policy of many central banks, the still high inflation, particularly in the first half of the year. Many of these developments were also exacerbated in part by a deterioration in the global security situation, including the war against Ukraine and the renewed conflict in the Middle East.

In addition, the bank analysed loans to customers from economic sectors that it considers to be at risk. In doing so, ProCredit Bank analysed and assessed second-round effects on customers from sectors that could be exposed to potential impacts from supply chain disruptions, economic slowdowns and inflation. The persistently challenging macroeconomic conditions in 2023, in particular the inflation, continue to be analysed regularly in the context of our clients. A systematic deterioration in the quality of the loan portfolio due to the economic conditions was not observed.

Due to the rise in interest rates this year, the bank is still paying particular attention to the potential negative impact of elevated interest charges on its clients. The primary goal is the early identification of customers for whom further interest rate increases could lead to limited repayment capacity. These are monitored more closely as part of a watch list, with further measures being considered in order to prevent possible defaults. The analyses showed that the vast majority of customers are in a position to bear or pass on the increased interest burden. Based on the quality indicators the loan portfolio at the end of 2023, the bank was unable to identify any significant change in the customer credit risk. Furthermore, currently can be observed an easing of the relevant reference rates as compared with the increases in 2022 and the first half of 2023. Nevertheless, the bank continues to take the above-mentioned effects into account as part of a general negative outlook.

Risk and quality-dependent treatment

On the basis of asset quality indicators, the loan portfolio is divided into categories: performing, underperforming and default. This categorisation is based on a risk classification system that takes account for repayment arrears as well as other risk characteristics, including the initiation of bankruptcy or legal proceedings, restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The portfolio indicators allow for a clear overview of the quality of the bank’s portfolio, and represent one of the most important tools for the credit risk management process. The indicators and the associated internal processes are defined in accordance with the requirements of the European Banking Authority. The categories are as follows:

- **The performing loan portfolio** shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined. These exposures are allocated to Stage 1 except the exposures that show significant increase of credit risk which are allocated to Stage 2.

4 Risk management (continued)

c Credit risk (continued)

- **The underperforming loan portfolio** comprises exposures showing increased credit risk. This can be caused by temporary payment difficulties (30-90 days) or restructuring, or by a deterioration in the financial circumstances of clients, as expressed through an adjustment of the risk classification. Nevertheless, the bank still assesses full repayment of the exposure to be possible, e.g. after restructuring. These exposures are allocated to Stage 2 except the exposures that don't show significant increase of credit risk which are allocated to Stage 1.
- **The default loan portfolio (Stage 3)** comprises all exposures in default, pursuant to the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178), that have shown lasting payment difficulties (over 90 days) or other indications. These include, among other factors, when the borrower is highly unlikely to meet their loan obligations to the bank in full or when insolvency proceedings have been initiated.

Once a higher risk of default is identified for a credit exposure, it is placed under intensified management and assigned to the underperforming category. Particularly for the business clients, this centres around close communication, identification of the source of higher credit default risk and close monitoring of business activities. For private customers, any changes in the income or debt situation are investigated in more detail by initiating contact. Decisions on measures to reduce the default risk for individual credit exposures are taken by the authorised decision-making bodies (e.g. Credit Committee on Restructuring) for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure. One of the first steps in managing the exposure is to determine the current economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay. When a credit exposure is classified as defaulted, specialised officers take over dealings with these loans. Based on the prospects for the customer, a strategy is developed with the goal of either restructuring or winding down the exposure. These officers are supported by the legal department of the respective bank. In the event of collateral realisation, items are sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of collateral acquired consists of tangible assets such as land or buildings.

Loss allowance

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowance for both on- and off-balance sheet financial instruments and continues to be optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below.

4 Risk management (continued)

c Credit risk (continued)

Three-stage approach
As with all debt instruments, loans and advances to customers are also broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

- **Stage 1** comprises exposures for which credit risk as of the reporting date has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3; this also includes exposures which have been re-assigned to Stage 1 from other stages. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). For Stage 1 exposures, the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.
- **Stage 2** comprises exposures for which credit risk as of the reporting date has significantly increased since initial recognition, but for which there are no objective indications of impairment; this also includes exposures which have been re-assigned to Stage 2 from Stage 3. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- **Stage 3** includes all defaulted exposures (except POCI); i.e. as of the reporting date, there are objective indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.
- **POCI** exposures refer to defaulted exposures; however, they are recorded separately and are differentiated from other exposures in Stage 3 in the recognition of loss allowances.

Calculation of ECL
Expected credit losses are calculated using the following main parameters:

Exposure at default (EAD)
EAD is the expected exposure amount at the time of a loan default; it is derived from the currently outstanding receivable from the customer and possible future changes under the applicable contractual conditions. Thus, the EAD consists of the expected exposures (including credit risk from off-balance sheet business) at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. For potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities, conversion factors are estimated based on empirical analysis of historical data; for payment guarantees and letters of credit, a conversion factor of 100% or 50%, respectively, is set on the basis of professional judgment.

4 Risk management (continued)

c Credit risk (continued)

Probability of default (PD)
The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer segments defined at bank level. The bank uses statistical models, developed by ProCredit Holding, to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment (PiT estimate). In addition, the PDs over the remaining lifetime of an exposure are estimated.

Loss given default (LGD)
The LGD reflects the expected extent of the loss from a defaulted credit exposure. The figure comprises the probability of recovery from the default and the estimated recovery rates for both scenarios (recovery/non-recovery). The recovery rates are calculated from the discounted cash flows based on historical data on funds received from defaulted customers and on the realisation of collateral and guarantees. The estimated probabilities and recovery rates are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for all borrowers in the bank. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The multi-stage selection process for relevant macroeconomic factors, which address various dimensions of the economic environment (economic performance, inflation, unemployment, interest rate environment, currency strength, energy prices), is based on professional discretion, their statistical significance and economic relevance. Publications of the International Monetary Fund (IMF), the Economist Intelligence Unit (EIU) and the European Central Bank (ECB) are used as data sources for the historical data and forecasts of the following relevant macroeconomic factors: GDP, inflation, unemployment rate, lending rate, purchasing power parity, gas and oil price index. In order to establish the ECL parameters, a probability-weighted average value is calculated based on various scenarios for the macroeconomic factors.

The calculation of loss allowances is automated and parameter-based for exposures in Stage 1 and Stage 2 as well as individually insignificant Stage 3 exposures. Loss allowances for individually significant Stage 3 exposures are estimated by credit analysts.

The calculation of the LGD was adjusted in the first half of 2023. Estimates for LGDs have been based on cash flows, using historical data about payments received from defaulted customers, taking into account the cost of recovery and the size of the credit exposure. The new elements of the LGD calculation provides a granular estimate of the loss given default, incorporating the probability of a return to non-default status and of the realization of available collateral and utilization of guarantees. The new approach applies conceptually different treatment of exposures in various IFRS 9 Stages. Due to the use of individual collateral information, the resulting loss given default (LGD) rates may differ for each contract.

4 Risk management (continued)

c Credit risk (continued)

The adaption of the LLP tool will enable a more risk-sensitive quantification of LLPs and the explicit inclusion of collaterals into the regular risk quantification. The calculation of the loss rate is done on a more granular level as in the current approach. This is done by taking into account various characteristics of the exposure that empirically turned out to influence the loss rate. Hence, a more granular calculation reflects differences in the expected loss rates. Basically the model explores different scenarios for the possible recoveries from the customer's collateral in the event of default.

The net effect of the change in the methodology for the applied parameter corrections after the effect as of May 2023 can be seen in the table below (in thousands of BGN):

Stage	Exposure	LLP before the model change	LLP after the model change	LLP change
Stage 1	2,733,795	25,275	25,495	220
Stage 2	65,769	3,267	2,901	(366)
Reallocated loans from Stage 1 to Stage 2 due to changes in other parameters	27,908	879	840	(39)
Reallocated loans from Stage 2 to Stage 1 due to changes in other parameters	4,075	3	3	-
Stage 3	4,718	2,921	2,501	(420)
SII	20,705	13,420	13,420	-
Total	**2,856,970**	**45,765**	**45,160**	**(605)**

The current economic environment and several crises occurring simultaneously render the application of and the reliance on credit risk parameters based solely on historical information as not fully appropriate. Hence, several adaptions are derived and applied to the results of the credit risk models to reflect the economic environment to a larger extent in the quantification of credit risk. In the current economic environment of the ProCredit group several crises occurred simultaneously: War in Ukraine, Increase of the general price level, Supply chain issues, Increase of energy prices and Uncertainty of the availability of energy resources.

None of the mentioned crises did happen to the current extent during the time covered by the data histories used to specify the credit risk models. Furthermore, some historical relationships between key variables might no longer hold. Hence, effects of these extraordinary situations cannot be included in the parameter forecasts by the standard model specifications but need to be considered by means of model overlays. This led to adaption of the key credit risk parameters.

The general uncertainty increases due to the crises; hence, more pessimistic scenarios may be more relevant for deriving credit risk parameter forecasts than scenarios that reflect and are based on the general environment before the crises. Due to the ongoing tense situation in the Russo-Ukrainian War, with possible spill-over effects impacting the economic situation of the countries where the ProCredit group operates, the weighting of scenarios (baseline/downside/upside) has been adjusted for the calculation of loss allowance parameters. In the standard case, the weighting is 50% for the baseline scenario and 25% each for the upside and downside scenarios. The adjustment to the weighting of the scenarios remains unchanged from the end of the year, with the baseline scenario receiving a weighting of 50%, the downside scenario 40% and the upside scenario 10%. Compared to the weighting in the standard case, the overlays result in an increase in loss allowances amounting to BGN 1.0 million

4 Risk management (continued)

c Credit risk (continued)

The prevailing energy crisis, with volatile prices and limited availability, as well as elevated inflation and higher interest rates, cannot be reflected in all model parameters due to the lack of statistical correlations in the macroeconomic factors and historical default/loss rates. Therefore, the parameter adjustments were maintained for PD and LGD for all banks. The adjustments were based on observations of maximum default and loss rates from historical default events in the crises that serve as stress levels. The key parameters, PD and LGD, have been increased using the defined probability of occurrence of the stress level (20%, based on expert assessment). The modification of the LGD calculation resulted in an adjustment of the LGD stress level calculation, including the suspension of a return to non-defaulted status for a credit exposure. The adjustments to significant model parameters led to a BGN 12.2 million increase in loss allowances.

Overlay description:	Effect
Macroeconomic effects of a negative development due to the ongoing Russian invasion in Ukraine	BGN 1.0 million
Effects of multifactorial crisis on the credit risk parameters	BGN 12.2 million
Total	**BGN 13.2 million**

The current macroeconomic forecasts from the IMF World Economic Outlook Database and the EIU were used in establishing loss allowances. The parameters are calculated by weighting the three scenarios (base/pessimistic/optimistic), with the base scenario normally weighted at 50%, pessimistic scenario – 40% and optimistic scenario – 10%. The weighting was adjusted to reflect the assessment of a currently tense macroeconomic situation.

Bulgaria	GDP growth in %		Inflation rate in %	Change in credit interest rate in %	Change in gas price in %		Weight
	2023	2024	2024	2024	2023	2024	
Baseline scenario	1.7	3.2	2.2	-0.1	-59.4	30.8	50%
Pessimistic scenario	0.3	1.8	7	0.4	-22.3	67.8	40%
Optimistic scenario	3.9	5.4	-1.2	-0.6	-88.5	1.6	10%

The sensitivity of loss allowances is analysed in terms of the influence of relevant macroeconomic factors. Sensitivity is calculated by simultaneously increasing or decreasing all the applied macroeconomic model factors, depending on the expected direction of the factor's impact, in order to simulate positive or negative macroeconomic conditions. The following table presents the loss allowances for the bank with the respective macroeconomic changes.

in BGN thousands	Year	Loss allowance 100% Baseline scenario	Loss allowance 100% Optimistic scenario	Loss allowance 100% Pessimistic scenario	Loss allowance Weighted (50%/10%/40%)
Total loss allowance	2023	43,953	35,915	52,339	46,504

4 Risk management (continued)

c Credit risk (continued)

The calculations and the relevant macroeconomic factors used in the analyses for 2022 are:

Bulgaria	GDP growth in %		Inflation rate in %		Change in credit interest rate in %			Change in oil price in %	Weight
	2022	2023	2023	2024	2022	2023	2024	2024	
Baseline scenario	3.9	3.0	2.4	2.0	0.1	0.1	0.2	-5.7	50%
Optimistic scenario	6.0	5.0	-1.2	-1.6	-0.5	-0.4	-0.3	-24.7	10%
Pessimistic scenario	2.6	1.6	6.7	6.3	0.6	0.6	0.7	13.7	40%

in BGN thousands	Year	Loss allowance 100% Baseline scenario	Loss allowance 100% Optimistic scenario	Loss allowance 100% Pessimistic scenario	Loss allowance Weighted (50%/10%/40%)
Total loss allowance	2022	40,694	29,891	52,097	44,175

Changes in the above assumptions can lead to changes in the calculated loss allowances over time. The ProCredit group acknowledges that discretionary decisions of the Management and estimation uncertainties can have a significant impact on the establishment of loss allowances for collectively and individually assessed exposures. Such discretion is based on the applied definition of default, the approach to determining a significant increase in credit risk (SICR) and the selected macroeconomic factors.

Significant increase in credit risk
When determining whether or not a significant increase in credit risk (SICR) has occurred, both quantitative and qualitative information is used.

The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over the corresponding time period at initial recognition. A significant increase in credit risk is deemed to exist if the difference between these two PDs exceeds a certain limit by a factor of 2.5. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk is no longer significantly elevated.

In addition, qualitative criteria are used for SICR decisions. A transfer from Stage 1 to Stage 2 is made when one of the following criteria is met:

- Contractual payments are past due by more than 30 days but not more than 90 days.
- Classification of the loan as “restructured” (forbearance) pursuant to internal policies (adjustment of contractually agreed conditions).
- Classification of the loan in risk classes 6 or 7, which are associated with an increase in credit risk.
- Recognition of a possible increase in credit risk based on information from the early warning system.

4 Risk management (continued)

c Credit risk (continued)

Impaired credit exposures
If a credit exposure is deemed to be impaired, it is transferred to Stage 3 accordingly. The definition of impairment according to IFRS 9 corresponds to the definition used for the Defaulted portfolio in internal risk management, and thus also the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178). This default definition is applied to all exposures which are part of the loan portfolio of the bank. The bank considers an exposure to be impaired if at least one of the criteria of the default definition is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When establishing Stage 3 loss allowances, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 250,000 (for all exposures to a client). For indications of impairment of significant exposures, an individual assessment is performed to determine loss allowances, taking account for probability-weighted expected inflows in various scenarios, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk with the ECL model.

Returning an exposure from Stage 3 to a lower stage is possible if the customer can settle outstanding debts in full without recourse to collateral realisation. No migration between stages is possible for POCI exposures.

Purchased or Originated Credit Impaired (POCI) assets
In line with IFRS guidelines, the bank performs separate recognition of POCI (Purchased or Originated Credit Impaired) exposures. Within the institution’s business model, the acquisition of impaired exposures is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation through significant modification of the contractually agreed cash flows. For POCI exposures, no allowances for impairment are made at the time of initial recognition. In subsequent periods, all changes with regard to the expected losses over the remaining maturity period (lifetime ECL) are recognised as an expense in the income statement and reported accordingly as loss allowances for these exposures.

Changes to contractual terms (modifications)
Changes to the originally agreed contractual conditions of an exposure are possible, in particular with the aim of improving the prospects of repayment and, if possible, avoiding default, foreclosure or the realisation of collateral. The bank uses qualitative and quantitative factors to determine the existence of a substantial modification of contractual conditions. As a quantitative factor, the net present value of cash flows is determined in order to assess the changed conditions of an exposure (net present value test). In the event of a substantial change, the original contract is derecognised and a new exposure is recognised at the fair value at the time of modification. In the case of a non-substantial change, the gain or loss is recognised through profit or loss.

4 Risk management (continued)

c Credit risk (continued)

Write off

When a loan is uncollectible, it is written off against the corresponding loss allowance which has been set aside, provided there is no justified expectation of repayment. The direct and indirect costs of actively managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure.

For exposures of any size, the banks carry out an individual assessment of the justified feasibility of repayments. Based on the assessment, the banks may decide to write off the exposure or continue to actively manage the exposure in order to allow for further repayment of the loan. A portion of written-off exposures are still subject to enforcement activities.

The following table provides an overview of the respective gross and net exposure amounts and loss allowances for financial assets, broken down by stages:

	Stage1	**Stage 2**	**Stage 3**	**POCI**	**Total**
As of 31 Dec 2023	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**		
Gross outstanding amount	2,780,105	172,821	24,441	601	**2,977,968**
Loss allowances	(21,464)	(11,753)	(13,193)	(94)	**(46,504)**
Carrying amount	**2,758,641**	**161,068**	**11,248**	**507**	**2,931,464**

	Stage1	**Stage 2**	**Stage 3**	**POCI**	**Total**
As of 31 Dec 2022	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**		
Gross outstanding amount	2,676,182	104,608	28,455	677	**2,809,922**
Loss allowances	(22,807)	(4,353)	(16,918)	(97)	**(44,175)**
Carrying amount	**2,653,375**	**100,255**	**11,537**	**580**	**2,765,747**

4 Risk management (continued)

c Credit risk (continued)

The following table presents gross and net exposures, broken down according to economic sector and by stage.

As of 31 December 2023	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transpor-tation and storage	Other economic activities	Housing	Investment loans and OVDs	Other	
Stage 1									
Gross outstanding amount	407,065	511,609	354,111	133,419	996,501	282,827	41,653	52,920	**2,780,105**
Loss allowances	(2,297)	(3,390)	(2,605)	(741)	(8,876)	(2,148)	(557)	(850)	**(21,464)**
Carrying amount	**404,768**	**508,219**	**351,506**	**132,678**	**987,625**	**280,679**	**41,096**	**52,070**	**2,758,641**
Stage 2									
Gross outstanding amount	18,326	35,682	37,047	4,143	71,346	1,420	285	4,572	**172,821**
Loss allowances	(843)	(1,990)	(2,693)	(61)	(6,064)	(38)	(7)	(57)	**(11,753)**
Carrying amount	**17,483**	**33,692**	**34,354**	**4,082**	**65,282**	**1,382**	**278**	**4,515**	**161,068**
Stage 3									
Gross outstanding amount	4,294	1,636	8,011	155	9,518	449	48	330	**24,441**
Loss allowances	(1,355)	(694)	(4,023)	(73)	(6,583)	(202)	(21)	(242)	**(13,193)**
Carrying amount	**2,939**	**942**	**3,988**	**82**	**2,935**	**247**	**27**	**88**	**11,248**
POCI									
Gross outstanding amount	-	5	-	-	596	-	-	-	**601**
Loss allowances	-	(5)	-	-	(89)	-	-	-	**(94)**
Carrying amount	**-**	**-**	**-**	**-**	**507**	**-**	**-**	**-**	**507**

As of 31 December 2022	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transpor-tation and storage	Other economic activities	Housing	Investment loans and OVDs	Other	
Stage 1									
Gross outstanding amount	404,284	526,110	363,023	128,174	915,112	261,916	24,872	52,691	**2,676,182**
Loss allowances	(2,995)	(2,949)	(4,024)	(725)	(8,857)	(2,237)	(273)	(747)	**(22,807)**
Carrying amount	**401,289**	**523,161**	**358,999**	**127,449**	**906,255**	**259,679**	**24,599**	**51,944**	**2,653,375**
Stage 2									
Gross outstanding amount	11,068	17,833	38,256	1,304	35,771	198	-	178	**104,608**
Loss allowances	(589)	(818)	(1,544)	(46)	(1,324)	(26)	-	(6)	**(4,353)**
Carrying amount	**10,479**	**17,015**	**36,712**	**1,258**	**34,447**	**172**	**-**	**172**	**100,255**
Stage 3									
Gross outstanding amount	7,355	2,485	7,940	443	9,014	761	52	405	**28,455**
Loss allowances	(4,300)	(1,333)	(4,339)	(320)	(5,886)	(398)	(26)	(316)	**(16,918)**
Carrying amount	**3,055**	**1,152**	**3,601**	**123**	**3,128**	**363**	**26**	**89**	**11,537**
POCI									
Gross outstanding amount	-	-	-	-	677	-	-	-	**677**
Loss allowances	-	-	-	-	(97)	-	-	-	**(97)**
Carrying amount	**-**	**-**	**-**	**-**	**580**	**-**	**-**	**-**	**580**

Credit risk at the portfolio level is assessed on a quarterly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage ratio (risk provisions in relation to past-due portfolio) and concentration risk.

Concentration risk in the customer loan portfolio is limited by a high degree of diversification. This diversification is a consequence of lending to small and medium businesses in various economic sectors and to private clients. Geographically, the loans and advances to customers are disbursed to clients, which are Bulgarian or Greek residents.

4 Risk management (continued)

c Credit risk (continued)

In addition, ProCredit Bank limits the concentration risk of its portfolios by means of the following requirements: large credit exposures (those exceeding 10% of regulatory capital) require the coordination with the ProCredit Group Credit Risk Management Committee and approval of the Supervisory Board of the bank. No large credit exposure may exceed 25% of regulatory capital, and the sum of all large credit exposures may not exceed 150% of its regulatory capital. The largest credit exposure of the bank was 16% of the regulatory capital as of end 2023.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner.

The bank monitors concentration of risk by economic sector and geographic location. Analyses of concentrations of credit risk is shown below. Business loans include loans for business purposes (working capital or investments) disbursed to Small and Medium clients. Business loans include agricultural loans as well as business overdrafts and revolving loans. Loans to Private clients include consumer and housing loans as well as consumer overdrafts and credit card receivables.

As of 31 December 2023	Gross loans <=50,000 EUR	Gross loans >50,000 <= 250,000 EUR	Gross loans >250,000 <= 500,000 EUR	Gross loans >500,000 <= 1,500,000 EUR	Gross loans >1,500,000 EUR	Total gross loans
Business loans	**306,985**	**456,077**	**746,703**	**443,909**	**639,790**	**2,593,464**
Wholesale and retail trade	57,879	96,714	140,228	87,854	47,010	429,685
Agriculture, forestry and fishing	111,045	154,979	171,442	58,138	53,328	548,932
Production	35,994	75,699	134,810	85,954	66,712	399,169
Transportation and storage	32,405	28,730	33,487	32,779	10,316	137,717
Electricity, gas, steam and air conditioning supply	12,596	17,463	124,722	73,035	311,227	539,043
Construction and real estate	14,456	32,035	73,238	67,847	87,852	275,428
Hotel, restaurant and catering	6,081	13,094	19,096	11,834	7,742	57,847
Other economic activities	36,529	37,363	49,680	26,468	55,603	205,643
Private loans	**196,650**	**136,668**	**49,679**	**1,507**	**-**	**384,504**
Housing	107,427	127,892	47,870	1,507	-	284,696
Investment loans and OVDs	31,797	8,380	1,809	-	-	41,986
Others	57,426	396	-	-	-	57,822
Customer loan portfolio (gross)	**503,635**	**592,745**	**796,382**	**445,416**	**639,790**	**2,977,968**

4 Risk management (continued)

c Credit risk (continued)

As of 31 December 2022	Gross loans <= 50,000 EUR	Gross loans >50,000 <= 250,000 EUR	Gross loans >250,000 <= 500,000 EUR	Gross loans >500,000 <= 1,500,000 EUR	Gross loans > 1,500,000 EUR	Total gross loans
Business loans	**111,373**	**667,222**	**448,977**	**649,205**	**592,072**	**2,468,849**
Wholesale and retail trade	21,974	138,796	83,950	134,840	43,147	422,707
Agriculture, forestry and fishing	43,407	236,714	126,852	96,070	43,385	546,428
Production	11,819	100,909	89,046	128,802	78,643	409,219
Transportation and storage	11,106	46,150	24,423	37,852	10,390	129,921
Electricity, gas, steam and air conditioning supply	4,257	25,189	44,895	129,906	273,296	477,543
Construction and real estate	3,727	43,957	42,772	72,113	77,938	240,507
Hotel, restaurant and catering	2,116	14,445	9,579	20,059	7,224	53,423
Other economic activities	12,967	61,062	27,460	29,563	58,049	189,101
Private loans	**88,926**	**214,954**	**33,518**	**3,675**	**-**	**341,073**
Housing	29,383	197,271	32,546	3,675	-	262,875
Investment loans and OVDs	10,540	13,412	972	-	-	24,924
Others	49,003	4,271	-	-	-	53,274
Customer loan portfolio (gross)	**200,299**	**882,176**	**482,495**	**652,880**	**592,072**	**2,809,922**

The tables below presents the customer loan portfolio and contingent liabilities and commitments split by risk classification, applied by the bank.

As of 31 December 2023

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-5: Performing	1,940,117	54,058	-	-	1,994,175
Grades 6-7: Underperforming	-	70,596	-	-	70,596
Grade 8: Credit-impaired	-	-	23,257	592	23,849
Non-rated exposures	839,988	48,167	1,184	9	889,348
Gross carrying amount	**2,780,105**	**172,821**	**24,441**	**601**	**2,977,968**

As of 31 December 2022

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-5: Performing	1,871,879	69,104	-	-	1,940,983
Grades 6-7: Underperforming	16,920	34,945	-	-	51,865
Grade 8: Credit-impaired	-	-	27,121	677	27,798
Non-rated exposures	787,383	559	1,334	-	789,276
Gross carrying amount	**2,676,182**	**104,608**	**28,455**	**677**	**2,809,922**

4 Risk management (continued)

c Credit risk (continued)

As of 31 December 2023

Contingent liabilities and commitments (Note 31)	Stage 1	Stage 2	Stage 3	IAS 37 contracts	Total
Grades 1-5: Performing	517,909	14,059	14	68,300	600,282
Grades 6-7: Underperforming	-	4,868	-	328	5,196
Grade 8: Credit-impaired	-	-	292	-	292
Non-rated exposures	36,072	9,829	13	2,219	48,133
Gross carrying amount	**553,981**	**28,756**	**319**	**70,847**	**653,903**

As of 31 December 2022

Contingent liabilities and commitments (Note 31)	Stage 1	Stage 2	Stage 3	IAS 37 contracts	Total
Grades 1-5: Performing	434,099	26,557	20	78,412	539,088
Grades 6-7: Underperforming	17	1,013	-	34	1,064
Grade 8: Credit-impaired	-	-	587	7	594
Non-rated exposures	48,873	74	1	6,304	55,252
Gross carrying amount	**482,989**	**27,644**	**608**	**84,757**	**595,998**

Non-rated include exposures to private clients or exposures to enterprises which are lower than EUR 50,000. The following table breaks down the Bank's financial instruments at their carrying amounts, as categorized by geographical region as of 31 December:

As of 31 December 2023	Bulgaria	Greece	Germany	Romania	Total
Assets					
Loans and advances to banks	14,166	6	164,226	-	178,398
Investment debt securities (FVOCI)	32,026	-	77,029	-	109,055
Loans and advances to customers, net	2,186,506	744,958	-	-	2,931,464
Other financial assets	6,431	1,200	-	-	7,631
Total assets	**2,239,129**	**746,164**	**241,255**	**-**	**3,226,548**
Contingent liabilities and commitments (Note 31)	605,526	48,377	-	-	653,903

As of 31 December 2022	Bulgaria	Greece	Germany	Romania	Total
Assets					
Loans and advances to banks	-	6	235,674	9,796	245,476
Investment debt securities (FVOCI)	51,981	-	13,412	-	65,393
Loans and advances to customers, net	2,105,733	660,014	-	-	2,765,747
Other financial assets	6,376	824	-	-	7,200
Total assets	**2,164,090**	**660,844**	**249,086**	**9,796**	**3,083,816**
Contingent liabilities and commitments (Note 31)	536,240	59,758	-	-	595,998

4 Risk management (continued)

c Credit risk (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurance that the bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards.

d Counterparty risk, including issuer risk

The bank defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk in the bank mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There are also structural exposures towards the BNB and the Bank of Greece in the form of mandatory minimum reserves.

Typically, the bank’s counterparties are the BNB, the Bank of Greece, the Bulgarian Government and commercial banks. The main exposures are account balances, short-term time deposit accounts (TDAs), highly liquid securities, and, on a very limited scale, simple derivative instruments for liquidity management and hedging purposes (mostly interest rate swaps and foreign currency forwards and swaps). The bank limits counterparty and issuer risk within through its conservative investment strategy.

The framework for managing the counterparty risk is approved by the Management of the bank and is specified in the respective policies and standards. These define counterparty risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to counterparty risk.

Counterparty risk is managed according to the principle that the bank’s liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. While the bank tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, the bank only works with carefully selected reliable banks which normally have high credit ratings, typically places its money for short terms (up to three months, but typically shorter) and uses only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. The bank is prohibited from engaging in speculative trading. As a matter of principle, only highly liquid securities are bought, typically with a maximum maturity of three years at fixed-interest rates. BGN liquidity is predominantly placed at the BNB or invested in Bulgarian sovereign bonds. EUR or USD, on the other hand, are generally invested in the Bank of Greece (only EUR), ProCredit Bank Germany or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the bank is limited.

4 Risk management (continued)

d Counterparty risk, including issuer risk (continued)

The bank's exposure to counterparty and issuer risk increased in 2023 compared to the end of 2022 in line with the growth of the customer deposits and the corresponding increase of liquid funds. The placements are concentrated towards central banks and ProCredit Bank Germany. The liquid assets other than physical cash of the bank were placed as follows:

Counterparty	31 Dec 2023	in %	31 Dec 2022	in %
Central banks	809,513	74%	524,717	62%
Mandatory reserves	421,545	39%	286,996	34%
Other cash equivalents	387,968	35%	237,721	28%
Banking groups	178,398	16%	245,476	30%
Foreign banks	164,232	15%	245,476	30%
Local banks	14,166	1%	-	-
Securities issued by Bulgarian Government	32,026	3%	51,981	6%
Securities issued by EIB and German public institutions	77,029	7%	13,412	2%
Total	**1,096,966**	**100%**	**835,586**	**100%**

The table below presents an analysis of debt securities and banks placements by rating agency designation, based on the credit assessments of the rating agency Fitch:

As of 31 Dec 2023

Rating	Debt instruments	Loans and advances to banks	Total
AA- to AAA	77,029	127	77,156
BBB- to BBB+	32,026	178,271	210,297
Total	**109,055**	**178,398**	**287,453**

As of 31 Dec 2022

Rating	Debt instruments	Loans and advances to banks	Total
AA- to AAA	13,412	10	13,422
BBB- to BBB+	51,981	245,466	297,447
Total	**65,393**	**245,476**	**310,869**

Exposure to a counterparty is impaired if one or more events with an adverse effect on the expected future cash flows have occurred. Examples of such events are a breach of contract (such as default or overdue payment), significant financial difficulties of the counterparty, or a significant deterioration of the external rating. None of positions shown was past due nor showed any signs of impairment as of 31 December 2023. They are thus assigned to Stage 1 (performing). The bank has established provisions in accordance with IFRS 9 requirements (see also notes 14-18 to the separate financial statements).

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit Bank concludes transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD. The typical maximum maturity of the bank's term deposits is three months; longer maturities must be approved. Approval is required before any investments in securities. The bank's counterparty risk is quantified and analysed regularly as part of the internal capital adequacy calculation. When calculating the risk- and term-adjusted exposure, all exposures towards counterparties are taken into account.

4 Risk management (continued)

e Market risk

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for ProCredit Bank are foreign currency risk and interest rate risk in the banking book. The bank manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the bank risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes. ProCredit Bank is non-trading book institution.

Interest rate benchmark reform

ProCredit Bank (Bulgaria) EAD is not directly exposed to the Interest rate benchmark reform, which is globally undertaken and leads to replacement of key international reference rates. The bank does not have credit facilities or financial instruments, which are linked to interbank offered rates (IBORs) or EONIA.

Since 2018 with the abolishment of the SOFIBOR, the only reference interest index for credit facilities with a variable interest rate is 6-month EURIBOR. Respectively, the financial instruments of the bank are also linked to EURIBOR with different tenors. As the reform of the EURIBOR was only related to enhancement of its methodology, it does not have impact on the bank’s contracts.

Foreign currency risk

The bank defines foreign currency risk as the risk that the bank incurs losses due to exchange rate fluctuations. Foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios.

The framework for managing the foreign currency risk is approved by the Management of the bank and is specified in the respective policies and standards. These define foreign currency risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to currency risk.

Results are impacted negatively when the volume of the assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at bank level. The total OCP is calculated as the sum of the absolute values of the individual currency positions and is limited to 10% of the bank’s capital, unless deviation from this limit has been approved by the ProCredit Group ALCO or ProCredit Group Risk Management Committee. A threshold of 7.5% of the ProCredit Bank’s capital has been defined as an early warning indicator for the total OCP, and ±5% for each individual currency OCP.

ProCredit Bank operates in an environment, where the local currency is stable because of the currency board in Bulgaria. It guarantees that in a mid-term no fluctuations of the local currency to the EUR exchange rate are expected. As almost all of the assets and liabilities are denominated either in local currency or in EUR, the exposure of the bank toward foreign currency risk is insignificant. ProCredit Bank’s overall net foreign currency position (excluding EUR, to which the BGN is pegged) is virtually kept at 0% of the capital (as of 31.12.2023 the value was 0.1%) and the foreign currency risk is immaterial.

4 Risk management (continued)

e Market risk (continued)

The table below summarizes the bank's exposure to foreign currency exchange rate risk.

As of 31 December 2023	BGN	EUR	USD	Other	Total
Assets					
Cash and central bank balances	385,865	460,844	830	-	847,539
Loans and advances to banks	-	116,602	57,628	4,168	178,398
Investment securities (FVOCI)	1,204	80,571	35,993	-	117,768
Loans and advances to customers, net	1,567,679	1,363,744	41	-	2,931,464
Derivative financial assets	-	9,125	-	-	9,125
Other financial assets	5,938	1,690	3	-	7,631
Total financial assets	**1,960,686**	**2,032,576**	**94,495**	**4,168**	**4,091,925**
Liabilities					
Liabilities to banks	-	6,641	-	-	6,641
Liabilities to customers	2,018,889	1,364,809	96,883	4,224	3,484,805
Liabilities to financial institutions	-	251,076	-	-	251,076
Lease liabilities	10,852	1,123	-	-	11,975
Derivative financial liabilities	-	1,888	-	-	1,888
Other financial liabilities	2,997	1,905	8	2	4,912
Total financial liabilities	**2,032,738**	**1,627,442**	**96,891**	**4,226**	**3,761,297**
Net balance sheet position	**(72,052)**	**405,134**	**(2,396)**	**(58)**	**330,628**
Contingent liabilities and commitments (Note 31)	489,244	163,068	1,591	-	653,903
Open spot transactions	(17,602)	14,767	2,646	196	7

As of 31 December 2022	BGN	EUR	USD	Other	Total
Assets					
Cash and central bank balances	271,513	285,846	3,669	-	561,028
Loans and advances to banks	-	182,803	56,618	6,055	245,476
Investment securities (FVOCI)	918	52,039	19,588	-	72,545
Loans and advances to customers, net	1,440,192	1,325,473	82	-	2,765,747
Derivative financial assets	-	15,117	-	-	15,117
Other financial assets	5,397	1,801	2	-	7,200
Total financial assets	**1,718,020**	**1,863,079**	**79,959**	**6,055**	**3,667,113**
Liabilities					
Liabilities to banks	-	16,230	-	-	16,230
Liabilities to customers	1,781,478	1,188,655	84,740	5,927	3,060,800
Liabilities to financial institutions	-	230,716	-	-	230,716
Lease liabilities	9,651	1,254	-	-	10,905
Derivative financial liabilities	-	47	-	-	47
Other financial liabilities	2,303	1,416	8	2	3,729
Total financial liabilities	**1,793,432**	**1,438,318**	**84,748**	**5,929**	**3,322,427**
Net balance sheet position	**(75,412)**	**424,761**	**(4,789)**	**126**	**344,686**
Contingent liabilities and commitments (Note 31)	413,056	179,437	3,505	-	595,998
Open spot transactions	-	4,792	(4,784)	-	8

4 Risk management (continued)

e Market risk (continued)

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities. The bank's aim in interest rate risk management is to keep these differences as small as possible in all currencies.

The framework for managing the interest rate risk is approved by the Management of the bank and is specified in the respective policies and standards. These define interest rate risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. General Risk Assessment Committee is responsible for all key decisions regarding interest rate risk management, and this committee analyses, at least quarterly, the interest rate risk profile of the bank.

In order to manage interest rate risk, ProCredit Bank primarily issues variable-rate loans. In this way, the repricing maturities of assets can be better matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans. In order to grant variable-rate loans in a transparent manner, the bank uses a publicly available interest rate as a benchmark when adjusting the interest rates.

The measurement, monitoring, limiting and management of interest rate risk is based on economic value impact (EVI) and P&L-oriented indicators. The risk is measured on a regular basis, at least quarterly. The assets and liabilities are distributed across time buckets according to the contractual terms, thereby aggregating individual contracts into homogeneous groups. Sight deposits are included in the gap analyses as non-interest bearing. Interest-bearing savings accounts with unspecified contractual fixed interest are included in the gap analysis according to analyses of historical data. In addition, regularly updated assumptions on planned business developments are used to calculate the P&L indicator.

Included in the table below are the bank's assets and liabilities, presented as discounted future cash flows, categorised by the earlier of contractual repricing or maturity dates. Total undiscounted cash flows consist of principal and interest amounts, which are due. The credit risk factors (provisions) are also taken into consideration. The provisioned amounts are deducted proportionally from the cash flows. The table below summarises the bank's exposure to interest rate risk.

4 Risk management (continued)

e Market risk (continued)

As of 31 December 2023	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total un-discounted cash flows	Total carrying amount
Assets								
Cash and central bank balances	398,772	-	-	-	-	448,767	847,539	847,539
Loans and advances to banks	173,638	-	-	-	-	4,769	178,407	178,398
Investment securities (FVOCI)	23,013	5,678	57,199	26,384	-	7,738	120,012	117,768
Loans and advances to customers, net	140,564	184,751	1,210,981	1,064,187	723,998	-	3,324,481	2,931,464
Derivative financial assets	9,125	-	-	-	-	-	9,125	9,125
Other financial assets	-	-	-	-	-	7,631	7,631	7,631
Total financial assets	**745,112**	**190,429**	**1,268,180**	**1,090,571**	**723,998**	**468,905**	**4,487,195**	**4,091,925**
Liabilities								
Liabilities to banks	5,887	-	-	-	-	754	6,641	6,641
Liabilities to customers	1,350,641	112,435	393,608	34,817	1,321	1,591,983	3,484,805	3,484,805
Liabilities to financial institutions	39,088	15,094	107,500	109,098	36	-	270,816	251,076
Lease liabilities	159	317	1,560	7,367	2,572	-	11,975	11,975
Derivative financial liabilities	1,887	-	-	-	-	-	1,887	1,888
Other financial liabilities	-	-	-	-	-	4,912	4,912	4,912
								0
Total financial liabilities	**1,397,662**	**127,846**	**502,668**	**151,282**	**3,929**	**1,597,649**	**3,781,036**	**3,761,297**
Interest sensitivity gap	**(652,550)**	**62,583**	**765,512**	**939,289**	**720,069**	**(1,128,744)**	**706,159**	**330,628**

As of 31 December 2022	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total un-discounted cash flows	Total carrying amount
Assets								
Cash and central bank balances	245,734	-	-	-	-	315,294	561,028	561,028
Loans and advances to banks	213,240	28,455	-	-	-	3,848	245,543	245,476
Investment securities (FVOCI)	117	19,928	24,588	23,186	-	6,392	74,211	72,545
Loans and advances to customers, net	121,435	184,930	1,168,458	924,541	611,998	-	3,011,362	2,765,747
Derivative financial assets	15,117	-	-	-	-	-	15,117	15,117
Other financial assets	-	-	-	-	-	7,200	7,200	7,200
Total financial assets	**595,643**	**233,313**	**1,193,046**	**947,727**	**611,998**	**332,734**	**3,914,461**	**3,667,113**
Liabilities								
Liabilities to banks	-	-	-	-	-	16,230	16,230	16,230
Liabilities to customers	1,114,997	80,684	333,189	19,221	1,005	1,511,704	3,060,800	3,060,800
Liabilities to financial institutions	34,910	13,743	63,765	134,240	4,291	-	250,949	230,716
Lease liabilities	135	270	1,280	5,903	3,317	-	10,905	10,905
Derivative financial liabilities	47	-	-	-	-	-	47	47
Other financial liabilities	-	-	-	-	-	3,729	3,729	3,729
Total financial liabilities	**1,150,089**	**94,697**	**398,234**	**159,364**	**8,613**	**1,531,663**	**3,342,660**	**3,322,427**
Interest sensitivity gap	**(554,446)**	**138,616**	**794,812**	**788,363**	**603,385**	**(1,198,929)**	**571,801**	**344,686**

4 Risk management (continued)

e Market risk (continued)

Interest rate risk is quantified on the basis of economic value impact and on the basis of the 12-month P&L effect. Modelled country-specific, risk-free yield curves are used in a multi-curve approach to discount the cash flows. The bank assumes a +/– parallel shift of the yield curves. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a historical analysis, with a minimum interest rate shock set at ± 200 basis points. Limits are set in relation to regulatory capital for the economic value impact and in relation to the forecast net interest income for the P&L effect. Both indicators remained within their limits.

31 Dec 2023		31 Dec 2022	
Economic value impact	12 month P&L effect	Economic value impact	12 month P&L effect
(15,520)	(32,798)	(13,530)	(35,485)

f Liquidity and funding risk

Liquidity and funding risk addresses the ProCredit Bank’s short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

The framework for managing ProCredit Bank’s liquidity and funding risk is approved by the Management of the bank and is specified in the respective policies and standards. These define liquidity risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. The ALCO is responsible for key operational decisions regarding liquidity management. Selected liquidity risk indicators are reported and presented each month in detail to the ProCredit Group Risk Management Committee.

The bank assesses short-term liquidity risk on the basis of a liquidity gap analysis, among other instruments, and the bank monitors this risk using numerous indicators. These include both a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI) and a survival period, as well as the minimum liquidity ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the bank is able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the bank. The defined minimum survival period limits is at least 90 days on total currency level. LCR indicates whether the bank has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. Early warning indicators are also defined and monitored.

Market-related, institution-specific (idiosyncratic), combined and longer-term stress tests are conducted monthly and ad hoc to make sure that the bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, the bank has a contingency plan. If unexpected circumstances arise and an individual bank from ProCredit group proves not to have sufficient liquid funds, ProCredit Holding would step in as a “lender of last resort”. ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis. In addition, ProCredit Holding has developed a liquidity contingency plan.

4 Risk management (continued)

f Liquidity and funding risk (continued)

The liquidity of the bank is managed on a daily basis by the respective responsible units, based on the ALCO-approved cash flow projections, and is monitored by risk management and ALCO.

The liquidity situation of ProCredit Bank remained adequate and stable over the course of the year. This was mainly due to a strong increase in deposits as well as loan utilisation under funding agreements with international financial institutions. The bank had sufficient liquidity available at all times in 2023 to meet all financial obligations in a timely manner.

4 Risk management (continued)

f Liquidity and funding risk (continued)

The following table shows the undiscounted cash flows of the financial assets and financial liabilities of the bank according to their remaining contractual maturities.

Maturity analysis for financial assets and financial liabilities

As of 31 December 2023	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Gross nominal amount	Total carrying amount
Assets							
Cash and central bank balances	847,763	-	-	-	-	847,763	847,539
Loans and advances to banks	178,407	-	-	-	-	178,407	178,398
Investment securities (FVOCI)	14,454	14,113	33,556	49,188	8,713	120,024	117,768
Loans and advances to customers, net	86,377	175,689	983,478	1,297,016	827,569	3,370,129	2,931,464
Derivative financial assets	-	-	-	-	9,125	9,125	9,125
Other financial assets	7,631	-	-	-	-	7,631	7,631
Total financial assets	**1,134,632**	**189,802**	**1,017,034**	**1,346,204**	**845,407**	**4,533,079**	**4,091,925**
Liabilities							
Liabilities to banks	6,641	-	-	-	-	6,641	6,641
Liabilities to customers	2,923,563	85,014	442,921	39,341	-	3,490,839	3,484,805
Liabilities to financial institutions	2,056	8,618	44,506	227,148	-	282,328	251,076
Lease liabilities	159	317	1,560	7,367	2,572	11,975	11,975
Derivative financial liabilities	-	-	-	-	1,887	1,887	1,888
Other financial liabilities	4,912	-	-	-	-	4,912	4,912
Total financial liabilities	**2,937,331**	**93,949**	**488,987**	**273,856**	**4,459**	**3,798,582**	**3,761,297**
Liquidity gap	**(1,802,699)**	**95,853**	**528,047**	**1,072,348**	**840,948**	**734,497**	**330,628**
Contingent liabilities and commitments	**653,903**	**-**	**-**	**-**	**-**	**653,903**	**653,903**

As of 31 December 2022	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Gross nominal amount	Total carrying amount
Assets							
Cash and central bank balances	561,182	-	-	-	-	561,182	561,028
Loans and advances to banks	216,143	29,337	-	-	-	245,480	245,476
Investment securities (FVOCI)	109	19,495	4,555	42,554	7,152	73,865	72,545
Loans and advances to customers, net	80,989	176,795	961,942	1,146,506	694,373	3,060,605	2,765,747
Derivative financial assets	-	-	-	-	15,117	15,117	15,117
Other financial assets	7,200	-	-	-	-	7,200	7,200
Total financial assets	**865,623**	**225,627**	**966,497**	**1,189,060**	**716,642**	**3,963,449**	**3,667,113**
Liabilities							
Liabilities to banks	16,230	-	-	-	-	16,230	16,230
Liabilities to customers	2,612,628	80,517	348,996	19,833	-	3,061,974	3,060,800
Liabilities to financial institutions	2,732	14,293	26,543	199,626	7,461	250,655	230,716
Lease liabilities	135	270	1,281	5,902	3,317	10,905	10,905
Derivative financial liabilities	-	-	-	-	47	47	47
Other financial liabilities	3,729	-	-	-	-	3,729	3,729
Total financial liabilities	**2,635,454**	**95,080**	**376,820**	**225,361**	**10,825**	**3,343,540**	**3,322,427**
Liquidity gap	**(1,769,831)**	**130,547**	**589,677**	**963,699**	**705,817**	**619,909**	**344,686**
Contingent liabilities and commitments	**595,998**	**-**	**-**	**-**	**-**	**595,998**	**595,998**

Liabilities to customers with maturity up to 1 month include all sight and saving deposits amounting to BGN 2,810,137 thousand (2022: BGN 2,513,336 thousand). The bank's management expects that these funds will not be withdrawn at the same time or within the period in which they are reflected. Additionally, an analysis of depositors' behaviour revealed that 81% of term deposits at maturity date were not withdrawn but automatically renegotiated under similar terms and conditions.

4 Risk management (continued)

f Liquidity and funding risk (continued)

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that the bank finances its lending operations primarily through customer deposits; nonetheless, its deposit-taking operations focus on the target group of business clients and private clients/savers, with whom the bank establishes strong relationships. These are supplemented by long-term credit lines from international financial institutions (IFIs). The funding of the bank has proven to be resilient even in times of stress. As of end-December 2023, the largest funding source was deposits with BGN 3.485 million and liabilities to international financial institutions are the second-largest source of funding, accounting for BGN 251 million.

The bank manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the bank, identified in the business planning process, are monitored and regularly reviewed. ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. ProCredit Holding and the ProCredit Bank Germany also offer bridge financing. Early warning indicator for limiting funding risk is the deposit concentration indicator which has a set reporting trigger of 5% (it stood at 4.1% as of end 2023). Two additional indicators restrict the level of funding from the interbank market to a low level.

g Operational risk management

In line with CRR, the bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems (e.g. failure of data-processing systems, embezzlement, human error, faulty processes, structural weaknesses, insufficient monitoring) or from external events (e.g. criminal activities, natural disasters). This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. Operational risk management aims to identify, analyse and assess all material risks at an early stage and to avoid their recurrence by implementing preventive measures, which are mitigating the identified risks.

The bank has an assigned operational risk management role to ensure the effective implementation of the operational and fraud risk management framework within the institution. In addition, the Operational Risk Assessment Committee (“ORAC”) serves as decision-making body for operational risk matters. A centralised and decentralised reporting procedure ensures that the Management as well as other members of the ORAC receive regular comprehensive reports on operational risks to serve as a basis for their decisions. Operational risk is accounted for and monitored within the scope of the group’s capital adequacy calculation in the economic approach.

One of the key components of operational risk management is the detailed recording of risk events arising from operational risks. In this context, a Risk Event Database (RED) was developed to ensure that all risk events above certain monetary threshold identified in ProCredit group and in the bank with realised or potential losses from operational risks are recorded, analysed and communicated effectively. Through this uniform, pre-defined structure for the documentation of risk events, it is ensured that adequate attention is paid to the implementation of necessary corrective and/or preventive measures for reducing or avoiding operational and fraud risk.

4 Risk management (continued)

g Operational risk management (continued)

In addition, operational risk and fraud risk assessments are carried out annually in the bank. This broad risk assessment aims to identify the potential risks and the implemented risk mitigation controls within all processes in the bank, if a higher level of risk is identified in certain area action plans are developed and their implementation is closely monitored. In contrast to the ex-post analysis of risk events as recorded in the RED, these risk assessments are systematically performed in order to identify and evaluate key risks and to assess the adequacy of the control processes. Risk mitigation measures are defined for the areas identified as high risk. These two control components complement each other and provide an overall picture of the operational risk profile for the bank.

In addition, early warning indicators (Key Risk Indicators for fraud) have been defined for the bank, in order to identify areas of banking business with increased fraud risk. The early warning indicators are analysed regularly and, where needed, preventive measures are agreed upon.

To complete the management of operational risk, all new products, processes, instruments and/or activities need to pass through a New Risk Approval (NRA) process before being implemented or used for the first time. An NRA is required to ensure that all new risks are assessed and all necessary preparations and tests are completed prior to implementation. In relation to the outsourced activities, a risk assessment is carried out of the provider and to the services, which are outsourced in order the impact of potential failure to be measured and the risk to be recognized and if necessary mitigated with certain action plans and mitigation measures.

In order to limit IT risks, the bank has defined standards for IT infrastructure, business continuity and information security. Regular controls of information security and business continuity are part of existing processes and procedures. The bank carries out a classification of the information assets and conduct an annual risk assessment on the critical information assets. The business continuity framework implemented in the bank ensures that these risks are understood by all members of the staff. Critical processes are identified and resources are allocated to restore operations, in line with the prioritisation of processes. The bank has implemented broad Information Security Awareness program in order to increase the employees` preparedness, readiness and informed decision making in topics like phishing, social engineering, hacking, blackmailing, viruses, other attack technics and vectors along with applied countermeasures. The main goal of the Information Security strategy is aligned with the business strategy of the bank and strongly supported by the Management.

A key element of the risk assessment is the evaluation of outsourcing. The bank is following the latest EBA (EBA/GL/2019/02) and MaRisk regulations regarding outsourcing of services. The bank maintains a register of all outsourced activities and conducts evaluation of risk on each outsourced process. On an annual basis the bank conducts monitoring of all outsourcing arrangements, which is fully in line with the EBA Guidelines on outsourcing arrangements. KPI Assessment is performed, based on the results of the annual monitoring, which further complements to the risk overview related to outsourcing.

h Risks arising from money laundering, terrorist financing and other acts punishable by law

Responsible behaviour is an integral part of the bank’s values-oriented business model. This is reflected in the Code of Conduct for the bank’s employees as well as in the contents of the introductory courses for new staff and in the curricula of the ProCredit academies. The prevention of money laundering, terrorist financing and fraud is a key component of the bank’s self-perception. This is illustrated by the criteria used to select customers and by the few cases of internal fraud within the ProCredit group as a whole.

4 Risk management (continued)

h Risks arising from money laundering, terrorist financing and other acts punishable by law (continued)

The bank has implemented the ProCredit group-wide guidelines on the prevention of money laundering and terrorist financing, which in many respects are stricter than the legal requirements prevailing in the individual countries of operation of the ProCredit group. As the ProCredit group is supervised by the German financial supervisory authorities, the bank implements the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at Bulgarian and European level.

The bank's ethical responsibility is documented in the form of its Code of Conduct and Exclusion List, which contain the core rules and regulations that all employees of ProCredit banks are obliged to observe. The group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, together with their subordinate directives, specify how these basic rules are to be implemented in practice.

Besides identifying all contracting parties and clarifying the purpose of the business relationship, the collection of client data also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during the bank's business relationship with a client.

ProCredit Bank uses specialized software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers work closely with the responsible law enforcement authorities and report regularly to the ProCredit Group Anti-Money Laundering (AML) Officer at ProCredit Holding, who in turn is the main contact for supervisory and law enforcement authorities in Germany and other countries.

i Capital management

Capital management in the bank is guided by the principle that the institution shall not at any time incur greater risks than it is able to bear. The capital management framework of the bank has the following objectives:

- Compliance with regulatory capital requirements (normative perspective);
- Ensuring internal capital adequacy (economic perspective);
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the bank is able to act;
- Support for the bank in implementing the plans for sustainable growth.

The capital adequacy is monitored using different indicators for which early warning indicators and limits have been established. The indicators include capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and a calculation of capitalisation in the economic perspective (i.e. internal capital adequacy assessment process – ICAAP). ProCredit Bank is subject to the requirements imposed by the respective national supervisory authorities. The capital management of ProCredit Bank is governed by specific policies and monitored on a monthly basis by the Management.

Ensuring that the bank maintains sufficient capitalisation in the economic perspective at all times is a key element of the bank's risk management and capital management processes. In the context of the economic perspective, the capital needs arising from the bank's specific risk profile are compared with the available capital resources to assure that the institution's capitalisation is sufficient at all times. Capitalisation in the economic perspective was adequate at all times during the course of 2023.

4 Risk management (continued)

i Capital management (continued)

The methods the bank uses to calculate the amount of economic capital required to cover the different risks the bank is exposed are based on statistical models, provided that appropriate models are available. The included material risks and the limits set for each risk reflect the specific risk profile of the bank and are based on the annually conducted risk inventory. The following risks are included in the internal capital adequacy calculation: credit risk(comprising customer credit risk and counterparty risk); foreign currency risk; interest rate risk; operational risk.

Capitalisation in the normative perspective

The normative perspective analyses whether regulatory and supervisory capital requirements have been met on a continuous basis. This was the case at all times during the reporting period.

Since 1 January 2014, the Basel III requirements, implemented in Bulgaria through Capital Requirements Directive IV and Regulation 575/2013 (CRR), have been binding for the bank. As per Art. 92 of Regulation 575/2013, the minimum capital requirement for the overall capital adequacy ratio is 8% of the total risk exposure. Added to this requirement are the capital buffers, which the BNB demands that the banks maintain as per Regulation No. 8 on the capital buffers of banks. The buffers and the respective requirement towards the bank are as follows:

- Capital conservation buffer in the form of Common Equity Tier 1 equal to 2.5% of total risk exposure amount;
- Systemic risk buffer in the form of Common Equity Tier 1 capital equal to 3.0% of the total risk exposures in Bulgaria;
- Countercyclical capital buffer in the form of Common Equity Tier 1 capital equal to 2.0% of the credit risk exposures in Bulgaria.

After adding the capital buffers to the capital requirements, the minimum requirement amounts to 14.3% as of 31.12.2023 according to the regulatory framework applicable for ProCredit Bank. The bank's internal capital management policy sets a stricter limit for the total capital adequacy ratio with a reporting trigger of 15.8% and a limit of 15.3% (as of 31.12.2023).

When defining the capital requirements for the purposes of calculation of capital adequacy as per Regulation 575/2013, the bank adheres to the following:

- Capital requirements for credit risk and counterparty risk – Standardised approach as per Part Three, Section II, Chapter 2 of Regulation 575/2013 is used for exposure classes. Credit risk mitigation techniques are applied in the calculation of capital requirements for credit risk. Risk amounts arising from credit risk are reduced in part through the recognition of guarantees from the European Investment Fund (EIF), cash collaterals and mortgages on immovable property.
- Capital requirements for operational risk – Standardized approach as per part Three, Section III, Chapter 3 of Regulation 575/2013. Compared to the regulatory capital requirements for operational risk, which amount to BGN 13.1 million, the average annual loss according to data recorded in the Risk Event Database in the last three years amounted to BGN 59 thousand.

As ProCredit Bank is a non-trading book institution, which moreover does not engage in transactions involving commodities, foreign currency risk is the only market risk to be considered. However, ProCredit Bank does not calculate a capital requirement for currency risk, as the overall net foreign currency position (excluding EUR) is virtually kept very close to 0% of the capital (as of 31.12.2023 the value was 0.1%, which is less than minimum threshold of 2% according to Regulation 575/2013).

4 Risk management (continued)

i Capital management (continued)

The regulatory capital ratios are calculated by dividing the capital by the amount of the risk-weighted assets; when calculating each ratio, only the respective capital components are considered (of the Common Equity Tier 1 capital, of the Tier 1 capital and of the overall capital adequacy). The bank's regulatory capital ratios are presented below:

Regulatory capital	2023	2022
Common Equity Tier 1 capital	295,853	269,701
Total regulatory capital	**295,853**	**269,701**
Risk Weighted Assets		
Risk Weighted Assets for Credit Risk	1,364,004	1,585,561
Risk Weighted Assets for Operational Risk	163,770	144,696
Total Risk Weighted Assets	**1,527,774**	**1,730,257**
Capital ratios		
Common Equity Tier 1 capital	19.4%	15.6%
Tier 1 capital	19.4%	15.6%
Total capital	19.4%	15.6%

The Common Equity Tier 1 capital of the bank is composed of subscribed capital, reserves and retained earnings. Deductions are made for intangible assets, additional valuation adjustments for balance sheet items recognised at fair value, investment in non-financial subsidiary undertakings, NPL and other deductions related to credit risk corrections. ProCredit Bank increased its share capital by BGN 29,337 thousand in 2023.

The Bank's risk-weighted assets decreased during the reporting period. The change is a result of a signed synthetic securitization agreement with the European Investment Fund (EIF). Through it, the EIF provides a guarantee commitment that includes a guarantee for a senior tranche and a mezzanine tranche of a synthetic securitization. The agreement complies with the requirements of Part Three, Title II, Chapter 5 Securitization of Regulation (EU) No. 575/2013, with the bank retaining a significant net economic interest, which in all cases is not less than 5%.

Synthetic securitization agreement

On 20.06.2023, ProCredit Bank (Bulgaria) EAD signed a synthetic securitization agreement with the European Investment Fund, according to which ProCredit Bank is the originator and beneficiary, while the EIF is the provider of credit protection. The purpose of the agreement is to provide a guarantee commitment, which includes a guarantee for a senior tranche and a mezzanine tranche of a synthetic securitization. The synthetic securitization agreement complies with the requirements of Part Three, Title II, Chapter 5 Securitization of Regulation (EU) No. 575/2013, with the bank retaining a significant net economic interest, which in all cases is not less than 5%. The final date of the agreement is 30.06.2043, and for the period until 30.06.2025, ProCredit Bank may include reference credit exposures to the portfolio that is the subject of synthetic securitization, up to the size of the initial reference portfolio.

The bank implemented the synthetic securitization agreement to optimize its regulatory capital and take advantage of lending opportunities by structuring a synthetic securitization to achieve the transfer of significant risk in respect of a portfolio of SME and corporate exposures created by the bank in carrying out her usual activity. The synthetic securitization risk transfer was achieved using a credit risk reduction instrument (synthetic securitization). From a regulatory point of view, the loan portfolio remains on ProCredit Bank's balance sheet, while the guarantee transfers significant credit risk to the EIF and accordingly reduces the risk-weighted amounts of the securitized exposures. The Bank may claim guarantee payments in respect of the guaranteed loan portfolio allocated to senior and mezzanine tranches.

4 Risk management (continued)

i Capital management (continued)

The deal has the following structure of the financial guarantee as of 31.12.2023:

Tranche	Tranche value	Share	Guarantee	Reserved % (total for the deal)
First	495,817	84.5%	100%	
Intermediate	79,213	13.5%	100%	
Subordinated	11,736	2.0%	0%	
Total	**586,766**	**100.0%**		**10%**

The value of the financial guarantee agreement does not change in response to changes in certain indicators. Fees payable are not variable based on credit ratings or credit index. Therefore, the guarantee does not meet the criteria to be classified as a derivative. The agreement requires EIF to reimburse ProCredit Bank for credit losses from the designated loan portfolio. The agreement is therefore treated as a financial guarantee agreement.

Within IFRS, financial guarantee agreements are referred to as credit enhancements. The accounting treatment depends on whether the credit enhancement is considered an integral part of the loan.

If the financial guarantee is an integral part of the loan, the following settings are applicable:
a) guarantee costs are treated as transaction costs and included in the effective interest rate and
b) expected cash flows are included in the measurement of expected credit losses.

Determining whether a guarantee is an integral part of the loan agreement involves professional judgment. The following indicators can be taken into account to assess whether there is a link between the loan and the financial guarantee agreement:

- the guarantee is part of the contractual terms of the loan,
- there is a connection when the guarantee and the loan is concluded, i.e. the loan would not be concluded without the guarantee,
- the loan cannot be transferred without the guarantee,
- the credit enhancement of the loan is required by local laws and regulations,
- the loan and guarantee are traded as a package on the market,
- the guarantee was concluded at the same time or shortly after the loan was disbursed.

The financial guarantee agreement between ProCredit and EIF does not meet the criteria mentioned above, as it covers an already agreed loan portfolio that is allowed to be adjusted from time to time (by reduction, corrections, removal, replenishment). If new loans replenish the securitized portfolio during the replenishment period, this will happen after they are disbursed. This means that the lending proceeds regardless of the existence of the agreement and that the financial guarantee contract is not an integral part of the loan portfolio. Therefore, fee expenses are not included in the effective interest rate and expected cash flows are not included in the calculation of expected credit losses.

If the financial guarantee is not an integral part of the loan, IFRS 9 does not provide guidance on the accounting treatment of financial guarantees received. The decision of ProCredit Bank is to report the received guarantees as a right of recovery in respect of the credit loss under IAS 37. Therefore, the bank recognizes an asset when it is almost certain that the credit loss will be settled by the EIF. In all other cases, the financial guarantee contract is an off-balance sheet item and is not recognized as an asset. Fee expense for off-balance sheet positions is amortized over the term of the guarantee as part of Fee and commission expenses in the Statement of profit or loss.

4 Risk management (continued)

j Internal control system and risk management system in the financial reporting process

The internal control system and risk management system in ProCredit Bank's financial reporting process comprises the principles, procedures and measures for the effective, cost-efficient and rule-compliant application of financial reporting requirements. The main risks in due and proper financial reporting are the improper representation of financial position and financial performance or delayed publication. The internal control system in the financial reporting process is subject to the general principles of the bank's risk management approach and is thus an integral component of the risk management system.

Primary responsibility for the internal control system and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Management. The Management establishes the general principles and defines areas of responsibility. Finance function implements the requirements of the Management and defines the specific parameters within the framework provided. Operational Risk Management identifies and assesses risks on a regular basis. Risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the risks identified.

The financial reporting process aims to standardise, to the greatest extent possible, the application of the main international financial reporting standards and related processes. The ProCredit group Accounting & Taxes function establishes the accounting manual, which applies throughout the group, and defines the material processes in the respective policies, taking account for the principle of dual control. The processes for report preparation are largely automated and the functionalities of the key IT applications have been defined on a centralised basis. IT permissions are defined and regularly monitored in accordance with the respective policies.

The financial reporting process is supported by a multi-step control system. This ensures compliance with legal requirements and the implementation of internal policies. The units in the bank prepare information relevant for financial reporting with the support of IT applications which are uniform throughout the bank. The information packages from units in the bank are reviewed, taking account for the dual control principle, and then subject to standardised quality checks.

In addition, Internal Audit supports the Management and the Supervisory Board in their control functions through independent and objective risk-oriented audits. Regular audits are performed on the financial reporting processes to determine whether they are effective, orderly and cost efficient.

5 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values the financial assets and liabilities in the bank's statement of financial position, distributed in the respective hierarchical levels in accordance to the methods used for determining of the fair value.

As of 31 December 2023				**Fair value hierarchy**		
Financial assets	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash	AC	38,250	38,250	38,250	-	-
Central bank balances	AC	809,289	809,513	-	809,513	-
Loans and advances to banks	AC	178,398	178,398	-	178,398	-
Investment securities (Bonds)	FVOCI	109,055	109,055	97,417	11,638	-
Investment securities (Shares)	FVOCI	8,713	8,713	7,451	-	1,262
Loans and advances to customers, net	AC	2,931,464	2,994,643	-	-	2,994,643
Derivative financial assets	FV	9,125	9,125		9,125	
Other financial assets	AC	7,631	7,631	-	7,631	-
Total		**4,091,925**	**4,155,328**	**143,118**	**1,016,305**	**2,995,905**

Financial liabilities	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	6,641	6,641	-	6,641	-
Liabilities to customers	AC	3,484,805	3,484,639	-	2,846,545	638,094
Liabilities to financial institutions	AC	251,076	240,435	-	-	240,435
Lease liabilities	AC	11,975	11,975	-	11,975	-
Derivative financial liabilities	FV	1,888	1,888	-	1,888	-
Other financial liabilities	AC	4,912	4,912	-	4,912	-
Total		**3,761,297**	**3,750,490**	**-**	**2,871,961**	**878,529**

As of 31 December 2022				**Fair value hierarchy**		
Financial assets	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash	AC	36,464	36,464	36,464	-	-
Central bank balances	AC	524,564	524,718	-	524,718	-
Loans and advances to banks	AC	245,476	245,480	-	245,480	-
Investment securities (Bonds)	FVOCI	65,393	65,393	65,393	-	-
Investment securities (Shares)	FVOCI	7,152	7,152	6,176	-	976
Loans and advances to customers, net	AC	2,765,747	2,826,597	-	-	2,826,597
Derivative financial assets	FV	15,117	15,117		15,117	
Other financial assets	AC	7,200	7,200	-	7,200	-
Total		**3,667,113**	**3,728,121**	**108,033**	**792,515**	**2,827,573**

Financial liabilities	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	16,230	16,230	-	16,230	-
Liabilities to customers	AC	3,060,800	3,059,840	-	2,572,901	486,939
Liabilities to financial institutions	AC	230,716	215,265	-	-	215,265
Lease liabilities	AC	10,905	10,905	-	10,905	-
Derivative financial liabilities	FV	47	47	-	47	-
Other financial liabilities	AC	3,729	3,729	-	3,729	-
Total		**3,322,427**	**3,306,016**	**-**	**2,603,812**	**702,204**

* categories: FV - At Fair value; AC - Amortised cost; FVOCI - fair value through other comprehensive income

5 Fair values of financial assets and liabilities (continued)

(i) Cash
The fair value of the assets matches their carrying amount.

(ii) Loans and advances to banks
Loans and advances to banks include inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Investment securities
The bank's portfolio of government securities is carried at fair value using the Level 1 inputs that are quoted market prices (unadjusted) in active markets for identical instruments. A small part of the investment securities includes equity securities where observable market prices are not available (SWIFT and Borika-Bankservice shares).

(iv) Loans and advances to customers
Loans and advances are net of impairment allowance. The fair value of loans and advances represents the discounted amount of estimated future cash flows using the interest rates currently offered by the bank for similar risk and maturity. Difference in fair values and carrying amounts represents the changes in the current market interest rates.

(v) Financial liabilities
The fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for similar risk and maturity.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution within the ProCredit group (incl. ProCredit Bank (Bulgaria) EAD). Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

6 Net interest income

	2023	2022
Interest income calculated using the effective interest rate method		
Loans and advances to customers	118,119	81,256
Loans and advances to banks	17,379	2,209
Investment securities	1,701	64
Derivatives in qualifying hedging relationship	5,322	905
Total interest income calculated using the effective interest rate method	**142,521**	**84,434**
Interest income from derivatives	237	-
Total interest income	**142,758**	**84,434**
Interest and similar expenses		
Liabilities to customers	6,426	865
Liabilities to banks and financial institutions	8,629	4,058
Lease liabilities	435	367
Derivatives in qualifying hedging relationship	3,414	878
Interest expenses for derivatives	115	48
Total interest and similar expenses	**19,019**	**6,216**
Net interest income	**123,739**	**78,218**

Included in “Interest income from loans and advances to customers” for 2023 is BGN 1,593 thousand of accrued interest on impaired loans (2022: BGN 1,546 thousand).

7 Loss allowance

	2023	2022
Net loss of allowances for central bank balances	70	25
Net loss/(reversal) of allowances for loans and advances to banks	(4)	4
Net reversal of allowances for investment securities (FVOCI)	(7)	(3)
Net loss of allowances for off-balance sheet positions	158	575
Net loss of allowances for other assets	223	101
Allowances for loans and advances to customers:		
• Net loss of allowances for loans and advances to customers	7,258	15,818
• Recovery of written-off loans	(1,770)	(2,375)
• Direct write-offs	339	508
• Modification	(204)	(812)
• Income from unrecognized interest IFRS 9	(645)	(596)
Total loss allowance	**5,418**	**13,245**

8 Net fee and commission income

	2023	2022
Fee and commission income		
Opening and account maintenance fees	10,227	9,888
Loan related fees	6,874	6,449
Debit/credit cards	6,679	5,662
Payment services	6,356	4,616
Cash operations on machines	3,335	2,608
Insurance fees	1,068	979
Loan management	72	130
Others	219	650
Total fee and commission income from contracts with customers	**34,830**	**30,982**
Letters of credit and guarantees	1,193	951
Total fee and commission income	**36,023**	**31,933**
Fee and commission expense	**2023**	**2022**
Guarantees for EIF programs	3,514	1,273
Debit/credit cards	2,402	1,885
Correspondent accounts	635	579
Others	361	310
Total fee and commission expense	**6,912**	**4,047**
Net fee and commission income	**29,111**	**27,886**

Loan related fees include: fees for changes in loan conditions; prepayment fees; commitment fees; loan application fees; collateral appraisal fees.

9 Result from foreign exchange transactions

	2023	2022
Currency transactions	10,349	9,838
Net gains from currency revaluation	449	472
Total result from foreign exchange transactions	**10,798**	**10,310**

10 Other income/ Other expenses

	2023	2022
a) Other income		
Income from non-financial services	1,356	975
Reversal of impairment of repossessed property	7	870
Income from derivative financial instruments	-	731
Fee for keeping of funds of closed inactive accounts	-	98
Dividends from investment securities	88	90
Income from sale of repossessed property	-	35
Income from sale of own property	-	27
Income from management services to subsidiaries	17	17
Other operating income	494	944
Total other income	**1,962**	**3,787**

10 Other income/ Other expenses (continued)	**2023**	**2022**
b) Other expenses		
Loss from derivative financial instruments	1,016	-
BNB fees	834	684
Loss from sale of own property	196	-
Loss from sale of repossessed property	35	-
Other expenses related to repossessed property	24	76
Fee for keeping of funds of closed inactive accounts	94	-
Other operating expenses	138	-
Total other expenses	**2,337**	**760**

"Dividends from investment securities" includes the dividend received by entities in which the bank has non-controlling interest. "BNB fees" includes banking supervision fee, payment supervision fee and restructuring fee, paid to Bulgarian National Bank.

11 Personnel expenses	**2023**	**2022**
Salary expenses	27,808	21,032
Pension costs	1,913	1,545
Other social security costs	2,008	1,644
Other employee costs	240	118
Total personnel expenses	**31,969**	**24,339**

12 Administrative expenses	**2023**	**2022**
Non-income tax	8,320	6,555
Depreciation fixed and intangible assets (Note 19)	7,904	6,502
Communication and transport costs	5,742	4,293
Consultancy, legal and audit services	5,569	4,371
Marketing, advertising and representation	5,005	1,992
Other professional services	3,760	2,804
Payments to Deposit Insurance Fund and Bank Restructuring Fund	3,628	3,341
Training	3,254	2,385
Security services	1,560	946
Maintenance and utilities	1,375	1,414
IT expenses	1,363	1,254
Operating lease rentals	60	34
Other administrative expenses	2,574	1,616
Total administrative expenses	**50,114**	**37,507**

The amounts accrued in 2023 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD: BGN 133 thousand excluding VAT, for Baker Tilly Klitou and Partners EOOD: BGN 44 thousand excluding VAT. In 2023 the bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 73 thousand excluding VAT and by Baker Tilly Klitou and Partners EOOD: BGN 15 thousand excluding VAT.

12 Administrative expenses (continued)

Other non-statutory audit services performed by KPMG Audit OOD are as follows:

- Audit of the special purpose financial information of ProCredit Bank (Bulgaria) EAD prepared as of and for the year ended 31 December 2023 in accordance with the accounting instructions of ProCredit Holding AG to the components subject to consolidation;
- Review of the special purpose financial information of ProCredit Bank (Bulgaria) EAD prepared as of and for the period ended 30 June 2023 in accordance with the accounting instructions of ProCredit Holding AG to the components subject to consolidation;
- Audit in accordance with the International Standards on Auditing of the interim financial statements prepared under the International Financial Reporting Standards for the period ended September 30, 2023
- Procedures in relation to the bank's internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2023.

Other non-statutory audit services performed by Baker Tilly Klitou and Partners EOOD are as follows:

- Audit in accordance with the International Standards on Auditing of the interim financial statements prepared under the International Financial Reporting Standards for the period ended September 30, 2023
- Procedures in relation to the bank's internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2023.

For 2022 the accrued amount for the provided audit and non-audit services by the external auditors were BGN 172 thousand excluding VAT.

13 Income tax expense

	2023	2022
Current income tax	11,521	4,805
Deferred income tax (Note 20)	93	105
Total income tax expenses	**11,614**	**4,910**

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

13 Income tax expense (continued)

	2023	2022
Profit before income tax	**75,772**	**44,350**
out of which in Greece	22,789	10,046
Theoretical tax in Greece	6,180	1,408
Theoretical tax at a tax rate of 10% (2022: 10%)	5,298	3,430
Tax effect from non-taxable income	(3)	(180)
Tax effect of expenses not deductible for tax purposes	139	252
Total income tax expense	**11,614**	**4,910**

The effective tax rate for 2023 is: 15.3% (2022: 11.1%).

14 Cash and central bank balances

	2023	2022
Cash in hand	38,250	36,464
Central bank balances (excl. mandatory reserve)	387,968	238,263
Loss allowances for cash and central bank balances	(224)	(154)
Mandatory reserve deposits	421,545	286,455
Total cash and central bank balances	**847,539**	**561,028**
Loans and advances to banks with a maturity up to 3 months	178,392	235,648
Minimum reserve with central bank, which does not qualify as cash for the statement of cash flows	(421,545)	(286,455)
Loss allowances for cash and central bank balances	224	-
Central bank balances which do not qualify as cash or cash equivalents for the statement of cash flows	(121)	-
Cash and cash equivalents for the statement of cash flows	**604,489**	**510,221**

The following table discloses the central bank balances by three stages for the purpose of expected credit losses measurement as of 31 December 2023.

Central bank balances

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2022	**546,974**	**-**	**-**	**-**	**546,974**
Derecognition	-	-	-	-	**-**
Decrease in placements	(22,256)	-	-	-	**(22,256)**
Gross outstanding amount as at 31 Dec 2022	**524,718**	**-**	**-**	**-**	**524,718**
Derecognition	-				**-**
Increase in placements	284,795				**284,795**
As at 31 Dec 2023	**809,513**	**-**	**-**	**-**	**809,513**

Loss allowances for cash and central bank balances

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2022	**(129)**	**-**	**-**	**-**	**(129)**
Release due to derecognition	-	-	-	-	**-**
Increase in credit risk	(25)	-	-	-	**(25)**
Balance at 31 Dec 2022	**(154)**	**-**	**-**	**-**	**(154)**
Release due to derecognition	-	-	-	-	**-**
Increase in credit risk	(70)	-	-	-	**(70)**
As at 31 Dec 2023	**(224)**	**-**	**-**	**-**	**(224)**

15 Loans and advances to banks

	2023	2022
Current accounts	164,232	206,310
Loans up to three months	14,166	29,375
Loans above three months	-	9,795
Loss allowances for loans and advances to banks	-	(4)
Total loans and advances to banks	**178,398**	**245,476**

The following table discloses the loans and advances to banks balances by three stages for the purpose of expected credit losses measurement as of 31 December 2023.

Loans and advances to banks

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2022	**122,085**	**-**	**-**	**-**	**122,085**
New financial assets originated	39,170	-	-	-	**39,170**
Derecognition	(38,336)	-	-	-	**(38,336)**
Increase in placements	122,561	-	-	-	**122,561**
Gross outstanding amount as at 31 Dec 2022	**245,480**	**-**	**-**	**-**	**245,480**
New financial assets originated	14,166	-	-	-	**14,166**
Derecognition	(39,171)	-	-	-	**(39,171)**
Decrease in placements	(42,077)	-	-	-	**(42,077)**
As at 31 Dec 2023	**178,398**	**-**	**-**	**-**	**178,398**

Loss allowances for loans and advances to banks

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2022	**-**	**-**	**-**	**-**	**-**
New financial assets originated	-	-	-	-	**-**
Increase in credit risk	(4)	-	-	-	**(4)**
Balance at 31 Dec 2022	**(4)**	**-**	**-**	**-**	**(4)**
New financial assets originated	-	-	-	-	**-**
Decrease in credit risk	4	-	-	-	**4**
As at 31 Dec 2023	**-**	**-**	**-**	**-**	**-**

16 Investment securities (FVOCI)

	As of 31 December 2023		
	Listed	**Unlisted**	**Total**
Bulgarian Government debt securities	32,026	-	32,026
Debt securities of other institutions	77,029	-	77,029
Shares	7,451	1,262	8,713
Total investment securities	**116,506**	**1,262**	**117,768**

	As of 31 December 2022		
	Listed	**Unlisted**	**Total**
Bulgarian Government debt securities	51,981	-	51,981
Debt securities of other institutions	13,412	-	13,412
Shares	6,176	976	7,152
Total investment securities	**71,569**	**976**	**72,545**

The shares represent investments in local and foreign financial intermediary institutions.

16 Investment securities (FVOCI) (continued)

The following table discloses the debt securities by three stages for the purpose of expected credit losses measurement as of 31 December 2023.

Investment securities

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2022	**61,455**	**-**	**-**	**-**	**61,455**
New financial assets originated	24,372	-	-	-	**24,372**
Derecognition	(19,898)	-	-	-	**(19,898)**
Decrease in placements	(536)	-	-	-	**(536)**
Gross outstanding amount as at 31 Dec 2022	**65,393**	**-**	**-**	**-**	**65,393**
New financial assets originated	67,775	-	-	-	**67,775**
Derecognition	(25,186)	-	-	-	**(25,186)**
Increase in placements	1,073	-	-	-	**1,073**
As at 31 Dec 2023	**109,055**	**-**	**-**	**-**	**109,055**

The movement of the shares are presented in the table below:

	2023	2022
Opening balance	**7,152**	**7,106**
Gains/ (losses) from changes in FV	1,738	(301)
Foreign currency revaluation	(177)	347
Closing balance	**8,713**	**7,152**

17 Investments in subsidiaries

The bank owns the total share capital of ProCredit Properties EAD, which co-owns (together with the bank) the head office building of the group. The registered capital of the company is divided into 10 shares with a nominal value of BGN 5,000 each. All shares confer equal voting power and are fully paid. The total investment of the bank in the company is BGN 419 thousand (2022: BGN 419 thousand).

The bank owns the total share capital of ProCredit Education EAD. The registered capital of the company is divided into 8,000,000 shares with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The total investment of the bank in the company is BGN 8,163 thousand (2022: BGN 8,163 thousand).

The bank owns the total share capital of Private High School “Denis Diderot” EAD. The company was founded in 2021. The registered capital of the company is divided into 50,000 shares with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The total investment of the bank in the company is BGN 50 thousand (2022: BGN 50 thousand).

18 Loans and advances to customers, net

	2023	2022
Total gross loans and advances	2,977,968	2,809,922
Less provision for impairment	(46,504)	(44,175)
Total loans and advances to customers, net	**2,931,464**	**2,765,747**

The following table discloses the changes in the gross carrying amount and credit loss allowance for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

18 Loans and advances to customers, net (continued)

Loans and advances to customers – Business loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2022	**2,036,028**	**46,268**	**35,737**	**751**	**2,118,784**
New financial assets originated	899,009	-	-	-	**899,009**
Modification of contractual cash flows of financial assets	(11)	(133)	-	-	**(144)**
Derecognition	(381,961)	(12,727)	(4,146)	-	**(398,834)**
Write-offs	-	-	(10,052)	-	**(10,052)**
Changes in interest accrual	139	54	720	1	**914**
Changes in the principal and disbursement fee amount	(122,882)	(13,442)	(4,429)	(75)	**(140,828)**
Transfer from Stage 1 to Stage 2	(153,516)	153,516	-	-	**-**
Transfer from Stage 1 to Stage 3	(1,364)	-	1,364	-	**-**
Transfer from Stage 2 to Stage 1	60,340	(60,340)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(10,007)	10,007	-	**-**
Transfer from Stage 3 to Stage 2	-	1,043	(1,043)	-	**-**
Transfer from Stage 3 to Stage 1	921	-	(921)	-	**-**
Gross outstanding amount as at 31 Dec 2022	**2,336,703**	**104,232**	**27,237**	**677**	**2,468,849**
New financial assets originated	750,665	-	-	-	**750,665**
Modification of contractual cash flows of financial assets	(73)	199	30	-	**156**
Derecognition	(302,475)	(30,573)	(3,664)	-	**(336,712)**
Write-offs	-	-	(4,772)	-	**(4,772)**
Changes in interest accrual	2,675	300	453	-	**3,428**
Changes in the principal and disbursement fee amount	(254,727)	(30,304)	(3,043)	(76)	**(288,150)**
Transfer from Stage 1 to Stage 2	(357,791)	357,791	-	-	**-**
Transfer from Stage 1 to Stage 3	(991)	-	991	-	**-**
Transfer from Stage 2 to Stage 1	228,472	(228,472)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(7,620)	7,620	-	**-**
Transfer from Stage 3 to Stage 2	-	991	(991)	-	**-**
Transfer from Stage 3 to Stage 1	247	-	(247)	-	**-**
Gross outstanding amount as at 31 Dec 2023	**2,402,705**	**166,544**	**23,614**	**601**	**2,593,464**

Loss allowances for loans and advances to customers – Business loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2022	**(12,762)**	**(2,570)**	**(18,736)**	**(10)**	**(34,078)**
New financial assets originated	(5,394)	-	-	-	**(5,394)**
Release due to derecognition	2,298	497	1,668	-	**4,463**
Transfer from Stage 1 to Stage 2	1,018	(1,018)	-	-	**-**
Transfer from Stage 1 to Stage 3	12	-	(12)	-	**-**
Transfer from Stage 2 to Stage 1	(571)	571	-	-	**-**
Transfer from Stage 2 to Stage 3	-	2,164	(2,164)	-	**-**
Transfer from Stage 3 to Stage 2	-	(93)	93	-	**-**
Transfer from Stage 3 to Stage 1	(8)	-	8	-	**-**
Increase in credit risk	(16,850)	(7,412)	(12,389)	(99)	**(36,750)**
Decrease in credit risk	12,707	3,552	5,705	12	**21,976**
Usage of allowance	-	-	9,649	-	**9,649**
Increase due to modification without derecognition	-	(12)	-	-	**(12)**
Decrease due to modification without derecognition	-	-	-	-	**-**
Balance at 31 Dec 2022	**(19,550)**	**(4,321)**	**(16,178)**	**(97)**	**(40,146)**
New financial assets originated	(7,081)	-	-	-	**(7,081)**
Release due to derecognition	1,225	421	2,216	-	**3,862**
Transfer from Stage 1 to Stage 2	6,997	(6,997)	-	-	**-**
Transfer from Stage 1 to Stage 3	6	-	(6)	-	**-**
Transfer from Stage 2 to Stage 1	(2,713)	2,713	-	-	**-**
Transfer from Stage 2 to Stage 3	-	884	(884)	-	**-**
Transfer from Stage 3 to Stage 2	-	(356)	356	-	**-**
Transfer from Stage 3 to Stage 1	(2)	-	2	-	**-**
Increase in credit risk	(14,441)	(22,818)	(9,694)	-	**(46,953)**
Decrease in credit risk	17,649	18,836	6,870	3	**43,358**
Usage of allowance	-	-	4,598	-	**4,598**
Increase due to modification without derecognition	-	(16)	(8)	-	**(24)**
Decrease due to modification without derecognition	-	3	1	-	**4**
As at 31 Dec 2023	**(17,910)**	**(11,651)**	**(12,727)**	**(94)**	**(42,382)**

18 Loans and advances to customers, net (continued)

Loans and advances to customers – Private loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2022	**276,777**	**639**	**2,977**	**-**	**280,393**
New financial assets originated	123,384	-	-	-	**123,384**
Modification of contractual cash flows of financial assets	(667)	-	-	-	**(667)**
Derecognition	(24,758)	(138)	(439)	-	**(25,335)**
Write-offs	-	-	(1,281)	-	**(1,281)**
Changes in interest accrual	45	1	(93)	-	**(47)**
Changes in the principal and disbursement fee amount	(34,976)	(74)	(324)	-	**(35,374)**
Transfer from Stage 1 to Stage 2	(794)	794	-	-	**-**
Transfer from Stage 1 to Stage 3	(144)	-	144	-	**-**
Transfer from Stage 2 to Stage 1	359	(359)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(493)	493	-	**-**
Transfer from Stage 3 to Stage 2	-	6	(6)	-	**-**
Transfer from Stage 3 to Stage 1	253	-	(253)	-	**-**
Gross outstanding amount as at 31 Dec 2022	**339,479**	**376**	**1,218**	**-**	**341,073**
New financial assets originated	122,078	-	-	-	**122,078**
Modification of contractual cash flows of financial assets	48	-	-	-	**48**
Derecognition	(34,513)	(464)	(157)	-	**(35,134)**
Write-offs	-	-	(302)	-	**(302)**
Changes in interest accrual	141	(2)	25	-	**164**
Changes in the principal and disbursement fee amount	(41,097)	(2,121)	(205)	-	**(43,423)**
Transfer from Stage 1 to Stage 2	(10,486)	10,486	-	-	**-**
Transfer from Stage 1 to Stage 3	(29)	-	29	-	**-**
Transfer from Stage 2 to Stage 1	1,707	(1,707)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(317)	317	-	**-**
Transfer from Stage 3 to Stage 2	-	26	(26)	-	**-**
Transfer from Stage 3 to Stage 1	72	-	(72)	-	**-**
Gross outstanding amount as at 31 Dec 2023	**377,400**	**6,277**	**827**	**-**	**384,504**

Loss allowances for loans and advances to customers – Private loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2022	**(2,932)**	**(78)**	**(2,106)**	**-**	**(5,116)**
New financial assets originated	(1,413)	-	-	-	**(1,413)**
Release due to derecognition	261	9	375	-	**645**
Transfer from Stage 1 to Stage 2	10	(10)	-	-	**-**
Transfer from Stage 1 to Stage 3	2	-	(2)	-	**-**
Transfer from Stage 2 to Stage 1	(5)	5	-	-	**-**
Transfer from Stage 2 to Stage 3	-	28	(28)	-	**-**
Transfer from Stage 3 to Stage 2	-	-	-	-	**-**
Transfer from Stage 3 to Stage 1	(3)	-	3	-	**-**
Increase in credit risk	(576)	(28)	(855)	-	**(1,459)**
Decrease in credit risk	1,404	42	616	-	**2,062**
Usage of allowance	-	-	1,257	-	**1,257**
Increase due to modification without derecognition	(5)	-	-	-	**(5)**
Decrease due to modification without derecognition	-	-	-	-	**-**
Balance at 31 Dec 2022	**(3,257)**	**(32)**	**(740)**	**-**	**(4,029)**
New financial assets originated	(1,173)	-	-	-	**(1,173)**
Release due to derecognition	317	6	129	-	**452**
Transfer from Stage 1 to Stage 2	109	(109)	-	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	-	**-**
Transfer from Stage 2 to Stage 1	(16)	16	-	-	**-**
Transfer from Stage 2 to Stage 3	-	6	(6)	-	**-**
Transfer from Stage 3 to Stage 2	-	(1)	1	-	**-**
Transfer from Stage 3 to Stage 1	(19)	-	19	-	**-**
Increase in credit risk	(618)	(111)	(353)	-	**(1,082)**
Decrease in credit risk	1,102	123	211	-	**1,436**
Usage of allowance	-	-	274	-	**274**
Increase due to modification without derecognition	(2)	-	-	-	**(2)**
Decrease due to modification without derecognition	2	-	-	-	**2**
As at 31 Dec 2023	**(3,555)**	**(102)**	**(465)**	**-**	**(4,122)**

19 Property, plant and equipment and Intangible assets

	Land and buildings	Business and office equipment	ROU assets – buildings	Intangible assets	Total
Cost					
Balance as of 1 Jan 2022	21,367	18,472	14,509	16,373	70,721
Acquisitions	2,150	7,351	2,317	5,300	17,118
Disposals	(485)	(2,585)	(1,175)	(133)	(4,378)
Balance as of 31 Dec 2022	**23,032**	**23,238**	**15,651**	**21,540**	**83,461**
Depreciation					
Balance as of 1 Jan 2022	4,802	10,375	3,998	9,619	28,794
Depreciation for the period	570	2,344	1,659	1,929	6,502
Accumulated depreciation of disposal	(265)	(2,238)	(403)	(103)	(3,009)
Balance as of 31 Dec 2022	**5,107**	**10,481**	**5,254**	**11,445**	**32,287**
Carrying amounts					
Balance as of 1 Jan 2022	16,565	8,097	10,511	6,754	41,927
Balance as of 31 Dec 2022	17,925	12,757	10,397	10,095	51,174
Cost					
Balance as of 1 Jan 2023	23,032	23,238	15,651	21,540	83,461
Acquisitions	2,614	6,340	2,880	9,858	21,692
Disposals	(977)	(3,614)	(264)	(181)	(5,036)
Balance as of 31 Dec 2023	**24,669**	**25,964**	**18,267**	**31,217**	**100,117**
Depreciation					
Balance as of 1 Jan 2023	5,107	10,481	5,254	11,445	32,287
Depreciation for the period	676	2,816	1,915	2,497	7,904
Accumulated depreciation of disposal	(1)	(2,801)	(263)	(118)	(3,183)
Balance as of 31 Dec 2023	**5,782**	**10,496**	**6,906**	**13,824**	**37,008**
Carrying amounts					
Balance as of 1 Jan 2023	17,925	12,757	10,397	10,095	51,174
Balance as of 31 Dec 2023	18,887	15,468	11,361	17,393	63,109

20 Deferred tax liabilities

The deferred income taxes relate to the following temporary differences:

	2023	2022
Deferred tax assets		
Repossessed properties	215	212
Unused staff holiday time and retirement benefit provision	85	117
Right of use assets	58	-
Other temporary differences	31	31
Total deferred tax assets	**389**	**360**
Deferred tax liabilities		
Property, plant and equipment	512	390
Other temporary differences	46	46
Total deferred tax liabilities	558	436
Net deferred tax liabilities	**(169)**	**(76)**

The following table analyses the change in deferred taxes:

	2023	2022
Unused staff holiday time and retirement benefit provision	(32)	27
Repossessed properties	3	(142)
Right of use assets	58	-
Property, plant and equipment	(122)	10
Total change in deferred taxes (Note 13)	**(93)**	**(105)**

21 Other assets

	2023	2022
Accounts receivable	6,752	6,589
Repossessed properties	-	28
Prepayments	3,103	1,652
Unauthorized overdrafts	879	611
Tax receivables	271	32
Loss allowance for account receivables	(536)	(313)
Total other assets	**10,469**	**8,599**

Repossessed properties shown in the above table include real estates, agricultural and regulated land, etc. They are carried at the lower of the previous carrying amount of the written-off loan and the expected selling price less cost to sell. Reconciliation of the carrying amount of repossessed property is presented in the following table:

21 Other assets (continued)

Repossessed property	2023	2022
Balance as of 1 January	28	214
Additions	-	347
(Sales)	-	(1,438)
(Impairment)/Reversal of impairment of repossessed property	(28)	905
Balance as of 31 December	**-**	**28**

Fair values of repossessed property is established on the basis of internal calculations. The bank considers the following valuation techniques:

- Cost approach. It considers the current replacement costs of building the property, including the cost of transportation, installation and start-up.
- Income approach. It considers the present value of the net cash flows expected to be generated from the facility, taking into account the planned EBITDA growth rate and budgeted capital expenditure growth rate; the expected net cash flows are discounted using a risk-adjusted discount rate.
- Sales comparison approach. It considers direct comparison with the offered prices of similar properties.

The following table discloses the other financial assets balances by three stages for the purpose of expected credit losses measurement as of 31 December 2023.

Other financial assets

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2022	**3,778**	**-**	**-**	**-**	**3,778**
New financial assets originated	7,200	-	-	-	**7,200**
Derecognition	(3,778)	-	-	-	**(3,778)**
Gross outstanding amount as at 31 Dec 2022	**7,200**	**-**	**-**	**-**	**7,200**
New financial assets originated	7,631	-	-	-	**7,631**
Derecognition	(7,200)	-	-	-	**(7,200)**
As at 31 Dec 2023	**7,631**	**-**	**-**	**-**	**7,631**

Loss allowances for other assets

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2022	**(211)**	**-**	**-**	**-**	**(211)**
New financial assets originated	(116)	-	-	-	**(116)**
Release due to derecognition	14	-	-	-	**14**
Balance at 31 Dec 2022	**(313)**	**-**	**-**	**-**	**(313)**
New financial assets originated	(261)	-	-	-	**(261)**
Release due to derecognition	38	-	-	-	**38**
As at 31 Dec 2023	**(536)**	**-**	**-**	**-**	**(536)**

22 Liabilities to banks

	2023	2022
Current accounts	6,641	16,230
Total liabilities to banks	**6,641**	**16,230**

The current accounts include liabilities to ProCredit Bank Germany for BGN 6,641 thousand (2022: BGN 16,218 thousand).

23 Liabilities to customers

	2023	2022
Current accounts		
- private individuals	408,392	405,736
- legal entities	1,165,902	1,083,389
Total current accounts	**1,574,294**	**1,489,125**
Saving accounts		
- private individuals	573,662	511,597
- legal entities	676,530	546,361
Total saving accounts	**1,250,192**	**1,057,958**
Term deposit accounts		
- private individuals	315,461	193,420
- legal entities	322,799	294,480
Total term deposit accounts	**638,260**	**487,900**
Payments in transit	22,059	25,817
Total liabilities to customers	**3,484,805**	**3,060,800**

24 Liabilities to financial institutions

Institution	Final year of maturity	2023	2022
European Investment Bank (EIB)	2028	77,727	85,169
ProCredit Holding	2027	60,060	60,093
European Bank for Reconstruction and Development (EBRD)	2027	50,648	58,236
European Fund for Southeast Europe (EFSE)	2026, 2027	58,572	18,992
European Investment Fund (EIF)	2026	4,069	8,226
Total liabilities to financial institutions		**251,076**	**230,716**

The loan agreement with the European Investment Fund is under the JEREMIE program aimed towards co-financing of small and medium enterprises. The bank was in compliance with the covenants included in the respective loan agreements in 2023. The loans, received by financial institutions, are not collateralized by the bank.

25 Lease liabilities

The bank as a lessee
The bank leases a number of branch premises. The leases typically run for a period of 10 years. There are few leases for long-term apartment and warehouse rentals needed to support the bank's activities.

The bank also leases short-term apartment and parking space rentals, IT equipment and water dispensers. These leases are short-term and/or leases of low-value items. The bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

25 Lease liabilities (continued)

Lease liabilities can be analysed as follows:

	2023	2022
Total lease liabilities	**11,975**	**10,905**

	2023	2022
Short-term lease liabilities	2,036	1,685
Long-term lease liabilities	9,939	9,220
Total lease liabilities	**11,975**	**10,905**

Minimum lease payments	**2023**	**2022**
Up to 1 year	2,335	1,910
Between 1 and 5 years	8,490	7,244
More than 5 years	3,101	3,815
Total minimum lease payments	**13,926**	**12,969**
Reduced by the amounts representing finance costs	(1,951)	(2,064)
Present value of the minimum lease payments	**11,975**	**10,905**

	2023	2022
Interest expense on lease liabilities	435	367
Expense relating to leases of low-value assets	604	413
Total expenses related to leases	**1,039**	**780**

The Bank had total cash outflows for leases of BGN 2,233 thousand in 2023 (BGN 1,787 thousand in 2022).

26 Derivative financial assets and liabilities

Derivative financial assets and liabilities represent the net position of discounted interest payments from interest rate swaps with ProCredit Bank (Germany). Derivative financial assets and liabilities are presented in the table below.

		31.12.2023	
		Fair value	
	Nominal amount	Assets	Liabilities
Interest rate swaps	146,935	9,125	1,888
Total	**146,935**	**9,125**	**1,888**

		31.12.2022	
		Fair value	
	Nominal amount	Assets	Liabilities
Interest rate swaps	141,867	15,117	39
Currency spot deals	4,792	-	8
Total	**146,659**	**15,117**	**47**

Hedge accounting

The bank designates interest rate swaps as hedging instruments in hedging relationships (hedge accounting) in accordance with IFRS 9. These are used to hedge against changes in the fair value of fixed-interest loans attributable to interest rate risk (micro fair value hedge).

26 Derivative financial assets and liabilities (continued)

The bank hedges the fixed-interest underlying transactions with pay-fixed/receive-floating interest rate swaps in the context of micro-hedges. Underlying and hedging transactions enter into a hedging relationship in full. The critical terms of the hedging instrument and the hedged item match or are closely aligned.

	2023		2022	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Risk exposure				
Interest rate				
Designated in fair value hedges	8,851	1,888	14,739	39
Total interest rate derivatives	**8,851**	**1,888**	**14,739**	**39**

	Maturity 2023			Maturity 2022		
Risk category	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Interest rate risk						
Hedge of loans and advances						
Nominal amount	-	-	142,354	-	-	136,196
Average fixed interest rate	-	-	4.0%	-	-	3.9%

Fair value hedges

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2023 were as follows.

	2023						
		Carrying amount					
	Nominal amount	**Assets**	**Liabilities**	**Line item in the statement of financial position where the hedging instrument is included**	**Change in fair values used for calculating hedge ineffectivenes s**	**Ineffectiven ess recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectivene ss**
Interest rate risk							
Hedge of loans and advances							
Interest rate swaps – hedge of loans and advances to customers	142,354	8,851	1,888	Derivative financial assets (liabilities)	(7,737)	(885)	Other expense

The amounts relating to items designated as hedged items at 31 December 2023 were as follows.

	2023						
	Carrying amount		**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item**				
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Line item in the statement of financial position in which the hedged item is included**	**Change in values used for calculating hedge ineffectivenes s**	**Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.**
Loans and advances to customers	133,878	-	(7,501)	-	Loans and advances to customers	7,014	-

26 Derivative financial assets and liabilities (continued)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2022 were as follows.

	2022						
		Carrying amount					
	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included	Change in fair values used for calculating hedge ineffectivenes s	Ineffectiven ess recognised in profit or loss	Line item in profit or loss that includes hedge ineffectivene ss
Interest rate risk							
Hedge of loans and advances							
Interest rate swaps – hedge of loans and advances to customers	136,196	14,739	39	Derivative financial assets (liabilities)	14,398	219	Other income

The amounts relating to items designated as hedged items at 31 December 2022 were as follows.

	2022						
	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Change in values used for calculating hedge ineffectivenes s	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.
	Assets	Liabilities	Assets	Liabilities			
Loans and advances to customers	105,687	-	(14,515)	-	Loans and advances to customers	(14,132)	-

27 Other liabilities

	2023	2022
Creditors	4,768	3,584
Non-income taxes payable	1,639	893
Deferred Income	-	1
Internal accounts	144	145
Total other liabilities	**6,551**	**4,623**

The other financial liabilities are presented in positions “Creditors” and “Internal accounts” in the table above.

28 Provisions

	2023	2022
Provisions for losses from off-balance sheet items	1,332	1,174
Provisions for unused staff holiday time	410	558
Provisions for post-employment benefits	366	335
Total provisions	**2,108**	**2,067**

28 Provisions (continued)

Obligations for defined benefit retirement compensation

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensation recognised are based on an actuarial report (see below information on actuarial assumptions). The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

Movement in the present value of the defined benefit obligations

	2023	2022
Defined benefit obligations as of 1 January	**335**	**273**
Current service costs	39	32
Actuarial (gains)/losses from changes in financial and demographic assumptions	(22)	54
Interest cost	14	4
Benefits paid	-	(28)
Defined benefit obligations as of 31 December	**366**	**335**

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2023	2022
Discount rate as of 31 December	4.03%	1.50%
Future salary increases	5.00%	5.00%
Inflation rate	5.00%	5.00%

29 Equity

Share capital and share premium

At the end of 2023 the capital of the bank consists of registered capital and share premium. The registered capital of BGN 262,001 thousand is divided into 262,001 thousand shares (2022: 232,664 thousand shares) with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The shareholder of the bank's capital is ProCredit Holding. The share premium is BGN 3,496 thousand (2022: BGN 3,496 thousand).

Retained earnings and reserves

Legal and other reserves – the reserves have been distributed from the net profit of the bank in compliance with the Commercial Law, article 246. The funds in these reserves could only be used for covering of current loss and loss from previous years.

Revaluation reserve – comprise accumulated revaluation by fair value of financial assets at fair value through other comprehensive income.

Retained earnings – comprise the retained profits of the bank. In 2023 the bank distributed dividends for the amount of BGN 100,760 thousand (2022: BGN 0 thousand).

30 Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities to					Equity			Total
	Banks	Customers	Financial institutions	Lease liabilities	Other liabilities	Share capital	Reserves	Retained earnings	
Balance at 1 Jan 2022	**324**	**2,640,520**	**168,044**	**10,946**	**6,437**	**236,160**	**23,513**	**103,694**	**3,189,638**
Proceeds from liabilities to banks and institutions	-	-	97,792	-	-	-	-	-	**97,792**
Repayment of liabilities to banks and institutions	-	-	(35,599)	(1,649)	-	-	-	-	**(37,248)**
Dividend paid	-	-	-	-	-	-	-	-	**-**
Total changes from financing cash flows	**-**	**-**	**62,193**	**(1,649)**	**-**	**-**	**-**	**-**	**60,544**
Other changes									
Liability-related									
Short term liabilities to banks and institutions	15,906	-	-	-	-	-	-	-	**15,906**
Income tax expense	-	-	-	-	4,910	-	-	-	**4,910**
Income tax paid	-	-	-	-	(3,570)	-	-	-	**(3,570)**
Liabilities to customers	-	420,197	-	-	-	-	-	-	**420,197**
Unrealised gains/ losses from currency revaluation	-	(529)	-	-	-	-	-	-	**(529)**
Increase in lease liabilities	-	-	-	1,379	-	-	-	-	**1,379**
Decrease in other liabilities	-	-	-	-	(169)	-	-	-	**(169)**
Interest expense	1,321	866	2,735	367	927	-	-	-	**6,216**
Interest paid	(1,321)	(254)	(2,256)	(138)	-	-	-	-	**(3,969)**
Total liability-related other changes	**15,906**	**420,280**	**479**	**1,608**	**2,098**	**-**	**-**	**-**	**440,371**
Equity-related									
Revaluation of investment securities, net of taxes	-	-	-	-	-	-	(1,675)	-	**(1,675)**
Transfer	-	-	-	-	-	-	2,934	(2,934)	**-**
Profit for the year	-	-	-	-	-	-	-	39,440	**39,440**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**-**	**1,259**	**36,506**	**37,765**
Balance as at 31 Dec 2022	**16,230**	**3,060,800**	**230,716**	**10,905**	**8,535**	**236,160**	**24,772**	**140,200**	**3,728,318**
Proceeds from liabilities to banks and institutions	-	-	58,675	-	-	-	-	-	**58,675**
Repayment of liabilities to banks and institutions	-	-	(39,549)	(2,017)	-	-	-	-	**(41,566)**
Dividend paid	-	-	-	-	-	-	-	(100,760)	**(100,760)**
Total changes from financing cash flows	**-**	**-**	**19,126**	**(2,017)**	**-**	**-**	**-**	**(100,760)**	**(83,651)**
Other changes									
Liability-related									
Short term liabilities to banks and institutions	(9,589)	-	-	-	-	-	-	-	**(9,589)**
Income tax expense	-	-	-	-	11,614	-	-	-	**11,614**
Income tax paid	-	-	-	-	(8,461)	-	-	-	**(8,461)**
Liabilities to customers	-	423,400	-	-	-	-	-	-	**423,400**
Unrealised gains/ losses from currency revaluation	-	(1,195)	-	-	-	-	-	-	**(1,195)**
Increase in lease liabilities	-	-	-	2,869	-	-	-	-	**2,869**
Increase in other liabilities	-	-	-	-	3,523	-	-	-	**3,523**
Interest expense	391	6,426	8,238	435	3,529	-	-	-	**19,019**
Interest paid	(391)	(4,626)	(7,004)	(217)	(3,242)	-	-	-	**(15,480)**
Total liability-related other changes	**(9,589)**	**424,005**	**1,234**	**3,087**	**6,963**	**-**	**-**	**-**	**425,700**
Equity-related									
Revaluation of investment securities, net of taxes	-	-	-	-	-	-	2,642	-	**2,642**
Capital increase	-	-	-	-	-	29,337	-	-	**29,337**
Profit for the year	-	-	-	-	-	-	-	64,158	**64,158**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**29,337**	**2,642**	**64,158**	**96,137**
Balance at 31 Dec 2023	**6,641**	**3,484,805**	**251,076**	**11,975**	**15,498**	**265,497**	**27,414**	**103,598**	**4,166,504**

31 Contingent liabilities and commitments

Off-balance sheet commitments

The following table indicates the contractual amounts of the bank's off-balance sheet financial instruments that commit it to extend credit to customers:

	2023	2022
Commitments to extend credit	555,593	482,315
Letters of credit and letters of guarantee	98,310	113,683
Total contingencies and commitments	**653,903**	**595,998**

Loss allowances for financial off-balance sheet commitments

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2022	**(532)**	**(6)**	**(61)**	**-**	**(599)**
New financial assets originated	(515)	-	-	-	**(515)**
Release due to derecognition	47	4	-	-	**51**
Transfers between stages	14	(14)	-	-	**-**
(Increase)/Decrease in credit risk	39	(133)	(17)	-	**(111)**
Balance at 31 Dec 2022	**(947)**	**(149)**	**(78)**	**-**	**(1,174)**
New financial assets originated	(804)	-	-	-	**(804)**
Release due to derecognition	55	36	111	-	**202**
Transfers between stages	89	(87)	(2)	-	**0**
(Increase)/Decrease in credit risk	626	(76)	(106)	-	**444**
As at 31 Dec 2023	**(981)**	**(276)**	**(75)**	**-**	**(1,332)**

32 Related party transactions

ProCredit Holding is the sole shareholder, the ultimate parent and ultimate controlling party of the bank. ProCredit Bank has stand-by line agreement for EUR 10 million with ProCredit Holding, directed towards liquidity management, which is not utilised at the end of 2023. The bank pays commitment fee under the stand-by line agreement. Banks from ProCredit Holding group keep current accounts placements with the bank, which are disclosed in Note 22.

The volumes of related party transactions outstanding at year end, and associated expenses and income for the year are as follows:

Transactions/balances with ProCredit Holding	**2023**	**2022**
Other income earned	255	224
Liabilities at the end of the period	60,172	60,219
Interest expense incurred	2,161	1,418
Other expenses incurred	3,818	3,302
out of which fee expenses to Stand-by line	69	69

32 Related party transactions (continued)

Transactions with subsidiaries	**2023**	**2022**
Loans and advances at the end of the period	11,874	11,420
Interest income earned	323	192
Other income earned	24	24
Liabilities at the end of the period	186	83
Lease liabilities at the end of the period	5,799	6,646
Other expenses incurred	1,079	1,033

Transactions/balances with other ProCredit group entities	**2023**	**2022**
Loans and advances at the end of the period	173,152	260,532
Interest income earned	10,862	1,925
Other income earned	119	15,123
Liabilities at the end of the period	8,540	16,296
Interest expense incurred	3,920	1,329
Other expenses incurred	11,050	2,731

In 2023 the total compensation of key management personnel was BGN 1,548 thousand (2022: BGN 936 thousand). The compensation is remuneration only and there are no other compensations of the key management.

33 Other information required by law

ProCredit Bank (Bulgaria) EAD has one branch in Greece. The branch was founded in 2015 and is providing full range of banking services. The headquarters of the bank and its administration are located at Sofia, 26 Todor Aleksandrov Blvd, while the branch in Greece is located at Thessaloniki 54627, 54-56, 26th October str. & Pegasus str. In the table below is presented more information required by the Law on Credit Institutions, article 70, paragraph 6 and 7.

As of 31 Dec 2023	ProCredit Bank (Bulgaria) EAD	ProCredit Bank (Bulgaria) EAD - Thessaloniki Branch
Turnover	163,273	49,551
Number of employees	511	36
Operating result before taxes	75,772	22,789
Tax expenses	11,614	6,180
Return on average assets	1.6%	1.5%
State subsidies	16	-

As of 31 Dec 2022	ProCredit Bank (Bulgaria) EAD	ProCredit Bank (Bulgaria) EAD - Thessaloniki Branch
Turnover	119,441	26,482
Number of employees	432	26
Operating result before taxes	44,350	10,046
Tax expenses	4,910	1,408
Return on average assets	1.1%	1.4%
State subsidies	193	-

34 Subsequent events

There are no significant post balance sheet events with effect on the separate financial statements as of 31 December 2023.

Separate Annual Activity Report of the Management of ProCredit Bank (Bulgaria) EAD for 2023

Description of the activity

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank" or the "bank") was established in October 2001 as a result of the founding meeting of shareholders — namely the European Bank for Reconstruction and Development ("EBRD"), the International Finance Corporation ("IFC"), ProCredit Holding AG ("ProCredit Holding"), Deutsche Investitions-und Entwicklungsgesellschaft (DEG) and Commerzbank AG. The bank was registered with the Sofia City Court as a Bulgarian joint-stock company on 28 September 2001. Since the beginning of 2013, the sole owner of the capital of the bank is ProCredit Holding.

ProCredit Holding is the parent company of the bank and supervises its activities.

The bank is supervised by a Supervisory Board comprising five members and a Management Board comprising four members elected for a period of three years.

ProCredit Bank supports development and provides full range of banking services. The bank provides services to both business clients and private individuals. In its activities, ProCredit Bank adheres to several basic principles: transparency in communication with clients; consumer lending is not encouraged; only services that are based on both an understanding of the client's profile and an in-depth financial analysis are provided. This responsible approach to banking enables the establishment of long-term partnerships with clients based on mutual trust and cooperation.

In dealing with business clients, ProCredit Bank focuses on small and medium-sized enterprises, as it believes that they create jobs and make a vital contribution to the economies in which they operate. By offering understandable and affordable deposits and other banking services and promoting a savings culture for private individuals, ProCredit Bank strives to build a culture of savings and responsibility that contributes to greater stability and security in the households.

The bank structures its clients according to their business potential, the groups being – business clients: small and medium-sized enterprises, and private individuals. Business clients, that receive services from ProCredit Bank, include commercial companies, agricultural producers and self-employed persons, while the focus on individuals is on regular income earners and business owners. The bank strives to have a detailed knowledge of its clients in terms of business model, business development and investment plans, as it aims at being able to apply to each client an individual approach, as well as a long-term strategy for the services it provides. The bank's strategic focus is on manufacturing companies, agricultural producers, financing of projects in the field of energy efficiency, environmental protection and renewable energy. ProCredit Bank also focuses on serving private individuals who appreciate modern banking services, who have the capacity to save and who prefer to do their banking through electronic channels (direct banking strategy).

The bank's shareholder expects a sustainable return on investment over the long term, and short-term profit maximisation is not the goal. ProCredit Bank invests heavily in the training and development of its employees in order to create an open and productive working atmosphere and to provide professional and competent customer service.

As of the end of 2023, the bank's operations were carried out through its headquarters in Sofia, 6 branches in Bulgaria and 1 branch in Thessaloniki (Greece). The branch network covers the main business regions of the Republic of Bulgaria and thus the bank offers a full range of banking services throughout the country.

Separate Annual Activity Report (continued)

Development and results from operations in 2023

In 2023, ProCredit Bank continued its efforts to improve efficiency in its operations while focusing on expanding the capacity for providing qualitative and competent service as well as on building long-term relationships with its clients. The bank operates an adequate institutional structure in the form of specialised departments and close communication between them and the head office and the branch network. The changes in the processes in the bank aim at increasing the efficiency and quality of work of the institution. The following main developments occurred in 2023:

- Despite the challenging environment shaped by energy-sector and supply chain disruptions, growing inflation and interest rates and the resulting economic uncertainty, there was a solid increase in the loan and deposit portfolio of the main target groups of clients – small and medium-sized enterprises and private individuals; the growth in the total loan portfolio in 2023 was 6%, while the total deposit portfolio grew by 13.9% (with deposit portfolio growth being ahead of the average for the banking system). The results achieved with respect to the main business segments were based on the optimised and focused process of attracting customers and approval of financing, on the development of individual strategies for dealing with companies and individuals, as well as on the focused efforts of the bank to attract the entire banking business of its customers and to increase clients' activity regarding banking operations. At the same time, the quality of the loan portfolio remained on a very good level compared to the market average as the share of loans classified in Stage 3 according to IFRS 9 dropped from 1.0% as of 31 December 2022 to 0.8% as of 31 December 2023 as a result by intensive monitoring, considering the impact of the external factors on the economic sector as well as the liquidity and earnings situation of the respective company.
- The bank continued its structured and focused approach in attracting new business and private clients and their overall banking business, as the total number of clients increased by 7% in 2023 compared to the end of 2022 (the growth was 8% in 2022). This was facilitated by the developed and improved infrastructure, ensuring the implementation of the concept of direct banking (including the possibilities for remote identification of customers, as well as for attracting customers through digital channels). Simultaneously, the average monthly number of performed main banking operations from one client also increased in 2023 compared to 2022. These developments proved the resilience and sustainability of the bank's business model even in the times of stress.
- Investments were made in the development of new functionalities of the information systems. The possibilities for performing electronic banking operations were extended as ProCredit Bank's mobile application (ProCredit Mobile) and new digital (online) portal were launched. These complemented the services, provided by the internet banking system (ProBanking). The developments are directed to onboarding and servicing of clients (business and private), providing digital solutions for bank operations and optimization of internal processes. The bank's On-line Centre continued to provide highly professional servicing and to play a key role in the process of attracting customers. Remote identification is used to serve current and new customers, and this technology allows the extension of customer service in an efficient and secure way providing opportunity for remote electronic signing of relevant documents. As of the end of 2023 virtually 100% of clients operations are performed electronically (via ProBanking; mobile banking; card transactions; ATM transactions).
- Projects related to environmental management were implemented, such as: continuing financing of green investments; expanding the opportunities for providing loans for the construction of photovoltaic power plants and installation for self-consumption; conducting awareness-raising and staff training campaigns, as well as sharing an internal newsletter; the bank took part in a number of events related to the topics of sustainable development and environmental protection.

Separate Annual Activity Report (continued)

Development and results from operations in 2023 (continued)

- The bank conducted a number of marketing and image campaigns and activities aimed at attracting new customers (businesses and individuals) Also, the institution participated in a number of authoritative public and financial forums. This significantly supported the bank's efforts to increase its customer base.

In addition to its clients, ProCredit Bank builds long-term relationships with its employees. This starts from the outset – with a serious and transparent selection process for future employees. The aim is to attract dedicated individuals who understand and support the way the bank operates and are willing to contribute to the common good. All future employees of the bank are subject to the same selection process. During the programme, participants acquire knowledge and skills in both banking and communication and analytical thinking disciplines. The course includes classes in theory and practical training. The institution adheres to a responsible approach to staff that is applied by the entire ProCredit Group, respects its ethical values and does not tolerate discrimination. ProCredit Bank is convinced that this guarantees successful future cooperation with employees as well as an open and stimulating work environment. The bank is strongly committed to providing opportunities for continuous training and development of staff at all levels. Along with internal career growth, these opportunities contribute to building a strong and motivated team. In order to meet the requirements for the responsibilities of management positions, all managers must attend courses at the ProCredit Group's academies. In 2023, the bank invested BGN 3,254 thousand in the training of its employees (2022: BGN 2,385 thousand).

In 2023, ProCredit Bank reaffirmed its commitment to the development of the Bulgarian business and to the promotion of a savings culture and practice of building family assets among households in the country. The bank continued to actively provide new loans and to support the implementation of various business projects of its clients. The new business in the form of newly extended loans in 2023 amounted to BGN 1,170 million (2022: BGN 1,370 million) (including undrawn commitments), and the net loan portfolio recorded a 6% increase on the level at the end of 2023 (2023: BGN 2,931 million, 2022: BGN 2,766 million). As a result of the bank's deliberate efforts to develop a savings culture among its customers, as well as to attract their entire banking business, in 2023 customer deposits recorded a solid increase compared to the previous year. The increase was 13.9% compared to the end of 2022, and as of 31 December 2023 the total deposit base amounted to BGN 3,485 million (31 December 2022: BGN 3,061 million). It is important to note the growth of BGN 274 million (or 10.6%) registered in current and FlexSave accounts. Total assets increased by 11.8% compared to the end of 2022 and reached BGN 4,167 million as of end 2023 (2022: BGN 3,728 million). The active clients, serviced by ProCredit Bank at the end of 2023, were 57,000.

ProCredit Bank has a strategic focus on providing services to manufacturing companies, as they have the opportunity for sustainable development and their operations have a significant effect on employment in individual regions. More than 370 such companies were financed in 2023; the total value of the loans granted amounted to BGN 236 million in 2023.

The bank retained its leading position on the Bulgarian financial market in terms of servicing agricultural producers; it had almost 3,200 clients as of end 2023 who are farmers. In 2023, loans disbursed to agricultural producers amounted to BGN 292 million. The bank is among the leading credit institutions in the country by this indicator.

Separate Annual Activity Report (continued)

Development and results from operations in 2023 (continued)

Another focus of the bank's operations during the year in respect of business clients was the participation in joint programmes with providers of guarantee programs for supporting lending to enterprises such as the European Investment Fund (EIF); National Guarantee Fund (NGF); Hellenic Development Bank (HDB). As of the end of 2023, over 7,800 loans in the amount of EUR 1 billion have been granted under joint programmes with such partners. ProCredit Bank will continue to further expand its cooperation with providers under guarantee programmes in 2024 (e.g. under the InvestEU program).

An important aspect of the bank's operations is its commitment to activities aimed at protecting the environment, improving energy efficiency and reducing the ecological footprint. All banks within the ProCredit Group set high standards in terms of the impact of their operations on the environment. ProCredit banks have a three-pronged approach to challenges, related to the protection of the environment:

First pillar: Internal environmental management system: an approach to better understand and improve the sustainable energy consumption and the bank's environmental impact has been introduced in the bank's internal organisation of work.

Second pillar: Environmental risk management in lending: an environmental protection system based on a continuous evaluation of the loan portfolio (including the rejection of loan applications submitted by enterprises engaged in activities that are considered environmentally risky) has been implemented.

Third pillar: Promoting "green finance": ProCredit Bank aims to promote economic development that is as consistent as possible with the sustainable use of the environment. In practice, this means engaging in projects that are implemented in the following areas: (1) Improving energy efficiency; (2) Renewable energy production; (3) Measures having a favourable environmental impact. The bank builds the necessary administrative and expert capacity to enable it to be even more active in supporting its clients for the implementation of such projects.

The bank applies specially developed internal methodology that allows it to analyse and evaluate clients' investments in the field of energy efficiency, environmental protection and renewable energy production. In 2023, ProCredit Bank financed the implementation of "green" projects by both business clients and private individuals. The loans granted reached BGN 903 million as of 31 December 2023, and the bank's "green" portfolio realised a total growth of 10% in 2023 compared to the end of 2022 (mainly driven by increase of the renewable energy production financing) and reached 30% share in the total loan portfolio (31.12.2022: 29%). The financing of projects related to improving energy efficiency, environmental protection and renewable energy will continue to be in the focus of the bank's business in 2024.

Throughout the reporting year, ProCredit Bank continued to encourage its clients to use full banking services from the institution, and the various opportunities for electronic and cashless transactions such as internet banking, mobile banking, the use of bank cards and various devices available in the 24-hour service areas and communication with the On-line Centre were key elements of the business strategy. This approach saves clients' time while allowing employees to focus on quality of service and customer consultations.

Separate Annual Activity Report (continued)

Development and results from operations in 2023 (continued)

Regarding the quality of the bank's assets, as a result of the organised and structured approach to dealing with non-performing loans the level of such exposures is significantly lower than the average for the banking system. As of 31 December 2023, exposures overdue by more than 90 days amounted to 0.36% of the total loan portfolio, while the similar indicator for the banking system as of the same date, according to data published by the BNB, was 2.2%. The value of one of the main indicators that the bank monitors in the process of credit risk management – the ratio of the amount of loans overdue by more than 30 days to the total loan portfolio – was 0.58% as of 31 December 2023 (31 December 2022: 0.61%).

Financial indicators

The financial indicators presented below are based on the annual separate financial statements prepared in accordance with the International Financial Reporting Standards (IFRS).

Statement of Profit and Loss

Net interest income

The amount of net interest income reported during the financial year 2023 was BGN 123,739 thousand (2022: BGN 78,218 thousand); the change compared to the previous year is an increase of 58.2%.

Interest income: interest income is in the amount of BGN 142,758 thousand 82.7% of which comprised interest income from loans granted. Compared to 2022 (BGN 84,434 thousand), the total interest income has increased by 69.1% as a result of an increase in the loan portfolio and stable net interest margin in 2023.

Interest expenses: the total interest expenses in 2023 amounted to BGN 19,019 thousand (2022: BGN 6,216 thousand); the main portion of the interest expenses (66.2%) comprised interest accrued on borrowings from banks, other financial institutions, derivatives and lease liabilities of BGN 12,593 thousands (2022: BGN 5,351 thousands). The remaining interest expenses constituted interest on funds deposited by clients and amounted to BGN 6,426 thousand (33.8%) (2022: BGN 865 thousand). Compared to 2022, the total interest expenses increased by 206%. The bank utilized new loans from IFIs in amount of BGN 58,675 thousands in 2023 which are compliant with the requirements for eligible liabilities in accordance with the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF). This, combined with the general growth of the interest rates levels led to significant increase of the interest expenses to IFIs.

Net fee and commission income

The reported net commission income amounted to a total of BGN 29,111 thousand (2022: BGN 27,886 thousand). The total increase was 4.4%.

Commission income: the total amount of commission income was BGN 36,023 thousand and registered increase of 12.8% compared to 2022 (BGN 31,933 thousand). The growth was driven by the increased number of banking operations as card fees, cash fees and money transfers had the largest contribution.

Commission expenses: the total amount of commission expenses was BGN 6,912 thousand in 2023. Compared to 2022 (BGN 4,047 thousand), the total amount of charges paid increased by 70.8%. This was mainly due to increased fees for card transaction services and payments.

Separate Annual Activity Report (continued)

Financial indicators (continued)

Result from foreign exchange transactions

The net trading income in 2023 totalled BGN 10,798 thousand (2022: BGN 10,310 thousand) and registered increase of 4.7% driven by the growth of number and volume of customers' operations. The total net trading income includes gains from foreign exchange transactions and currency revaluations.

Other operating income/expenses

The income or expenses related to valuation, sale and administration of acquired assets, which were collateral for problematic exposures, are reported under this position. In 2023, the bank realised loss of BGN 17 thousand, compared to a profit in 2022 (BGN 794 thousand).

Expenses according to the Statement of Profit and Loss

Loss allowance of financial assets: in 2023 the bank accrued loss allowances in the amount of BGN 5,418 thousand (2022: BGN 13,245). The 2023 result is related to growth of the loan portfolio and increased credit risk for certain exposures, which are assessed individually.

Operating expenses: the operating expenses of the bank in 2023 totalled BGN 82,083 thousand; this is a 32.7% increase on the 2022 amount (BGN 61,846 thousand). The main items, in which growth was realized, were: personnel expenses, marketing costs, training-related expenditures (including travel for training purposes), communication and transport costs, non-income tax expenses, services costs, security and insurances.

The breakdown of expenses by line items in the Statement of Profit and Loss for 2023 is as follows:

- personnel expenses: BGN 31,969 thousand (2022: BGN 24,339 thousand).
- non-income tax expenses: BGN 8,320 thousand (2022: BGN 6,555 thousand).
- depreciation of assets: BGN 7,904 thousand (2022: BGN 6,502 thousand).
- other operating expenses: BGN 33,890 thousand (2022: BGN 24,450 thousand).

Financial result

The financial result of the bank before tax amounted to BGN 75,772 thousand (2022: BGN 44,350 thousand), and after tax: BGN 64,158 thousand (2022: BGN 39,440 thousand). The bank reported 62.7% increase in the net profit, driven by the growth of the operating income of the institution. The return on equity in 2023 was 16.1% (2022: 10.3%). By this indicator ProCredit Bank was slightly below the average for the banking system (18.3% in 2023).

Separate Annual Activity Report (continued)

Financial indicators (continued)

Statement of Financial Position

ASSETS

As of 31 December 2023, the assets of ProCredit Bank at carrying amount had a value of BGN 4,166,504 thousand (2022: BGN 3,728,318 thousand); 11.8% increase on the previous year was reported driven by the growth of the customer loan and deposit portfolios.

Cash and central bank balances

The cash and central bank balances on 31 December 2023 amounted to BGN 847,539 thousand (31 December 2022: BGN 561,028 thousand). The change compared to the previous year is 51% increase.

Loans and advances to banks

Loans and advances to other banks as of 31 December 2023 amounted to BGN 178,398 thousand (31 December 2022: BGN 245,476 thousand). The change compared to the previous year is 27.3% decrease. The loans and advances at the end of 2023 comprised cash in current accounts and bank deposits.

Investment securities

The value of investment securities as of 31 December 2023 was BGN 117,768 thousand (31 December 2022: BGN 72,545 thousand). They include two main groups of assets: (1) investments in government securities that are treated as a liquidity buffer (2023: BGN 109,055 thousand and 2022: BGN 65,393 thousand) and (2) shareholdings in companies performing financial intermediation activities (2023: BGN 8,713 thousand and 2022: BGN 7,152 thousand). The bank does not invest in financial instruments for the purpose of generating speculative profits and this is stipulated in its risk management strategy and policies.

At the end of 2023 the bank’s liquid assets (cash and balances on accounts with central banks, loans and advances to other banks with remaining maturity of up to 7 days and investments in government securities) totalled BGN 1,120,826 thousand (2022: BGN 832,731 thousand). This was a 34.6% increase compared to 2022. This corresponds to a high level of the total liquid assets to customer deposits ratio which was 32.2% as of 31 December 2023 (31 December 2022: 27.2%). The stable level of liquidity at the end of 2023 was the result of the solid growth in funds deposited by clients. In 2024 the bank expects the loan portfolio growth to be mainly financed by increase of the customer deposit portfolio, thus allowing to maintain the liquidity levels.

Loans to customers

The loans granted to customers have a major share in the bank’s assets and as at 31 December 2023 the carrying amount of these assets was BGN 2,931,464 thousand, or 70.4% (2022: 74.2%) of the total assets. Compared to 2022 (BGN 2,765,747 thousand), the value of the loan portfolio increased by 6%. The growth achieved can be attributed to the active targeting and the strong strategic focus for providing services and financing to small and medium-sized enterprises with a formalised structure, high-quality management and a sustainable business model. Close to 50% of the loan portfolio growth in 2023 was attributable to green loans.

Separate Annual Activity Report (continued)

Financial indicators (continued)

The bank's focus is on providing complete banking servicing to small and medium-sized enterprises. Therefore, the loan portfolio of these clients has a dominant share in the total portfolio of ProCredit Bank – as of 31 December 2023 its value amounted to BGN 2,551,084 thousand, or 87% from the total loan portfolio. During the year, there was a growth of 5% compared to the end of 2022 (BGN 2,428,703 thousand). The housing loans to private individuals were another major focus. Their amount as of 31 December 2023 was BGN 282,308 thousand or 9.6%, and this portfolio realised a growth of 8.5% in 2022 (2022: BGN 260,214 thousand).

Fixed assets

The carrying amount of fixed tangible and intangible assets as of 31 December 2023 was BGN 63,109 thousand, increasing its value compared to the previous year (2022: BGN 51,174 thousand).

Other assets

As of 31 December 2023, the other assets of the bank amounted to BGN 10,469 thousand (2022: BGN 8,599 thousand). The change is 21.7% increase.

LIABILITIES

Liabilities to banks and institutions

As of 31 December 2023 the total value of borrowings from banks and institutions was BGN 257,717 thousand. This amount included BGN 6,641 thousand in payables to banks and BGN 251,076 thousand in borrowings from international financial institutions. Compared to 2022 (BGN 246,946 thousand), the total amount of financing from these counterparties increased by 4.4%. The bank utilised new funding from EBRD and EFSE and repaid at maturity liabilities to EIB, EIF and EBRD. The newly received loans are compliant with the requirements for eligible liabilities in accordance with the LRRCIIF.

Liabilities to customers

As of 31 December 2023 the funds deposited by customers of the bank amounted to BGN 3,484,805 thousand (2022: BGN 3,060,800 thousand). Compared to the previous year, the funds, deposited by customers, registered solid growth of 13.9%. The growth was driven by attracting business clients and individuals and their entire banking business, as well as to the opportunities for active management and use of the funds.

Equity

The bank's equity includes share capital and premium reserve in the amount of BGN 265,497 thousand (2022: BGN 236,160 thousand) and retained earnings and reserves in the amount of BGN 131,012 thousand (2022: 164,972 thousand). In 2023 the bank paid dividends in the amount of BGN 100,760 thousand from the profit realised in 2019, 2020 and 2021. During the year, ProCredit Bank increased its share capital by issuing ordinary shares with a value of BGN 29,337 thousand.

Separate Annual Activity Report (continued)

Financial indicators (continued)

The share capital of BGN 262,001 thousand is distributed in 262,001 thousand shares with a nominal value of BGN 1 each. Each share gives one voting right to its holder. The share capital of the bank is as follows:

Shareholder	2023 Number of shares (thousands of shares)	2023 Share (%)	2022 Number of shares (thousands of shares)	2022 Share (%)
ProCredit Holding	262,001	100.0%	232,664	100.0%
Total shares	**262,001**	**100.0%**	**232,664**	**100.0%**

Research and Development Activities

The bank does not carry out activities in the field of research and development.

Information about acquisition of own shares, required pursuant to Article 187e of the Commerce Act

The bank has not acquired its own shares.

Information pursuant to Article 247 of the Commerce Act

In 2023, the total remuneration of the members of the bank's Management Board amounted to BGN 1,548 thousand (2022: BGN 936 thousand). The members of the Supervisory Board do not receive remuneration from the bank.

The members of the Management Board and the Supervisory Board do not hold and have not carried out acquisition or transfer of shares or bonds of the bank in 2023.

The members of the Management Board and the Supervisory Board have the following participation in other companies (in accordance with the provisions of Article 247(2)(4) of the Commerce Act):

Members of the Supervisory Board

Petar Slavov, Chairperson

- ProCredit Properties EAD – member of the Supervisory Board
- ProCredit Education AD – member of the Supervisory Board
- Private High School "Denis Diderot" – member of the Supervisory Board
- Association ProCredit Health – member of the Management Board
- Borica AD - member of the Board of Directors

Effective from 07.03.2024, Peter Slavov became a member of the Management Board and Executive Director of ProCredit Bank (Bulgaria) EAD and from 08.03.2024 he also became Chairman of the Management Board of ProCredit Bank (Bulgaria) EAD.

Hubert Spechtenhauser

- ProCredit Holding AG – chairperson of the Management Board
- ProCredit Bank Germany – member of the Supervisory Board
- Banco ProCredit C.A. Ecuador – member of the Supervisory Board
- ProCredit Bank Serbia – member of the Supervisory Board

Separate Annual Activity Report (continued)

Members of the Supervisory Board (continued)

Gian Marco Felice
- Banco ProCredit C.A. Ecuador – deputy member of the Supervisory Board
- ProCredit Bank Germany – member of the Supervisory Board
- ProCredit Bank Romania – chairperson of the Supervisory Board
- ProCredit Bank Georgia – member of the Supervisory Board
- ProCredit Bank Serbia – chairperson of the Supervisory Board
- ProCredit Bank Ukraine – chairperson of the Supervisory Board
- Quipu GmbH – chairperson of Supervisory Board
- ProCredit Holding AG – member of the Management Board
- ProCredit Academy GmbH – chairperson of the Supervisory Board

Ben Knapen
- ProCredit Holding AG – member of the Supervisory Board

Patrick Zeitinger
- ProCredit Academy GmbH – member of the Supervisory Board

Members of the Management Board

Reni Peycheva
- Private High School “Denis Diderot” – member of the Management Board
- Association ProCredit Health – member of the Management Board

Rumyana Todorova
- ProCredit Properties EAD – member of the Management Board
- ProCredit Razvitie Bulgaria AD – member of the Board of Directors
- Association ProCredit Health – member of the Management Board

Ivan Dachev
- ProCredit Razvitie Bulgaria AD – executive director and member of the Board of Directors
- Private High School “Denis Diderot” – member of the Supervisory Board
- ProCredit Properties EAD – member of the Supervisory Board
- Association ProCredit Health – member of the Management Board

Kamelia Mineva
- ProCredit Education EAD – member of the Management Board
- ProCredit Razvitie Bulgaria AD – member of the Board of Directors
- Association ProCredit Health – member of the Management Board
- PV Energy EOOD – manager and owner

In 2023 the members of the Supervisory Board and of the Management Board of the bank did not enter into contracts with the bank outside its normal course of business or contracts that substantially deviated from market conditions though being part of its normal course of business.

Separate Annual Activity Report (continued)

Significant events that occurred after the date of the annual financial statements

There are no significant post balance sheet events with effect on the separate financial statements as of 31 December 2023.

Structure of the bank

As of 31 December 2023 the bank operated with 6 branches on the territory of Bulgaria and 1 branch in Greece (Thessaloniki). The headquarters of the bank and its administration are located at Sofia, 26 Todor Aleksandrov Blvd. The bank's staff as of 31 December 2023 consisted of 511 employees (excluding employees on maternity leave and employees involved in ancillary activities).

Financial instruments and management of financial risks

The financial instruments used by the bank, the policies for their measurement and presentation, as well as the bank's exposure to credit, market and liquidity risk are described in Note 4 of the annual separate financial statements.

Expected development of ProCredit Bank (Bulgaria) EAD and goals for 2024

The economic environment, shaped by significant uncertainties poses very serious challenges for the upcoming business and social development in 2024. Disruptions of economic activity and supply chains, inflationary pressures due to rising food and energy prices, worsening of external conditions are part of the effects directly impacting economic activity. As the Bulgarian economy is open and dependent on external factors, it depends on the development of the external partners from the EU as well as on the optimal utilisation of the EU structural funds in order to perform positively.

Separate Annual Activity Report (continued)

Expected development of ProCredit Bank (Bulgaria) EAD and goals for 2024 (continued)

Notwithstanding the above, Bulgarian banks started 2024 with high levels of liquidity and capitalisation and this largely implies stability for their clients. Considering the market situation, ProCredit Bank will take a prudent approach to lending to small and medium-sized enterprises, aiming to support the strengthening of their stability, improving efficiency and accelerating their development and growth. The bank applies a case-by-case and pragmatic approach to assessing the financial position of its clients in order to be able to offer the most optimal financing solution in terms of maintaining and improving creditworthiness.

The bank will maintain long-term relationships with its current and future clients by expanding and deepening its business relationships with them, thus aiming to be the leading partner as the "Hausbank" for small business clients and a significant banking partner for medium-sized businesses. It is also important to continue increasing the absolute number of business clients and thus improving diversification and confirming expanding its market position. ProCredit Bank plans solid and balanced growth in the loan portfolio with Small and Medium business clients as there are good opportunities to attract new clients while maintaining high-quality portfolio and interest margins overall. The areas of agricultural lending, green lending and lending to production companies hold special focus for the bank. Deposit portfolio of business customers is also planned to grow within the overall concept for attracting and increasing the turnover of the clients.

The bank wants to be an innovative partner as a reliable direct bank for private clients, offering all transaction services and flexible saving opportunities through accessible and secure electronic channels, and thereby secure a growing volume of deposits to finance the loan portfolio growth. A major objective for 2024 remains to increase the total number of private clients through an active and targeted acquisition strategy. Both deposit and loan portfolios of private customers will continue to grow through increase generated by both existing clients and through new clients attracted by the digital banking offer. The share of the private customers loan portfolio is expected to remain close to its current levels of the total portfolio.

In 2024, the main driver of the balance sheet development will be the planned operational growth in the gross loan portfolio, which will lead to increase in the interest income. However, in a continued environment of high market interest rates, maintaining margins stable by optimising the funding prices is an important challenge which the bank will face. The share of net fee income in operating income is projected to gradually increase its share in the total operating income in line with the expected growth of the business turnover and operations of the bank's clients. At the same time, the high quality of the assets and the optimised structure of the bank will result in optimised impairment costs and administrative expenses. Liquidity and capital adequacy levels will be maintained with sufficient buffers in the long run.

The bank's development strategy for 2024 is in line with its business philosophy: ProCredit Bank believes that open and active communication with customers, a responsible approach to day-to-day banking and the very good quality of the services provided make it one of the first choice banks for the client. ProCredit Bank also aims to become a reliable and main partner of companies and citizens in the implementation of projects in the field of "green finance" by applying a comprehensive methodology and expert potential for environmental financing as part of the bank's integrated approach to the environment especially in the financing of renewable energy projects and green activities such as waste management.

Separate Annual Activity Report (continued)

Management responsibilities

The annual separate financial statements for 2023 were prepared in accordance with the International Financial Reporting Standards and reflect fairly the property and financial position of the bank and its financial results for the reporting period. The annual separate financial statements were prepared on the going concern basis and the accounting policies of the bank were consistently applied, and all estimates and assumptions were made in accordance with the precautionary principle in the preparation of the separate financial statements for 2023.

The management is responsible for the correct keeping of accounting records, for the appropriate management of the assets and for taking necessary steps to prevent and detect potential fraud and other irregularities.

The separate annual activity report was approved by the Management Board and signed on its behalf by:

PROCREDIT BANK (BULGARIA) EAD SOFIA

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

Separate corporate governance declaration

Documents of corporate management

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank" or the "Bank") complies with the following documents with respect to its corporate governance:

1. **Articles of association (By-laws) of ProCredit Bank:** a fundamental document regulating the establishment and competences of the bank's main management bodies. The Articles of association are available for review by interested parties in the file of ProCredit Bank in the Commercial Register: (https://portal.registryagency.bg/CR/Reports/VerificationPersonOrg). The Articles of association were adopted by the General Meeting of Shareholders. As of 31 December 2023, the Articles of association can be amended only at the meetings of the Sole owner of the capital of the bank.
2. **Code of Conduct of ProCredit Group**. Corporate values form the foundation of the business ethics of the bank as part of ProCredit Group. The following principles guide the activities of ProCredit institutions: Transparency; Culture of open communication; Social responsibility and tolerance; High professional standards; Integrity and personal commitment. These principles are the backbone of ProCredit's corporate culture and are actively applied in the day-to-day work of the institution. They are described in the Code of Conduct of ProCredit (accessible at https://www.procreditbank.bg/web/files/richeditor/coc-20221024-final.pdf) which translates the Group's ethical principles into practical guidelines for the entire team of the bank.

In the past year 2023, ProCredit Bank complied without exception with the requirements of the documents listed above in relation to its corporate governance. The bank also complies with the National Corporate Governance Code, as appropriate (http://www.bse-sofia.bg/?page=CodeGovernance).

Information regarding the requirements set out in Article 10(1) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004:

- Point (c) is not applicable to the bank because it does not have significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC.
- Point (d) is not applicable to the bank because it does not hold securities with special control rights.
- Point (f) is not applicable to the bank because it does not hold significant investments in other companies and there is no information regarding restrictions on voting rights.
- Point (h). The rules governing the appointment and replacement of members of the Management Board and the Supervisory Board and the amendment of the articles of association are set out in the Articles of association of the bank; the members of the Management Board are appointed by the Supervisory Board for a term of 3 years. The members of the Supervisory Board are appointed by the Sole owner of the capital for a term of 3 years. Decisions to amend the articles of association are taken by the Sole owner of the capital of the bank.
- Point (i). The powers of the members of the Management Board and the Supervisory Board, and in particular the power to issue or buy back shares, are set out in the Articles of association of the bank. Decisions to issue or buy back shares are taken by the Sole owner of the capital of the bank.

Separate corporate governance declaration (continued)

Management bodies

The management bodies of the bank are as follows:
- Management Board
- Supervisory Board.

ProCredit Bank has a two-tier management system.

Management Board
The bank is managed by Management Board which operates under the control of Supervisory Board. The Management Board comprises four to six members who are elected by the Supervisory Board for a term of three years. The relationships between the bank and each member of the Management Board are arranged by a management contract. The Management Board, upon the prior approval of the Supervisory Board, assigns to two or more of its members (Executive Directors) the day-to-day management and representation of the bank. The Executive Directors may authorise third parties to perform specific actions. A person who is a member of the Supervisory Board of the bank may not be a member of the Management Board. The Management Board has the following competencies:

1. arranges for the preparation of the annual financial statement and the report on the activity of the bank;
2. prepares the convening of the session of the Sole owner of the capital and prepare a proposal for the taking of decisions by the Sole owner of the capital;
3. prepares the periodic reports to the Supervisory Board;
4. enacts rules for the organisation of its activity and takes decisions regarding amendments to such rules (any decision under this point requires the prior consent of the Supervisory Board);
5. adopts an annual budget and an annual business plan relating to the activity of the bank (any decision under this point requires the prior consent of the Supervisory Board);
6. determines the structure and positions in the bank (any decision under this point requires the prior consent of the Supervisory Board);
7. decides on other issues, raised by the Chairperson or by another member of the Management Board;
8. makes decisions for opening and closing of branches and representations of the bank (any decision under this point requires the prior consent of the Supervisory Board);
9. takes decisions for the transfer or supplying for use of the whole commercial enterprise (any decision under this point requires the prior consent of the Supervisory Board);
10. makes decisions for disposing of assets whose total value for the current year exceeds half of the value of the bank’s assets according to the latest audited annual financial statements (any decision under this point requires the prior consent of the Supervisory Board);
11. makes decisions for taking liabilities or providing collateral to one person or related persons, whose amount for the current year exceeds half of the value of the bank’s assets according to the latest audited annual financial statements (any decision under this point requires the prior consent of the Supervisory Board);
12. approves the internal normative acts of the bank;
13. take decisions for the granting of credits in the cases of Article 45 of the Law on Credit Institutions;
14. takes decisions that lead to the formation of big exposures;
15. determines the business activity of the bank in accordance with the main policy guidelines adopted by the Sole owner of the capital and manages the daily operational activity of the bank in accordance therewith;
16. prepares proposals to the Sole owner of the capital for amendments to the By-laws or the main lines of the activity of the bank;
17. appoints and dismisses the officers of the bank and determines their remuneration;
18. decides on any other matter with respect to which, pursuant to the law or the by-laws, the Sole owner of the capital and the Supervisory Board do not have exclusive power to decide, and performs all other functions, entrusted to it by the Sole owner of the capital or the Supervisory Board.

Separate corporate governance declaration (continued)

Management bodies (continued)

The Management Board is convened at meetings at the request of any of its members or of the members of the Supervisory Board.

The Management Board takes its decisions by a simple majority of the members present and represented, except in the following cases: the decisions set out in points 8 to 11 and 13 above, as well as the decisions set out in point 14 in cases where the exposure exceeds 15 per cent of the bank's equity shall be taken unanimously by all members of the Management Board.

The decisions of the Management Board concerning the conclusion of transactions whose value exceeds 10% of the registered capital of the bank also require the prior consent of the Supervisory Board.

The Management Board reports to the Supervisory Board on its activities at least once every 3 months.

Supervisory Board

The Supervisory Board consists of four to six members, each with a term of three years. The relations between the bank and each member of the Supervisory Board are regulated by a contract. The members of the Supervisory Board are selected and dismissed by the Sole owner of the capital. The Supervisory Board elects a chairperson and a vice chairperson from among its members. The Supervisory Board does not participate in the management of the bank. It represents the bank only in its relationship with the Management Board. The Supervisory Board may, at any time, require that the Management Board submits information or a report on any matter concerning the bank. The Supervisory Board may also carry out any necessary investigations in performance of its duties, its members can have access to all the necessary information and documents, and it may use the services of experts.

Some decisions of the Management Board require the prior consent of the Supervisory Board. This is indicated in the section regarding the competences of the Management Board. The Supervisory Board examines the annual separate financial statements, the separate annual activity report of the bank and the proposal on the distribution of earnings and, after approving them, adopts a decision to convene a regular meeting of the Sole owner of the capital.

The Supervisory Board is required to hold meetings at least once every three (3) months. Members of the Management Board can participate in these meetings in an advisory capacity. The Supervisory Board makes decisions by a simple majority of the members represented at the meeting.

Avoiding conflict of interest

The procedures for avoiding and detecting conflicts of interest in relation to the members of the management bodies of ProCredit Bank are laid down in the Articles of association of the bank. The members of the Management Board and the Supervisory Board are obliged to put the interests of the bank and its clients above their own. They are required to declare and/or disclose information about their participation in commercial companies, as well as about any material commercial, financial or other business interest that they or their family members have in the entering into any commercial transaction with the bank.

Separate corporate governance declaration (continued)

Management bodies (continued)

Audit and internal control
The overall internal control of the bank is carried out by the Supervisory Board and the Management Board. The Supervisory Board controls the activities of the Management Board. The Management Board controls the activities of the individual structural units. The bank's activities are carried out on the basis of internal rules and procedures, as well as of the applicable legislation.

ProCredit Bank ensures functional independence between risk-taking departments and departments that perform risk assessment. According to the structure of the bank, the business processes are segregated by the units that assess the level of risk up to the level of members of the Management Board. In addition, the level of risk and the risk management decisions are assessed in the committees responsible for managing and assessing the individual types of risks; this involves objective control and monitoring of the bank's exposure to each risk.

Internal Audit Department operates in the bank and reports directly to the Sole owner of the capital (ProCredit Holding). Internal audit inspects all aspects of the bank's operations by performing process checks as well as checks for compliance of the activities performed with the statutory instruments, the articles of association and the internal regulations of the bank. The head of the Internal Audit Department informs the Management Board of the bank and the members of the Audit Committee of the bank of the results of the audits performed. At least three times a year, meetings of the Audit Committee are held at which the Internal Audit Department reports on its activity. The Audit Committee was established at the beginning of 2009 and its members are independent of the bank's Management Board.

The specialised audit firms that perform independent financial audit of the bank's financial statements are approved by the Sole owner of the capital following the submission of a reasoned request and as a result of a tender organised by the Management Board. The Audit Committee supervises internal audit activities and oversees the overall relationship with the external auditor, including the nature of non-audit services provided by specialised audit firms.

Main features of the internal control system and of the risk management system in connection with the financial reporting process

Control environment
The institution's business model and ethical values are a prerequisite for the existence of an adequate internal control environment within the bank. The business model has a clear focus on providing comprehensive banking services to small and medium-sized enterprises and private individuals through the provision of high-quality services. The focus on business clients with a clear vision and sustainable development means that ProCredit Bank builds with such clients long-term relationships based on understanding their needs and offering appropriate solutions while ensuring that there is no over-indebtedness.

As stated in the Code of Conduct of the ProCredit Group, the development concept and the approach to clients is linked with a great responsibility to the society in which the bank operates. Self-imposed ethical principles are also applied. These principles can only exist if they are effectively communicated, understood and accepted by all employees, and this is reflected in the careful selection and development of the bank's employees.

Separate corporate governance declaration (continued)

Main features of the internal control system and of the risk management system in connection with the financial reporting process (continued)

Risk management
ProCredit Bank understands that risk taking is an integral part of its business. Therefore, there are mechanisms in place to identify the various risks and assess their potential impact on the financial position and the achievement of the bank's business objectives. The awareness of both management and employees of the risks, the inherent conservative approach to risk management and the consistent implementation of diversification are an integral part of the business and risk strategy of the institution. In addition, the basic principles of the risk strategy (focus on core business; high level of transparency, simplicity and diversification; careful selection and intensive training of staff) contribute significantly to the effective management of the risks to which the bank is exposed.

Control activities
The control activities within the risk management strategy are documented in specially approved group policies, group standards and other documents that cover all material risks to which the bank is exposed and that support the carrying out the various operations in a secure manner, and the transactions are reflected in accordance with the requirements set out in the manual. Control activities are implemented at all levels and in all processes within the institution based on the four-eye and the segregation of duties principles. The basic organisational principle is the segregation, up to the level of the Management Board, of risk and business units, thus ensuring functional independence between the business departments that take the risk and the departments responsible for risk assessment.

Information and communication flows
Effective communication channels are in place to ensure the exchange of information within the horizontal and vertical organisational structure of the institution. Mechanisms have also been put in place to receive and share information from external sources (such as regulators, shareholders and clients), as well as for subsequent communication with these persons. The Management Board receives regular (daily, monthly and quarterly) reports on risk management. If new risk events, failure to comply with approved internal limits and increased likelihood of loss are identified, mechanisms for escalation and extraordinary reporting are applied.

Monitoring
Mechanisms for ongoing monitoring of the various activities as well as of the internal control systems have been developed and put in place in the bank. Monitoring is carried out both by the management and by the relevant responsible employees. The Internal Audit Department also conducts an independent evaluation of internal control systems in accordance with a plan approved by the Sole owner of the capital. Gaps identified in the internal control system are escalated and can be reported to the Management Board, the Supervisory Board or the Audit Committee.

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the bank
An adequate risk identification, management and control system has been established in the bank. The committees responsible for managing the individual types of risks are at the core of this system and their main function is to create and maintain an adequate control environment based on the principles and mechanisms for identifying, defining, assessing, monitoring and controlling/mitigation of the individual types of risks. These committees are the main bodies that make corrective or preventative decisions aimed at minimising exposure to particular types of risk. The work of the committees is assisted by the Risk Management Department, Management Information System Department and other relevant departments that prepare risk indicators and provide analyses of relevant indicators and additional analyses to support management decisions in the area of risk control and management. The decisions made by the individual committees are approved by the Management Board.

Separate corporate governance declaration (continued)

<u>Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the bank (continued)</u>

The main committees that monitor, analyse and control the different types of risk include representatives of both the risk management and the business lines, as well as of the lines that perform administrative functions. This allows both a synergic effect of presenting different viewpoints on issues related to risk management and covering the different areas of activity and their impact on risk exposures. The main committees are as follows:

Assets and Liabilities Committee
The objective of the Assets and Liabilities Committee (ALCO) at ProCredit Bank is to identify, assess, discuss and manage financial risks which include liquidity and funding risk; market risk (including currency and interest rate risk); counterparty risk; capital adequacy. ALCO monitors the status and impact of the asset/liability management strategies implemented and develops new ones.

The committee comprises the members of the Management Board, as well as senior expert from Management Information System Department and head of General Risk Unit at Risk Management Department. Regular meetings of ALCO are held at least once a month. The committee is elected and managed by the Management Board.

General Risk Assessment Committee
Regular meetings of the committee are held once every three months in order to analyse the overall risk exposure of the bank (excluding operational risk) and to discuss and adopt strategic issues. The Risk Management Department prepares a quarterly report on the overall risk for the committee meetings; said report includes the main and secondary indicators of the types of risk, as well as their analysis.

The committee comprises the members of the Management Board, heads of Management Information System Department, Risk Management Department, General Risk Unit and Business Department – Small and Medium Clients. The committee is elected and managed by the Management Board.

Operational Risk Management Committee
The Operational Risk Management Committee is a body within the structure of the bank that is elected and managed by the Management Board. The committee provides an opportunity for adequate management of operational risks and for taking decisions in this regard. The following two subcommittees are also integrated into the Operational Risk Management Committee: Compliance Committee and Committee on Safety at Work.

The committee comprises the members of the Management Board in charge of Risk and Finance, as well as the heads of Business Department – Small and Medium Clients, Business Department – Private Individuals, Risk Management Department, General Risk Unit, Accounting Department, Information Technologies Department, Credit Administration Department and Compliance. Regular meetings of the committee are held once every three months to discuss the operational risk report and to review events that have led to a loss for the bank as a result of operational events.

Credit Risk Management Committee
The Credit Risk Management Committee is a body within the structure of the bank that is elected and managed by the Management Board. The functions of the committee are related to the monitoring, analysis and discussion of issues and topics related to credit risk and its manifestation in the bank. The committee is also involved in the process of determining the cost of impairment losses on individually measured credit exposures.

Separate corporate governance declaration (continued)

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the bank (continued)

The committee comprises the member of the Management Board in charge of Risk, as well as the heads of Risk Management Department, Credit Risk Department, General Risk Unit and Problematic Receivables Unit. Regular meetings of the committee are held at least once every three months in order to assess the impact of the relevant factors related to credit risk management.

Credit Committee on Restructuring
The Credit Committee on Restructuring monitors and assesses the bank's risk exposures by deciding on their restructuring and classification. Restructuring occurs when credit exposure conditions change as a result of the conclusion of an agreement between the bank and the customer that changes the repayment terms of the loan due to an increased risk of default on the exposure related to the borrower. The members of the Credit Committee on Restructuring are employees from Problematic Receivables Unit of the bank's Risk Management Department, and meetings are held every week or as necessary.

Court Receivables Committee
The purpose of the Court Receivables Committee is to set, discuss and decide on the strategy for recovery of court claims with a value of more than EUR 100,000, to set deadlines and designate officials responsible for the actions to be taken, and to monitor the implementation of the actions. The members of the committee are determined by the Management Board. The committee comprises member of the Management Board and the head of the Problematic Receivables Unit as well as Experts from Problematic Receivables Unit and Legal. Meetings of the committee are held at least once a month.

Environment Committee
This committee discusses and decides on issues related to environmental standards and the overall policy and strategy of ProCredit Bank regarding the environmental impact management system. The committee comprises the members of the Management Board and the heads of Environmental Department, Business Department – Small and Medium Clients, Credit Risk Department and Administration Department. The meetings are held at least once every quarter.

Crisis Management Committee
The task of the Crisis Management Committee is to define and manage the measures to be taken by the bank when dealing with a crisis arising from a materialised threat. It has a permanent composition and comprises the members of the Management Board and the heads of core business processes. A member of the Management Board or another person designated by the Management Board is a chairperson of the committee. The Crisis Management Committee is authorised to provide and allocate the resources (human and material) needed to deal with the crisis, as well as to control and reporting on the costs. The Crisis Management Committee manages and dynamically allocates responsibilities to the Failure Assessment Team, the IT Crisis Management Committee and the business continuity coordinators across departments and offices.

Human Resources Committee
This committee monitors changes in the labour market situation in the country, the pay levels inside and outside the bank, reviews salaries and decides on topics affecting current or potential employees of the bank. It comprises the Chairperson of the Supervisory Board, the members of the Management Board and a branch manager. The meetings are held quarterly.

Committee for the selection of candidates for members of the Management Board
The committee meets as necessary. It consists of the Chairperson of the Supervisory Board and another member of the Supervisory Board.

Separate corporate governance declaration (continued)

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the bank (continued)

Compliance Committee
The committee reviews the regular changes that affect the activities of the bank and ensures regulatory compliance with them. The committee also discusses the effect of implementing legislative changes on the bank's policies and procedures. The committee assesses the risks for the bank of non-compliance with the regulatory framework and proposes actions to minimize them. It is integrated into the Operational Risk Management Committee.

Working Conditions Safety Committee
The committee assesses the safety of working conditions in the bank, gives recommendations for their optimization and presents analyses related to these topics. Incidents related to occupational safety, if any, shall also be submitted to the committee. It is integrated in the Operational Risk Management Committee.

Commission for Control and Prevention of Money Laundering and Terrorist Financing
The commission is an internal banking body with the main functions to examine the information from received signals about suspicious operations and customers, to submit cases to Financial Intelligence Directorate of the State Agency for National Security and to discuss the implementation of measures against money laundering and financing of terrorism, if necessary. The committee comprises the heads of Business Department – Small and Medium Clients, Business Department – Private Individuals, Risk Management Department and Internal Audit Department. Meetings are initiated by the Anti-Money Laundering Unit and are considered properly held if at least half of the members of the Commission are present.

Diversity policy applied to administrative, management and supervisory bodies

The ProCredit Group appreciates diversity in terms of the personal qualities and experience of its employees. In this context, the process of selecting the members of the Management Board and the Supervisory Board aims at ensuring an adequate level of diversity in the management bodies. As a result, both bodies include individuals who have different profiles in terms of education, nationality, professional experience and age. Of the nine members of ProCredit Bank's management bodies, three are women.

The separate corporate governance declaration was approved by the Management Board and signed on its behalf by:

PROCREDIT BANK (BULGARIA) EAD • SOFIA •

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board

Separate non-financial declaration

Business model and organizational structure

ProCredit Bank a is growth-oriented bank and focuses on providing a full range of banking services to small and medium-sized enterprises (SMEs) and individuals. The business model is based on socially responsible banking, which is implemented in a transparent and efficient manner and ensures sustainable profitability. To be the leading partner for the complete financial service of SMEs, the bank specializes in providing professional and flexible banking services of high quality for SMEs, their owners and employees and individuals with high and middle incomes. The bank's focus on the business segment underscores its commitment to job creation and economic development. The basis of competitive advantages is the individual approach and the high quality of services provided to customers. The bank focuses on building long-term relationships with its clients, which are based on mutual trust, open communication and shared values. This is implemented through a clear definition of target customers, a rational range of services provided to customers and modern and innovative channels through which our customers can communicate and transact. This approach is fully supported by comprehensive environmental management, a group-wide value-based recruitment and development policy and modern IT solutions. According to the established business strategy of the ProCredit group, the bank does not carry out any speculative operations.

Detailed information regarding the business model and strategy, main goals and organizational structure of ProCredit Bank is presented in the Corporate Governance Declaration and the Annual Activity Report.

Systematic approach for sustainable development of ProCredit Bank

The mission of ProCredit bank is to be the leading SME bank following sustainable and impact-oriented banking practices. In doing so, the bank wants to generate long-term sustainable returns and create positive impact on society and the economy in which it operates.

1. Environmental development

Since the establishment of the Bank, ProCredit Bank has been committed to monitoring the environmental and social impact of its activities. In the first years, the effect was mainly considered through the prism of risks in lending to customers, since the scale through this direction is the most significant. The approach evolved into its own environmental management system (EMS) in 2011. It is the responsibility of the Sustainability Department (previously known as the Environmental Management Department). This department exists since 2012.

The Bank's (EMS) system is divided into 3 areas:

- Pillar 1 – own consumption of resources.
- Pillar 2 – environmental and social risk in financing of clients.
- Pillar 3 – stimulation of sustainable investments among the Bank's clients.

The system was ISO 14 001 certified in 2016 and since then has been audited annually, with recertification every 3 years.

Separate non-financial declaration (continued)

In the strategic development of the Bank's environmental and social goals take part members of Management Board, the Sustainability Department and managers of key departments from the Head Office. The goals set by ProCredit Holding are also followed. At least 3 Sustainability Committees are held annually with the participation of the mentioned above stakeholders. Annually the goals for the current year are set and a report based on the achieved results is prepared. All employees of the Bank are committed to the successful implementation of the sustainability strategy.

The most important aspect through which the bank has an impact on the environment is the loans the bank grants. For this purpose, since 2010 ProCredit have been following the strategic document Group Standards for Managing Environmental and Social (E&S) Impact of Lending. The bank makes several divisions through the strategy of this document – the first is by business types. Some business types are of lower environmental and social (E&S) risk, such as trading in non-hazardous products. Others business types are of medium E&S risk, such as manufacturing activities and agriculture (where raw materials are used, more waste is produced, higher employee risks arise). The third type of activities are high risk and these companies should have the best procedures in place to ensure that they do not pollute the environment and that their employees are adequately protected and their rights protected/respected. For this purpose, together with experts, ProCredit have drawn up 40 individual manuals according to the specific business sector, on what to pay attention when analyzing this type of business. The employees who work with business clients are trained how to use these manuals. Additionally, each business client is visited once a year to confirm the actual situation. For companies with higher exposures (over 3 and over 5 million euro), the bank requires an external company with relevant experts according to the type of activity to make an assessment of the environmental and social impact which the client has.

Another division according to which the bank monitors the impact of the disbursed loans is according to their purpose. ProCredit maintains a list of investments and activities that are sustainable and are marked as a part of the bank's green portfolio. The strategic document for this direction is from 2012 and is called Group Guidelines for Green Finance and Group list eligible green investments. The methodology is scientifically based, developed with consultants from Germany and is regularly updated in order to reflect the market developments. The criteria for green loans is described within the Green Bond issued on a ProCredit Group level.

ProCredit Group recognizes that the supply chain also has ethical, social and environmental impact. Positive impacts can be achieved by purchasing more responsible products or services and also by working together with suppliers to positively influence each other's ethical, social and environmental performance. The aim of the group is to promote sustainable public procurement procedures and the related to them products. The strategy document for this topic from 2019 is called Group Guidelines Sustainable Suppliers. All suppliers are expected to adhere to the core values (the Code of Conduct) of the ProCredit group. The Code of Conduct therefore sets the foundation for any business relationship with any potential supplier.

Results

The first and most natural step to take measures to influence the climate is with the own infrastructure, and the bank's offices. For this purpose, the bank limited the number of offices, digitalized the way of working, so that the customers do not have to travel to the offices for every service. The option to work from home was introduced for all departments in the bank. To a great extent the use of fossil fuel was replaced by electricity.

Separate non-financial declaration (continued)

The bank uses software through which it tracks in great detail the resources used according to their different direction, certification, location, etc. The software is web-based and unified for the entire ProCredit group, which makes it easy to make comparative analyzes with the results of other banks. There are 105 indicators set in the software, not all of which are used constantly, but according to the location. The monthly indicators monitored are 30 in categories of resources in offices (electricity, water, paper, waste by type), cars by types and types of fuels (incl. electricity for electric cars), energy production from own photovoltaic installations, direct and indirect emissions from flights, heating, and others.

Since 2019, ProCredit uses 100% energy from renewable energy sources. Part of the energy is produced with own photovoltaic systems on two of the offices, for the rest guarantees of origin for the electrical energy are bought, which can be seen in the register of Sustainable Energy Development Agency (SEDA).

The energy consumption of the cars is also monitored. The majority of the fleet was replaced with electric vehicles (nearly 80% of all our cars run on electricity). The result is that over 60% less fuel is used compared to 7 years ago. The electricity with which the electric cars are charged comes from the bank’s offices and has guarantees of renewable origin.

The results of the bank's optimizations can clearly be traced over the years:

Row Labels	2012	2013	2014	2015	2016	2017
Electricity (kWh)	4,873,603	3,498,725	2,669,766	2,261,877	2,293,581	1,923,314
Vehicles (kWh)	1,023,809	862,605	648,448	537,447	464,528	396,631
Paper consumption (kg)	14,680	10,929	6,317	13,101	9,841	5,298
Total Scope 1&2 (tCO2eq):	2,960	2,158	1,484	1,399	1,378	1,082

Row Labels	2018	2019	2020	2021	2022	2023
Electricity (kWh)	1,523,856	1,316,073	1,185,023	1,092,314	983,844	1,231,213
Vehicles (kWh)	350,680	330,691	263,965	302,730	309,536	325,187
Paper consumption (kg)	3,612	6,750	2,657	3,607	3,985	5,105
Total Scope 1&2 (tCO2eq):	793	226	133	165	158	144

A sustainability questionnaire is sent to each of the regular suppliers and subcontractors the bank works with and it is a condition before signing the contract with them to complete the questionnaire. Based on the completed questionnaire, the bank tries to choose companies that are more socially responsible and have a more positive impact on the environment. Over the past 3 years, the bank reports that on average 56% of the suppliers worked with meet the criteria for a sustainable business model.

The next and significantly larger direction is to increase the positive impact on the climate from the loans the bank disburses. These investments and businesses that have been recognized as sustainable for nature, based on scientific methodology and partially equated measures with the European Taxonomy, are analyzed and marked as green loans. As of the current date, 30% of all active loans that were granted are part of the green loan portfolio.

The bank is actively working with international financial institutions (IFIs) to give the Bulgarian economy access to financial instruments through which companies can change their way of working in the direction of a more climate change-resistant business. On average, 30% of all new partnerships with IFIs are for environmentally oriented lending.

Separate non-financial declaration (continued)

<u>Impact report</u>

ProCredit group publishes only one general impact report describing the results of all the banks in the group. The report follows the GRI standard.

However, the calculations regarding the estimated greenhouse gas emissions for ProCredit Bank (Bulgaria) according to the GHG Protocol classification can be noted here:

- **Scope 1.** In this scope the burning of fuels in the bank's assets are measured. This includes the fuels used by cars with internal combustion engines. There is no use of generators running on fossil fuels, so no such combustion happens in the offices. For 2023, the calculations show 80 tons of CO2equivalent for this scope.
- **Scope 2** includes emissions from other office resources such as electricity and heating. For 2023, the calculations show 64 tons of CO2eq. From this scope, all of which is offset through green electricity and guarantees from CO2 capture/saving projects. For the central heating system from a thermal power plant (on gas) in the offices, guarantees for the offset of the greenhouse gases created in the thermal power plant are purchased. The project supported is in Bulgaria (Kubratovo water treatment plant near Sofia), with which the truly created emissions are netted in the same geographical region, which is an important factor for the belief in the purpose of the operation.
- **Scope 3** includes emissions from flights and emissions from the investments financed - the biggest share of the calculation. For 2023, our flight calculations show 59 tonnes of CO2eq. and 326,905 tons of CO2eq. through the financed clients from the whole loan portfolio.

2. Social and employee issues

The bank invest time in the recruitment process because choosing the right person to fit into a team is one of the most important decisions. A positive working environment characterized by diversity is promoted, flat hierarchies and open communication, with the aim of retaining key personnel on a long-term basis. The ethical approach to banking is fundamental and fully integrated into the bank's corporate culture.

Among other things, independence and critical thinking, responsibility, gender equality, diversity and fairness is heavily promoted among the staff. The values are manifested in the Code of Conduct of the bank and form the ethical compass of the ProCredit group.

The ethical responsibility is documented in the Code of Conduct, which contains the core principles that all employees of ProCredit are obliged to observe:

- Personal integrity (honesty and integrity, fair and just treatment irrespective of differences, no discrimination or harassment, promotion of diversity);
- Professionalism (personal responsibility, knowledge of policies and accuracy of information, internal control, respect for company property, us of the ProCredit name, confidential information, inside information and insider trading, outside activities, corruption and fraud);
- Social responsibility (environmental awareness, anti-money laundering and "know your client", customer relationships: ethical business practices, no discrimination);
- Open communication (Internal and external communication, conflicts of interest, speaking out);
- Transparency (clear business conditions, clear HR structures).

The Code of Conduct is closely linked to the daily life of the staff and influences their dealing with clients, colleagues and public authorities. The Code of Conduct is a binding document which forms an integral part of the employment contract and is therefore discussed intensively with all staff.

Separate non-financial declaration (continued)

Fair Recruiter and Employer

Both as recruiter and employer we follow strict self-imposed principles that leave no room for any types of class-based privileges, nor shady bypasses based on either favoritism or discrimination. Firstly, the bank's standard recruitment process comprises several steps that all candidates have to go through. The key principle is meritocracy and it is based solely on the candidate's attitude and qualifications.

Secondly, in addition to the experienced HR teams, many of the key staff and managers are involved in the process. All of the colleagues involved share their assessment of the candidates and reach a common decision based on clear arguments and discussions. The entire process is internal – it goes without saying that recruitment is too important to be outsourced to a specialized agency, which by default cannot share the same values and objectives as the bank.

Third, the bank invest time in the recruitment process because choosing the right person to fit into a team is one of the most important decisions to be ever taken. When people are hired, the bank do not just look for experienced professionals who can simply step in and fill the open position. On the contrary, the bank do not shy away from hiring young graduates – including those with little or no professional experience – who want to establish a long-term relationship with us. People are also hire from a wide variety of educational backgrounds, including sciences and the humanities. The bank is convinced that this organic diversity of profiles and experience provides us with a constructive, open-minded and innovative pool of approaches to solve issues and best serve the clients.

Staff development

The bank's approach to staff development emphasizes capacity-building through comprehensive knowledge and skills training, regular performance reviews and clear career options. The employees are the bank's most valuable and treasured asset. The bank is proud of the comprehensive training continuum at ProCredit, which allows everyone to participate in multiple levels of training, instead of only a few selected individuals. The bank provides the employees with continuous training at various levels in the banks and at our Academy in Germany.

Levels of training at ProCredit

Level 1 Onboarding programme - integration programme covering all aspects of our development-oriented banking approach, including social and environmental aspects. Mix of classroom and on the-job training.

The Onboarding programme is an opportunity for people who have different educational backgrounds and work experience – especially those who have recently graduated from university and are just starting their careers – to get to know ProCredit and how it ticks. It is conducted entirely in English and covers all aspects of our approach to baking as a development-oriented commercial banking group as well as social and environmental aspects which form part of our responsible attitude. The programme is mixture of both theoretical and practical training. The theoretical part is held at the ProCredit Training Centre in Serbia. This is where you will have the opportunity to meet colleagues from other ProCredit countries, discover new cultures and enjoy a unique learning experience. To facilitate communication in this international environment, the programme is conducted in English, which is why English language skills are an important precondition for participation. The practical side is conducted on the job.

Separate non-financial declaration (continued)

Level 2 Specialist courses and workshops, advanced English training - in-depth training in the technical skills needed for specific positions, plus regional and group-level seminars. Regular courses in spoken and written English, the group's working languages.

Following the initial grounding, employees receive more in-depth training in the technical skills needed for their specific positions. The aim of these specialist courses is to enable the staff to offer proper financial advice to the clients. In this way, the new colleagues learn to appreciate the situation from the client's perspective and thus to determine which banking service will benefit the client most and how best to communicate the benefit.

These position-specific courses are complemented by regular workshops and seminars organized regionally or at group level, covering topics that are strategically and operationally important. This includes for instance the annual green training and AML training for all staff as well as specific training programmes such as the renewable energy training for staff involved in green lending; regular job-specific training for e.g. Client Advisers, Environmental Risk Officers, Credit Analysts, Contact Centre staff, etc. Another noteworthy example is the annual green training, which follows a structured approach, and depending on the topics, applies to both all staff and specialized positions.

To improve the professional dialogue between the ProCredit banks and ProCredit Holding, regular structured one-year staff exchange programmes permit between 20 and 25 colleagues from the group's banks to spend a year in one of the teams at ProCredit Holding.

As English is the "lingua franca" of the group, a great deal of emphasis has always been placed on English proficiency. No staff member can understand the key policies and strategy documents, make valuable contribution to the numerous inter-bank working sessions, or participate in group-wide training programmes without having a good command of English. Moreover, learning and using a foreign language creates openness, curiosity and an interest in the wider world.

Level 3 ProCredit Banker Academy - One-year course at ProCredit Academy combining humanities and banking topics. Serves to identify staff with strong management potential.

The ProCredit Banker Academy is a one-year course and a key component of the phased ProCredit Training programme. It allows participants to construct an analytical framework with which they can address complex ideas, and prepares them for further challenges both at home and in the bank. Attending the Banker Academy fosters both the personal and professional development of promising employees who identify with the bank and want to advance. Simultaneously, it serves to identify ProCredit staff with strong management potential and prepare them for their future position.

Level 4 ProCredit Management Academy – Three-year course at ProCredit Academy, preparing selected staff for greater leadership responsibility.

Like the Banker Academy, the three-year ProCredit Management Academy course has been continually adapted in response to the various challenges and changes in the environments in which the bank operates – be they organizational, economic, political or social. The aims of the Management Academy are to generate even greater comprehension of and identification with the company among staff, to win their active commitment to serving as multipliers of the bank's values and its business policy, and – if the circumstances allow – to prepare them to assume even more challenging responsibilities within the company. To meet the demands that come with holding leadership responsibility, all the managers are required to attend the Management Academy. Accordingly, all banks' management board members have completed the Management Academy course.

Separate non-financial declaration (continued)

Training related to sustainability

Training is an integral part of the development of all employees. Every year the bank holds internal trainings on various topics directly and indirectly related to our work, ranging from several hours to several days.

Every year the bank holds meetings (in groups of 25 people) with all employees of the Bank to discuss important ethical topics, combining the discussion on them with the directions we follow from the Code of Conduct. In 2022, there was a discussion about discrimination against the Uyghur community in Western China and allegations of forced labor in the production of products we also buy in Europe, respectively the Bank's decision to ban the financing of photovoltaic panels from companies linked to this region. In 2023, the commented topic was on gender equality and the added value of diversity in the perspectives and needs of different social groups.

Also annually sustainability training with all employees is conducted. In 2023, EGS terminology and everything important behind it was covered. In 2022 the topic was about climate change, in 2021 about biodiversity, in 2020 about the need for waste management.

Two additional trainings per year are conducted for employees who communicate with customers, on the topic of sustainable business models, applicable solutions for the country, conditions for preferential financing of such investments, understanding and correct communication of solutions (photovoltaic installations, electric cars, sustainable agriculture, energy efficiency in production activity and buildings, etc.).

Nothing mentioned above would be possible without having highly developed communication channels. These channels are diverse in nature and it is everyone’s responsibility to maintain them so that they remain open and effective. For example, every ProCredit staff member has a unique opportunity to meet with a representative of the management board to find out where they stand from an institutional perspective. This process is conducted through regular conversations between representatives of the management team and each individual employee. In addition, direct supervisors strive to create a positive work atmosphere and a culture of effective communication in which their team members understand what is expected from them, are well informed about current developments, and feel supported in their efforts to succeed. Indeed, this is the main goal of the bank’s regular staff assessment process.

Remuneration and equality among employees

The bank promotes gender equality, diversity and fairness among its staff. The women working in the bank are 61% of all the staff. In the table below is presented the distribution by age and gender at the end of 2023.

Gender	Age group				
	Under 25 years	25-34 years	35-44 years	45-54 years	over 55 years
Women	65%	55%	63%	67%	25%
Men	35%	45%	37%	33%	75%

Separate non-financial declaration (continued)

There is no difference in salaries between men and women in similar positions. The salaries in the bank are according to a clear structure, which is presented to new candidates in the first meetings of the onboarding program and they can have clarity about their development. Information about the salary structure is also published on the internal page of the organization and every employee can freely access it. The payments development follows a ladder with certain values, the ascent of which depends on the personal contribution of the employees and the training completed in the organization. Additional confirmation of this is that 65% of ProCredit Bank Bulgaria's employees are women, including 3 of the bank's 4 executive directors.

The bank does not have restrictions on who can apply to work, as in the first 6 months of the onboarding process is provided all the necessary knowledge about the employee's upcoming responsibilities. Many employees are with a different from economic background like philosophy, history, chemistry, foreign languages and others.

In the table below is presented the distribution by position and gender at the end of 2023.

Gender	Management positions	Expert positions
Women	51%	63%
Men	49%	37%

Health and safety working environment

ProCredit Bank has a small number of offices that are maintained in the best and attractive conditions for a working environment with always clean premises, maintained equipment and office elements. The bank applies strict health and safety standards at the workplace. Annual trainings are held for the safety of employees during the work process, for correct posture in front of the computer (given that this is an essential part of the daily work), and others. Separate external trainings are conducted, such as first aid training.

The bank monitors and takes care of the health of employees by conducting annual preventive examinations. Moreover, all employees benefits from additional health insurance. Also every employee can participate in a fund (Association ProCredit Health) for helping colleagues in need for expensive health treatment. The bank also participates in the fund with donations proportionally to the part of each participating employee.

In addition to the monetary side of the remuneration the employees also have access to various non-cash benefits: working options for home office, places for recreation and relaxation at the bank's headquarters – game room and fitness and many more.

Employee satisfaction is measured through regular (annual) two-way conversations between each employee with the Head of Department and a bank employee/colleague external to the department (Heads of another department or Executive Director). Feedback takes place in the form of open communication - how the employee feels in the organization, in the specific department and in the workplace; shares suggestions/comments for policy changes, work process organization, and any idea that would help to increase workplace satisfaction.

The created conditions and adopted policy for open communication in the organization help to monitor satisfaction on a daily basis. The culture at the institution is open and on first-name communication, without unnecessary formalities and the imposition of artificial weight through hierarchy.

Separate non-financial declaration (continued)

3. Human rights

In ProCredit Bank, a policy related to diversity and integration has been introduced, which is implemented in the processes (operational activity) of the organization and its Code of Conduct.

ProCredit bank has implemented a zero-tolerance policy toward all forms of discrimination, inequality and human rights violation and in this way complying with all national and international regulations concerning human rights.

Defending human rights in 2021 the bank announced that would stop financing photovoltaic projects that use solar panels manufactured by companies linked to China’s Xinjiang region, as there is evidence of significant human rights violation associated with the production of these components.

Charity

Decisions to support a charitable initiative are made after discussion between all participants of the Management Board. This is usually preceded by an assessment and opinion from a department that has experience with the subject.

Usually donations are related to infrastructure improvements, which is why the Administration department is important part in the opinion of a given initiative. In the case of socially oriented initiatives, the Human Resources department gives an opinion. For environmental projects, the Sustainability Department provides an opinion.

Beneficiaries in recent years have been hospitals, universities, schools, forestry farms, private organizations/associations dealing with afforestation and maintenance, waste collection and others.

In addition, in 2004 ProCredit Bank’s employees created a non-profit association called "Protegni raka" with the humane mission to support the treatment of children from socially weak families or orphans through free donations. Over the years that the association has existed, it has reached out to more than 1,600 children with various illnesses, providing them with access to quality healthcare in the country or abroad. The charitable activity of Protegni raka is based on well-established principles and independent decisions, in accordance with all applicable laws, regulations and internal rules of the association. A monthly report of the collected and used funds is published on the initiative's website.

Other social issues

Following the bank’s strategy to provide the necessary knowledge and training to the society on topics related to sustainable development, in 2021 the “Denis Diderot” School opened its doors, a subsidiary of ProCredit Bank Bulgaria. The school is aimed at educating the youngest in understanding the interrelationships between nature, people and society. The creation of the “Denis Diderot” School is an initiative that fully reflects ProCredit's aspiration for education in a spirit of tolerance and curiosity, rational thought and the scientific method, solidarity and friendliness, honesty and responsibility. ProCredit supports learning in a different cultural environment for development, promoting the integration of children from different communities and backgrounds and enabling their access to quality education. The building is fully compliant with modern requirements for energy efficiency, built in a nature based architectural style - wood, stone and glass, and an ozonation system reduces the release of carbon emissions.

Separate non-financial declaration (continued)

The bank considers its project to build publicly accessible charging stations for electric cars in Bulgaria in 2021-22 to be particularly important. This project grew and covered the other ProCredit banks in the Balkans. In Bulgaria and Greece, were installed 70 charging stations, which are a donation from the bank to the customers with publicly accessible parking lots. Anyone can be a user of the station without being a client of the bank or the site. In addition to the donated asset, the bank undertakes to pay for the electricity consumed at the site for the first 12 months after the installation of the station. One of the key locations is the University of National and World Economy (UNWE) Sofia, where three charging stations were installed with a commitment from the university to provide free access for everyone. At the ProCredit group level, there are more than 210 charging stations in the Balkans with a tendency to reach 300.

4. Issues related to fight against the corruption and bribery

Anti-corruption and bribery matters

ProCredit bank policies are aimed to reduce corruption to zero level and prohibit bribery in any form, direct or indirect. The bank requires from its staff compliance with all applicable law to ensure ethical behavior, providing capacity to develop effective, accountable and transparent institution. All employees and managers of the ProCredit bank, as well as the customers, business partners and the general public, bear the responsibility for noticing and clearly addressing illegal, fraudulent or unethical behaviour.

ProCredit bank communicates anti-corruption and bribery policies to governance body members, employees and business partners publicly via the Code of Conduct.

The Bank has successfully established and implemented a Whistleblowing Policy, which ensures a safe and open environment whereby any employee and partner of the Bank can report suspected misconduct or behavior inconsistent with the Bank's principles. The procedure sets out the information that can be reported, the appropriate channels and mechanisms to allow employees to freely express their suspicions without fear of possible negative consequences.

All employees are expected to raise concerns when they experience or witness unlawful, fraudulent or any other unethical behavior or violations of laws, policies or procedures. Thus, they are strongly encouraged to address such matters to their respective managers, Human Resources, Internal Audit, the compliance officers, or Management. Besides these internal channels of communication, all staff members as well as ProCredit Bank Bulgaria's business partners-legal entities and the general public are encouraged to raise issues of concern and speak up through the ProCredit Bank (Bulgaria) whistleblowing system or through a central communication channel at ProCredit Holding when they suspect potential wrongdoing or when they are confronted with conduct or situations that may raise ethical, legal or regulatory concerns, including environmental and social issues and where all indications of violations are processed consistently and without bias.

Anti-money laundering and prevention of terrorist financing

In its activity, the Bank is guided by the requirements of national legislation, group policies and standards and the requirements and guidelines and recommendations of the European legal framework, which have direct application such as the guidelines of the European Banking Authority (EBA) related to prevention, policies and control mechanisms for the effective management of money laundering and terrorist financing (MI/FT) risks in the provision of access to financial services for which the Bulgarian National Bank has declared a commitment to implement and supervise (e.g. Guidelines EBA/GL/2023/04), delegated and implementing regulations.

Separate non-financial declaration (continued)

Internal rules of "ProCredit Bank (Bulgaria)" EAD define the overall organization for the prevention and control of money laundering and the financing of terrorism through the Bank, as well as define criteria allowing identification of suspicious operations and customers. The bank strives to build long-term relationships with its clients based on open communication and mutual trust. Knowing the activities of customers, the purpose of entering into relations with them and the origin of their funds is the basis of the principles of responsible banking to which the Bank adheres. Strict compliance and application of the principles laid down in the "Know Your Customer" policy and the Group Customer Due Diligence Standard lead to a high degree of knowledge of the persons with whom the Bank maintains relations and facilitates the prevention of money laundering of money and the financing of terrorism.

5. International standards the bank follows and memberships

In order to strengthen the commitment to various topics related to the environmental protection and social initiatives through ProCredit Holding, the bank is a member of several international environmental associations:

- United Nations Environment Partnership – Finance Initiative Principles for Responsible Banking AND Net-Zero Banking Alliance (UNEP FI)
- Science based targets initiative (SBTi)
- Partnership for Carbon Accounting Financials (PCAF)
- Task Force on Climate-Related Financial Disclosures (TCFD)
- United Nations Sustainability Development goals (UN SDG)
- United Nations Global Compact
- Member of Finance Leadership Group on Plastics

The following ESG rating are held on group level:

- ISS ESG, Corporate rating: Prime, Rating Grade: B-
- MSCI ESG Research, ESG Rating: AA
- ESG EDGE Score 3.9 out of 5 (Edison Investment Research)

The bank actively uses the international approaches and standards for reporting the sustainable model of a business. Currently, the Global reporting standard (GRI) is used, having published a general report at the group level for the 6th year in a row. On the Bulgarian side, the bank collects and provides all data to the Holding. The group also follows the PCAF standard for reporting the carbon footprint of the loan portfolio. The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) are used to assess the risks to the business from climate change, for which the results are published as part of the GRI Impact report.

Separate non-financial declaration (continued)

6. Awards and honors

- ESG Awards 2023. In November, the Bank was awarded first place in the "Climate Strategy" category at the major ESG Awards 2023 of PwC Bulgaria.
- ICAP CRIF in Bulgaria ESG Award 2023. ICAP CRIF in Bulgaria celebrated their 11th anniversary by giving an award in an ESG category for the first time. ProCredit Bank was the only company to receive an A rating in this category during the True Leaders award ceremony.
- First place in the "Banking sector" category in the competition "Greenest companies in Bulgaria" of B2B media
- An award "Circular Economy Excellence" from Circle the Med Forum. ProCredit Bank was given a "Circular Economy Excellence" award of the international Mediterranean "Circle The Med" forum which was held in Athens, Greece. This recognition distinguished the Bank's leadership position in financing sustainable projects, and its personal example with green investments and socially significant practices.

The separate non-financial declaration was approved by the Management Board and signed on its behalf by:

PROCREDIT BANK (BULGARIA) • SOFIA • EAD

Reni Peycheva
Executive Director and
Member of the Management Board
8 April 2024

Ivan Dachev
Executive Director and
Member of the Management Board