ALLIANZ BANK BULGARIA AD
ANNUAL ACTIVITY REPORT
CORPORATE MANAGEMENT DECLARATION
INDEPENDENT AUDITORS' REPORT
ANNUAL FINANCIAL STATEMENT
for the year ended, December 31, 2022

CONTENTS

Dear Shareholders,

During the past 2022 Allianz Bank Bulgaria AD, continued to function as a loyal and honest partner of its clients and partners on the local and international markets.

Despite the challenges posed by the crisis caused by the COVID-19 pandemic and serious competition, the bank has achieved good financial performance, driven by its effective management and the excellent work of its employees.

As at 31.12.2022, the amount of the Bank's assets is BGN 3,996,323 thousand, and the realized profit after taxation in the amount of BGN 23,213 thousand.

Borrowings

As of the end of 2022, customer deposits with the bank increased by 10.86% and reached BGN 3,665,790 thousand (2021: BGN 3,306,667 thousand).

Sources of financing for the bank are deposits of citizens - BGN 1,896,542 thousand and deposits with corporate clients - BGN 1,769,248 thousand.

As of the end of 2022, Allianz Bank Bulgaria serves 19.727 corporate accounts and 147.489 personal accounts.

Capital

The main capital of Allianz Bank Bulgaria AD as at 31 December 2022 was BGN 69,000 thousand, distributed in 69,000 thousand registered voting shares with a nominal value of BGN 1 each.

As at 31.12.2022 the Bank's equity is BGN 273.277 thousand. The total risk component of the bank's balance sheet and off-balance sheet assets is BGN 1,459,442 thousand. The capital base of the Bank, according to the new capital framework of the ECB / Basel 3 / with no annual profit for the end of 2022 is BGN 246,741 thousand.

The Bank prepares quarterly and annual supervisory accounts, as well as monthly reports for the management in accordance with the requirements of Regulation No. 575/2013 of the EU and Ordinance No 8 of the Bulgarian National Bank (BNB) of 24 April 2014 on the capital buffers of banks. The Bank applies a standardized approach with regard to credit and market risk, and a basic indicator approach for operating risk.

According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%.

Based on the regulatory supervisory reports of the Bank, prepared on an individual basis for the purposes of the BNB, in accordance with the requirements of Regulation No. 575/2013 of the European Parliament and of the Council as of December 31, 2022; Implementing Regulation /EU/ 2021/451 effective from 28 June 2021 /amendment of Implementing Regulation /EU/ No. 680 of 2014/, the Bank fulfills the regulatory requirements for capital adequacy.

Capital (continued)

By the end of 2022, Allianz Bank Bulgaria AD has complied with the recommendations of the BNB /decisions of the Board of the BNB of 20.12.2019/ and No. 160 of 24.04.2019 for capital stability - the total capital adequacy should not be less of 14.25%, formed on the basis of:

- Minimum total capital adequacy ratio of 8% to risk-weighted assets in accordance with Article 92, paragraph 1 of Regulation 575/2013. and an additional core equity requirement of 1.24% to risk-weighted assets, or 9.24% total capital requirement under the Supervisory Review and Evaluation Process / SREP; EBA/GL/2014/13/.
- Buffer for systemic risk equal to 3% of the sum of the bank's risk-weighted assets.
- Safety capital buffer equal to 2.5% of the sum of the bank's risk-weighted assets.
- Bulgaria by the end of 2022 – 1.0% / at 0.5% for 2021 /, according to a decision of the BNB Board of Directors.

The capital adequacy ratio is 16.91% /with a required minimum of 15.74%./ and the Tier 1 capital adequacy ratio is 16.91%. As at 31.12.2022, the Bank does not recognize Tier 2 capital in its capital base.

Assets

The bank's assets at the end of 2022 amount to BGN 3,996,323 thousand, increasing by 10.31% for one year.

The structure of the assets is preserved, as the increase in the amount of the asset is mainly due to an increase in loans and prepayments to customers by 18.5%. The volume of the securities portfolio remains, while the proportion of the portfolio types has changed. A 57.2% decrease in securities carried at fair value in other comprehensive income and a 33% increase in securities carried at amortized cost. Cash and cash equivalents grew by 1.53%, mainly from balances with the Central Bank.

The loans and advances to customers as of December 31 may be presented as follows:

In BGN thousand	**2022**	**2021**
Loans and advances to clients at amortized cost	1,740,494	1,524,740
Factoring receivables	143,813	91,427
Claims from a cash pool	9,405	9,405
Finance lease receivables	119,923	94,482
Minus losses from impairment	(91,071)	(97,174)
Total loans and advances to clients	**1,922,564**	**1,622,880**

Under the new Basel III financial reporting framework (FINREP), non-performing loans amounted to BGN 52,258 thousand. (2021: BGN 56,994 thousand) and constitute 2.61% (2021: 3.31% of the Bank's loan portfolio; the analogous indicator for the entire banking system as at 30.09.2022 is 5.09% and 5.44% for 2nd group of banks.

Net financial revenue

In the past 2022, the Bank retained the proportions in the structure of net financial income, with net interest income and net fee and commission income remaining the main factor in profit formation.

The highest relative share of interest income is interest income on loans and advances to customers - BGN 49,744 thousand, which represents 71.215% of the total interest income, compared to 67.25% in the previous year. Interest income from investments is BGN 13,299 thousand and has a relative share of 19.04% compared to 21.05% at the end of 2021. With the net income from commercial operations, the bank also reported a loss from the sale of central securities accounted for at fair value in other comprehensive income in the amount of (21,066).

The net income from fees and commissions amounted to BGN 22,086 thousand, marking an increase compared to the level of the previous year 2021 by BGN 16,441 thousand. Gross income from fees and commissions for cash operations and money transfers marked a growth of 12.55%. The income realized from factoring fees and commissions grew by 55.38%, from bank cards by 12.6%.

The net income from foreign exchange trading for 2022 is BGN 3,438 thousand, increasing by 49.61% in one year (BGN 2,298 thousand in 2021).

Administrative expenses

Operating expenses of the Bank for 2022 amounted to BGN 47,473 thousand (2021: BGN 41,894 thousand), marking an increase compared to 2021 by 13.32%. The cost of salaries and social security payments of the staff marked a growth of 6.4% compared to the end of 2021).

The volume of funds intended to cover the contribution to the Deposit Insurance Fund amounted to BGN 4,421 thousand. (2021: BGN 3,548 thousand) The bank also charged BGN 2,038 thousand costs for a restructuring fund.

The operating expenses for external services (including audit) and materials amounted to BGN 8,852 thousand and increased by 7.4% compared to 2021.

Management, marketing and other expenses increased by 8.67% to BGN 3,419 thousand.

In BGN thousand	**2022**	**2021**
Expenses for inventory	(422)	(783)
Expenses for hired services, incl. audit	(8,430)	(7,457)
Management, marketing and other costs	(3,419)	(3,146)
Rental costs	(536)	(501)
Expenses for depreciation	(2,681)	(2,095)
Expenses for depreciation of right-of-use assets	(2,714)	(3,066)
Staff expenses	(21,456)	(20,152)
Bank restructuring costs	(2,038)	-
Expenses for deposit insurance	(4,421)	(3,548)
Other costs	(1,356)	(1,146)
Total administrative costs	**(47,473)**	**(41,894)**

The Cost / Income ratio at the end of 2022 was 42.7% compared to 48.8% in 2021. The 2023 plan was CIR 46.76%.

Information on services provided by independent auditors

The amounts accrued in 2022 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 158 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT.

The amounts accrued in 2021 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 144 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT.

For the audited period and on the date of this report PricewaterhouseCoopers Audit OOD provided, and is in the process of providing or negotiating with the Bank, the following services:

- Joint mandatory statutory financial audit of the Bank's financial statements prepared for the year ended 31 December 2022, in accordance with IFRS adopted by the EU;

- Commitment to perform procedures as of 31 December 2022 in connection with the fulfillment of the requirements of Art. 76, para. 7, item 1 of the Credit Institutions Act and Art. 5 of Ordinance 14 of the Bulgarian National Bank (BNB) of February 4, 2010 regarding the internal control systems of Allianz Bank Bulgaria AD.

For the audited period and at the date of this report, HLB Bulgaria Ltd provided or is in the process of providing the following services:

- Joint mandatory statutory financial audit of the Bank's financial statements prepared for the year ended 31 December 2022, in accordance with IFRS adopted by the EU;

- Commitment to perform procedures as of 31 December 2022 by the joint auditors in connection with the fulfillment of the requirements of Art. 76, para. 7, item 1 of the Credit Institutions Act and Art. 5 of Ordinance 14 of the Bulgarian National Bank (BNB) of February 4, 2010 regarding the internal control systems of Allianz Bank Bulgaria AD.

Financial targets for 2023

The financial targets that the Bank should achieve in 2023 are consistent with the country’s macroeconomic development framework and the expected dynamics in the market environment, based on the Bank's plan approved by the Supervisory Board and the Plan dialogue with Allianz CEE.

The bank sets ambitious goals regarding the dynamics of profitable assets, with their planned amount at the end of the year amounting to BGN 3,605 million with a growth of 2.3%. The loan portfolio is dominant in the volume of profitable assets with a share of 61.3%. At the end of 2023, its gross value will reach BGN 2,211 million, marking an annual growth of 12.3%. This volume of business should generate a profit after taxes in the amount of BGN 35.3 million, which will ensure a return on equity (ROE) of 12.5%.

The strategic plan of Allianz Bank Bulgaria AD covers a three-year period, and its final approval is carried out by the board of directors of Allianz CEE, a subsidiary of Allianz SE, which manages the business of the holding (Allianz Group) in the countries of Central and Eastern Europe.

Financial targets for 2023 (continued)

The strategic goals of the Bank and the planned values of the main indicators of capital adequacy, liquidity and profitability reflect the vision of the shareholders and the management for the sustainable development of the institution.

The Bank's business strategy in 2023 is based on three main pillars:

- Sustainable growth of profitable assets and customer base;
- New digital solutions to support credit activity in the Retail Banking business line;
- Development of transactional business;

In the implementation of the financial goals set for 2023, the Bank will use the advantages of the new business model for the production and distribution of banking products and services, based on the reorganized branch network with a focus on sales and customer satisfaction. The other important item is the implementation of the following key initiatives:

- Significant growth in the number of active clients and attraction of new ones from the client portfolio of the insurance companies and the pension fund, which will result in an increase in cross-selling and higher income from fees and commissions.

- Retail business - increasing the Bank's market presence in retail banking and expanding the product range with new payment services, loans with a high margin and rapid approval procedures through an optimized digital application process; growth in mortgage and consumer lending faster than the market average; preserving the good quality of the loan portfolio.

- Corporate banking – creating new product lines for financing the construction of photovoltaic capacities to ensure energy independence of the business and risk diversification in the supply of different types of energy carriers; focus on attracting international, multinational and local export-oriented companies in order to increase revenues from trade financing and factoring; growth in the volume of bank loans intended for corporate clients with a high rating to ensure lower capital consumption.

Digitization processes are a mandatory and irrevocable part of the banking business, and in this context the Bank will prioritize several IT projects aimed at providing solutions regarding:

- improvement of internal processes and expansion of provided services; a paperless workflow with a high level of automation in checking and registering new customers, managing accounts and authorizing loans; a new mobile application for Internet banking and additional digital channels for the sale of banking and insurance products; improved back-office processes in order to save costs.

- construction of a digital platform with a wide range of services that will enable customers to remotely bank, apply for loans and manage funds, as well as an integrated application for the sale of insurance and pension insurance products.

Financial targets for 2023 (continued)

- A "mobile factoring" solution to provide connectivity between all participants in the factoring transaction, as well as a digitized, customer-friendly journey throughout the process.

- Implementation of integrated marketing communication - direct marketing campaigns aimed at existing customers in order to cross-sell and retain existing customers. Effective marketing activities to attract new customers.

The bank will continue to work on the "MonoCARD" concept, which implies cooperation with Mastercard, a unified payment scheme, combining all the advantages of an exclusive partnership agreement with opportunities to develop products and subsidize various initiatives, full marketing and consulting support, bonuses at fulfillment of assumed business volumes and optimization of operating costs.

By the end of 2023, the Bank's ambition is to be among the top three banks in Bulgaria in terms of efficiency and profitability, measured by CIR and ROE.

New products and services

The reversal in the trend of interest rates towards an increase in 2022 is reflected in the retention and slight increase of interest rates on loans in the Retail Banking and Corporate Banking business lines, after the end of the third quarter.

Retail Banking Business Line:

In order to consolidate the market positions reached in 2022, Allianz Bank Bulgaria continued to maintain and expand its product range in Retail Banking. In the first half of the year, the range of customers that fall into the micro-business segment was expanded, and the threshold for annual sales revenue was changed from BGN 600 thousand to BGN 1 million.

In the first half of 2022, the cost of the attracted resources in the banking system kept its low price. At the end of the third quarter and in the fourth quarter, banks revised their thresholds for charging balance fees on checking accounts. Some financial institutions have started to announce positive interest rates on the savings products they offer. In line with this trend, Allianz Bank Bulgaria also revised the thresholds above which it charges negative interest for account balances.

Over the past year, competition in lending has intensified. In order to ensure the competitiveness of mortgage loans and consumer loans, their conditions were revised several times. At the beginning of the year, a promotional mortgage loan and a consumer loan were put on sale with the possibility of targeted financing of housing needs at attractive interest rates.

Throughout 2022, interest rates on loans in consumer segments maintained their downward trend. However, at the end of the third quarter, Allianz Bank revised the interest rates on the offered consumer and mortgage loans in order to optimize the applicable interest discounts and increase the lowest possible interest rates for each of the products.

In the Retail Banking segment, priorities for the digitization of the credit process remained, and in mid-2022 the entire branch network will start processing mortgage transactions in the DiGiWave software application. The process in the application covers the processing of transactions from an offer to a decision by the competent authority. The next stages of the process are being tested.

New products and services (continued)

Corporate Banking Business Line:

In the Corporate Banking business line, the Bank's priority was the development of various corporate financial products to meet the growing needs of companies for working capital and investment financing, as well as the need to use transactional services. The focus in 2022 was aimed both at active sales of credit products (including factoring services) and maintaining the purity of the corporate loan portfolio, as well as at the sale of transaction services.

In 2022 the bank continued to support its existing and new customers in overcoming the consequences of the COVID-19 pandemic and the newly emerging circumstances resulting from the military conflict in Ukraine, by providing credit services according to the updated government aid scheme under the Recovery Program of the Bulgarian Bank for Reconstruction and Development EAD, the new Program of the European Investment Fund to support enterprises, with the aim of overcoming the difficulties resulting from the COVID-19 crisis and renewing the Guarantee Program of the National Guarantee Fund EAD.

In 2022, the first phase of the process of digitalization of the credit process of Corporate Banking business line was finalized by implementing the new software system - Credit Quest. It is a complete solution in the process of approval of corporate loans, portfolio management, analysis of financial statements and generation of rating, generation of various types of reports. In 2022, the bank implemented the processes up to the approval stage of credit transactions in Credit Quest.

We have been working to increase revenue from fees and commissions and create new lending opportunities and attract transactional business. Efforts were made to optimize tariff positions and prices for the full range of banking services, including transactions, loans, letters of credit and bank guarantees, deposit lockers. In this regard, the project to put into operation the Deposit locker module in the Flex cube accounting system was completed, which ensured full automation of the process of providing the service of using deposit lockers (creating a contract, reporting visits, tracking the end of a contract) . At the end of the year, the process of developing and implementing the Relationship pricing module for Flex cube started, which will contribute to significantly more efficient management of individual preferences for transaction services, as well as provide a technical opportunity to create and sell a completely new banking product - transaction service bundles. The project is in the process of implementation, and the forecasts are that its implementation will be finalized in the first quarter of 2023.

The emerging trend of rising interest rates in 2022 required the elimination of negative interest on borrowings; the cash storage fee introduced in 2021, which is charged and collected as of 31.12 of each calendar year remained unchanged. The bank applies a cautious approach in managing borrowing, while keeping track of market changes.

The bank significantly activated the factoring services offered. In the turbulent period of post-COVID economic recovery and political instability, factoring has proven to be a very convenient and sought-after financial tool for financing. It is a product that combines the provision of both working capital and security for its administration and collection. During the past period, Allianz Bank Bulgaria recorded over 80% growth in turnover and 113% growth in revenues from this activity. Offering this service is among the main priorities of the Bank, and in the past 2022 the focus was on the introduction of a one-of-a-kind mobile factoring application mFactor, which provides convenience, speed and security when using factoring services.

New products and services (continued)

Card payments and digital channels:

In 2022, we implemented new functionalities for all our card products under the Mastercard brand: sending cards by courier to an address in Bulgaria, activating a card at an ATM, providing a PIN code for a card via an SMS message. In the bank's back-office systems, we introduced the possibility of changing the transaction limit on cards in real time, thereby eliminating the delay in customer service. The migration of virtual merchants to the new platform of our authorization center - Borika, which provides new improved services for our merchants and meets the latest requirements of card organizations, has been successfully completed. We have successfully completed the migration of the network of ATM devices, with the Bank's ATMs meeting all modern requirements.

Sales network

In 2022, the process of optimization of the branch network of Allianz Bank Bulgaria AD continued in the previous year.

Continuous monitoring and analysis of efficiency, workload and, last but not least, the potential for development of the sales points of the Bank are carried out. Based on the results of this process, BC Sevlievo, BC Slaveykov, BC Vladislav and BC Dupnitsa, as well as MBC St. St. Cyril and Methodius-V. Tarnovo and MBC UMBAL Pleven were closed.

As of 31 December 2022, the Bank has disclosed 54 structural units, including central administration, 52 business centers and 1 small business center located in 34 settlements in the country.

Information Technology

In 2018 the bank developed a comprehensive digitalization plan, including optimizing the IT architecture and infrastructure and providing more digital services to customers. The comprehensive digitalization program (2019-2023) aims to help the bank meet current customer expectations by making communication easier and more convenient. The initiative envisages the implementation of a digital banking platform to be used by customers, employees and third parties.

In 2019, a Strong Client Authentication (SCA) Integration and Consent Management Platform was implemented in order to secure online payments through the internet and mobile banking system and in connection with the implementation of the Payment Services Directive (Regulation (EU) 2015/2366) for additional identification for operating systems – Android (Google Play) and iOS (App Store), as well as integration with APIs under BISTRA – PSD2 for receiving and processing requests initiated through third party payment service providers (TPP).

In 2020, new E2E processes for customer and account registration and credit processes for individuals were implemented.

In 2020, the bank's backup data center was upgraded in order to fully back up the ever-expanding services it offers to its customers.

In 2020 AML software was implemented - a priority for the bank on which it has worked since 2019. The software will ensure better monitoring of cash flows and it complies with all anti-money laundering standards.

In 2021, package payments will be introduced within the BISERA 6 payment system.

Information Technology (continued)

In terms of payments, in 2020, the development and implementation of a consolidated platform for payments in EURO - TARGET services was launched, which will unite at a technical and functional level the TARGET2 payment system, the TARGET2-Securities settlement system and the instant EUR transfer processing service TIPS. Planned implementation by the ECB – March 2023.

In 2022, the following applications were put into operation:

- E2E Origination and Underwriting Mortgage process in the Digi Wave Platform - automation of the mortgage loan approval process;
- E2E Origination and Underwriting Corporate process in Credit Quest - automation of the corporate credit approval process, calculation of financial analysis and rating;
- Documents Flow Management in the Digi Wave Platform - archiving of customer and credit files;
- Econt Wallet – a service bank for servicing a digital wallet-type mobile application, which Econtis wallet customers can use to make free and secure payments;
- CBS Flex Cube – implementation of new Mortgages and Commitment modules, with creation of new products corresponding to the functionality of the system, and development of web services and API for integration with the Digi Wave platform;
- CBS Flex Cube - implemented new functionality for automatic payment of assigned lease contracts, in the main banking system;
- Ultimat - main system for assigned lease contracts, register of contracts, implementation of banking operations and regulatory reporting;

mFactor was also implemented - a mobile application for a fully digital process for servicing invoice assignments and funding requests (including invoice OCR and automatic master document generation), digital QES document signing with signature rules, real-time dashboards and transaction information, reports and notifications.

A new Mobile banking/Mobile app is in advanced stages of implementation, as well as a modernized platform for internet banking.

A Web portal was also implemented for individual loan applications with included digital identification of an applicant who is already a client of the bank, using the client's identification for mobile/internet banking, integration with digital services and access to the digital process.

Work continues in the direction of ensuring the continuity of business processes. Disaster recovery data center communication and server equipment is being upgraded to provide business continuity management while complying with disaster recovery regulatory requirements and equipment renewal.

The development of services continues with the implementation of new modules in the main banking system: deposit boxes servicing module; Relationship pricing module for bundled services, modernization of activities related to the servicing of mortgage loans and commitments through the implementation of a specialized module Mortgages and Commitment.

In 2022, the detoxification process continued, and the most significant project in this direction was the successful completion of the upgrade of the database version of the main banking system to Oracle 19.

In 2023, the main priority of the bank are the changes and all projects related to the introduction of the Euro currency, including ANA credit.

Information Technology (continued)

К The bank has assessed and planned the following projects as important in 2023:

- implementation of a new version of the main banking system FlexCube 14;
- implementation of the Workplace strategy of Allianz Group with the projects SD WAN, Allianz Virtual Client, MFA – Veridium;

In 2023 and 2024 the bank will continue to develop information technologies in order to promptly respond to all changes in the legal and regulatory framework in the country, business challenges and customer satisfaction.

Development will continue in the area of digitalization, which will aid clients with regard to both transactions and the client-bank relationship in general.

Staff

At the end of 2022 Allianz Bank Bulgaria AD employs 565 employees on an employment contract (2021: 590 employees).

The employees of Allianz Bank Bulgaria AD play a key role in the development of the Bank, they are valuable human capital that the Bank strives to develop and build professionally. They are the basis for quality customer service and customer satisfaction. The bank has a policy of supporting work-life balance, supporting mental health, aiming to create a productive and efficient working environment. The desire of employees not only to develop and improve their qualifications and skills, but also their career growth and retention is valued and supported.

Indicators	**Value**	**Relative weight (%)**
Total number as at 31.12.2022.	597	
including managers	110	18.43%
Men	131	21.94%
Men in managing positions	46	35.11%
Women	466	78.06%
Women in managing positions	64	13.73%

Age structure:

Indicators	**Value**	**Relative weight (%)**
Total number	**597**	
Up to 20 years	-	-
From 21 to 40 years	167	27.97%
From 41 to 60 years	406	68.01%
More than 60	24	4.02%
Average age in general for the Company	**45.86**	
including average age for men	47.7	104.01%
including average age for women	45.34	98.87%

Structure by place of residence:

Indicators	**Number**	**Relative weight (%)**
Total number in Business Line	421	70.52%

Staff (continued)

In the past year 2022, in the environment of highly competitive labor financial market, rising prices and high inflation, the Bank's efforts were directed at retaining its key employees and those with high potential. To successfully achieve its business strategy and objectives, the Bank depends on retaining its best employees and keeping them motivated and engaged. Its approach is based on talent management and assessment, promoting employee inclusion and rights, and supporting wellbeing and engagement - supported by strategic HR frameworks, principles and tools built on the principles of customer service excellence, collaborative leadership, entrepreneurship and trust .

To achieve this important goal, in 2022, trainings were organized to upgrade leadership skills, sales skills, increase knowledge and improve risk management culture, and a number of others related to increasing the professional qualifications of employees and their knowledge. In addition to the 2021 Co-Worker Wellbeing and Mental Health Support Program with 24/7 hotline consultations, lectures were organized by specialist psychologists on coping with stress in the workplace, managing remote work, managing of conflicts, with the aim to resolve a wide range of issues that negatively affect work and personal life.
The bank values employee engagement as a high priority and works to build a highly customer-centric workforce. It uses specific indexes that measure employee engagement (Employee Engagement Index - EEI), the development of a company culture in which people and work matter (Inclusive Meritocracy Index - IMIX), as well as satisfaction with the work environment (Work Well Index - WWI). This is done in order to analyze the root causes of work-related stress, identify effective solutions and implement changes in the work environment so as to enable employees to reach their full potential. EEI includes 4 indicators measuring employee satisfaction and commitment to the company. IMIX includes 10 indicators covering the areas of customer service, leadership and corporate culture. WWI includes 13 indicators covering the areas of work environment, work performance and career development.

In 2022, all three indices show an increase again compared to the previous year 2021, with the improvement in the results varying between 2 and 4 points. The results show development not only in employee engagement and company culture, but also improved work-life balance, satisfaction with the work environment, improved communication and customer service.

The bank supports social inclusion through diversity and wellbeing programs, supporting groups such as Women in Management and People with Disabilities. In 2022, we continued the strategy of renewing and improving the Bank's social policies in order to achieve maximum employee satisfaction

Allianz Bank Bulgaria has EDGE certification /Economic distribution for gender equality/ since 2021. Once again, at the end of 2022, an analysis was made of the pay gap between women and men employed at Allianz Bank, as the result of the study in the pay gap has been reduced to 0.1% in favor of men compared to 0.8% at the end of 2021. We are committed to not offering differential compensation based on gender for the same or similar positions. Our leadership programs focus on gender equality and ensure equal opportunities for career development.

The results of the employee satisfaction survey for 2022 showed an increase in the indexes for their commitment, development of company culture, work-life balance.

Credit, market, liquidity, and operating risk

The Bank manages the credit risk through rules and procedures related to the characteristics of the credit transactions concluded by it, the order, terms and manner of their research, analysis, evaluation, authorization, coordination, management and provision approved by the Bank's Management Board. actively manages its credit risk.

As required by IFRS 9, the Bank applies the "expected credit loss" (ECL) model. In this regard, the Bank applies substantial judgment on the way changes in economic factors are reflected in ECL, which is determined on a likelihood-weighted basis. The impairment model is applied to the following financial assets which are not assessed by Fair value in profit and loss (FVPL):

- financial assets comprising debt instruments;
- lease receivables;
- issued loan commitments and contracts for financial guarantee.

According to IFRS 9, impairment losses are not recognized for equity securities.

IFRS 9 requires recognition of a correction of losses amounting to ECL for 12 months and ECL for the entire duration of the instrument. ECL for the entire duration of the instrument is ECL arising from all possible cases of non-performance throughout the expected duration of a financial instrument, and ECL for 12 months is the part of ECL derived from cases of non-performance which may occur within 12 months after the reporting date.

According to IFRS9, when recognizing the amount of ECL for a financial instrument, the Bank shall adhere to one of the following approaches:

General approach

The general approach to measuring of impairment is applied to all financial assets, credit commitments, and financial guarantees, lease receivables within the scope of impairment of IFRS 9, unless the simplified approach is applied.

According to the general approach, ECL is measured as 12-month expected credit losses or expected credit losses throughout the life depending on whether substantial increase of credit risk is present after initial recognition. More specifically:

According to the General approach, the Bank calculates 12-month or expected credit loss for the entire financial instrument (ECL) depending on the severity of change in the financial instrument's credit risk after initial recognition.

To this end, the Bank applies three stages as described below:

- Stage 1 encompasses all new financial assets upon initial recognition and instruments which have not deteriorated substantially in credit quality after initial recognition;

- Stage 2 encompasses financial instruments which have deteriorated substantially in credit quality after their initial recognition, but which have no objective proof of event of credit loss;

- Stage 3 encompasses financial assets which have objective proof of impairment at the reporting date.

The Bank has defined in its rules and practice total correspondence between the definition of "non-performance", "impaired", and "non-performing" to ensure a homogeneous approach to practices for categorization of loans for supervisory and reporting purposes. As a result:

- Stage 1 and 2 include only performing financial assets,
- Stage 3 includes only non-performing financial assets.

Credit, market, liquidity, and operating risk (continued)

Expected credit loss for 12 months is recognized for assets classified in Stage 1. Expected credit losses throughout their entire lifetime are recognized for financial assets classified in Stage 2. Expected credit losses throughout their entire lifetime are recognized for financial assets classified in Stage 2 and interest income is calculated based on net book value. For financial assets classified in Stage 3, the Bank stops recognizing balance-sheet interest.

Simplified approach

The simplified approach to measuring impairment is applied to all commercial receivables (including the factoring portfolio) and all cash funds.

As of 31.12.2022, non-performing exposures classified in Phase 3 amounted to BGN 52,258 thousand or 2.60% of the loan portfolio. The impairments accrued on them amount to BGN 91,071 thousand.

Applying the principle of full coverage of the risk of loss, the Bank charged as at 31.12.2022 provisions for loan balance sheet exposures and unutilized commitments classified as performing in Phase 1 and Phase 2 totaling BGN 43,697 thousand. The provisions based on the applicable accounting standards are determined on the basis of the adopted Provisioning Policy.

In order to limit the counterparty credit risk, the Bank uses a system of limits to local and foreign banks/ financial institutions/ corporate clients – established according to the definitions and logic embedded in the methodology for their calculation of the CRisP system. Limits are updated monthly and are available daily through the CRisP system. Disbursement of limits is monitored on a daily basis.

In addition to the system of limits and in order to minimize counterparty credit risk, when concluding repo transactions, the Bank also applies additional limits established in Minimum standards for repo transactions of companies within the Allianz SE group as follows:

Acceptable collateral:

- Primary: State securities of countries and international development banks and organizations with minimum credit rating AAA, deposit with one-day maturity;
- Secondary: State securities of countries with a minimum credit rating of AA, A, and BBB, corporate (senior) securities with a minimum rating of A, deposit certificates from banks with a minimum rating of A, deposit with maturity up to three months, state guaranteed securities;
- Tertiary: Regular stock (with established requirements for free float, listed on established exchanges within the G7 and EU countries), convertible investment-grade bonds.

The following shall not be accepted as collateral: Commodities, loans, structured products such as (CDOs; CLOs; ABSs); properties, as well as shares of CIS investing in properties; variants; issued own issues of securities; any type of assets on emerging markets; exchange-traded funds (ETF), preference shares, subordinated term debt, collateral from issuers classified in “Watch” and “Restricted” lists in the CRisP system.

As at 31.12.2018, the majority of receivables from local and foreign banks are short-term (mostly overnight and up to 7-day deposits). Distribution of exposures to banks (deposits, repos, currency transactions, securities, and guarantees), according to credit rating from ECAA is as follows:

Credit, market, liquidity, and operating risk (continued)

%	Deposits	Nostro accounts	Securities	Spot currency transactions (gross value)
Investment grade	100%	100%	99.46%	100%
Speculative grade	-	-	0.14%	-
No rating	-	-	0.40%	-
Total	**100%**	**100%**	**100%**	**100%**

As of 31.12.2022, 88.71% of the total allocated capital is for credit risk under regulatory framework Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

The Bank manages market risk through an appropriate organizational structure for identification, measurement, monitoring and management. The processes are documented and informationally secured. The assigned capital for operational risk at the end of 2022, calculated according to a standardized approach - basic indicator approach, according to Article 315 of the EU Regulation No 575/2013, is 11.29% of the total capital. There is also an administrative organization for recording and measuring potential operational risk losses.

The Bank owns a portfolio of liquid assets at the end of 2022 (in accordance with Ordinance No. 11 of the BNB on Liquidity Management in Banks) amounting to BGN 1 841 514 thousand, which allows it to maintain an appropriate balance between the maturity of the borrowed resource ongoing financing of its activities. Given that the secondary liquidity ratio recommended by BNB is no less than 20% (Liquid assets/ Attracted funds), the Bank had a secondary liquidity ratio of 49.88% at the end of 2022 and 51.01% at the end of 2021.

Credit risk management in connection with the COVID-19 pandemic

During the reporting period the Bank’s activity was affected by the global COVID-19 pandemic as a result of the measures and recommendations taken in previous periods by regulatory authorities, such as changes in prudential requirements that continued in 2022, temporary suspension of payment of dividends, changing the postponement of monthly installments for loans meeting certain conditions and providing guarantees and public guarantees for companies, individuals and self-employed persons or terminating the already approved measures for debt rescheduling, as well as any changes related to the reduced impact of the COVID- 19 on economic activity.

Despite the significantly reduced impact of COVID-19 on the economic activity and the gradual easing of restrictions from 2020, the Bank faced various risks during the reporting period, such as a greater risk of impairment of financial assets measured at fair value in other comprehensive income , significant revaluations resulting from large fluctuations in the market value of securities measured at fair value in other comprehensive income held in this portfolio for liquidity reasons and an increase in risk-weighted assets (RWA).

The COVID-19 pandemic, in addition to the widespread use of remote work, has increased cybersecurity risks.

The unprecedented blow dealt by COVID-19, both at EU level and globally, initially led to a sudden shutdown of economic activity and a sharp deterioration in the short-term economic outlook. To mitigate the impact on the economy, the Government of the Republic of Bulgaria implemented a number of support measures such as a loan moratorium, state-guaranteed loans and programs for the unemployed and for SMEs. The application of the moratorium on payments continued until March 2021 with the end date of the effect for some of the borrowers 31.12.2021. The measures complemented the monetary policy and prudential actions taken by the ECB and EU supervisory authorities.

Credit risk management in connection with the COVID-19 pandemic (continued)

In connection with the ongoing uncertainty and challenges related to the economic effects of the spread of COVID-19 and the imposed restrictive measures, the Governing Council of the Bulgarian National Bank (BNB) adopted a decision to maintain the application of the macroprudential measure to capitalize the full volume of banks' profits for 2020.

Since the beginning of the Covid-19 crisis, the Bank has taken the necessary security and business continuity measures to ensure the sustainability of banking operations and to support its customers and employees, such as:

- establishing adequate control measures regarding the spread of infection in the workplace, which include a system of measures to reduce the transmission of infection and training of employees;
- activation of contingency plans, which include pandemic scenarios and which provide for measures for the specific stages of pandemic development;
- an assessment of how quickly the measures provided for in the pandemic emergency scenario can be implemented and how long the Bank's operations can be maintained in such a scenario;
- remote working and other flexible working conditions for employees to ensure business continuity;
- assessment and testing of the capacity of the existing IT infrastructure, also in the light of the potential increase in cyber-attacks and the potential greater dependence on remote banking services;
- assessment of the risks of increased fraud related to cybersecurity, aimed at both customers and the Bank through phishing emails, etc.;
- entering into a dialogue with service providers in order to ensure the continuity of services in the event of a pandemic;

a moratorium on payments under loan contracts to clients affected by the crisis, as an effective tool in the short-term liquidity difficulties of bank customers.

In connection with the COVID-19 pandemic and in pursuance of the Guidelines of the European Banking Authority (EBA), the decisions of the Bulgarian National Bank and the Association of Bulgarian Banks (ABB) on legislative and private moratoriums on payments under loan contracts applied by In view of the crisis caused by COVID-19, Allianz Bank AD has decided to join the established conditions for a private moratorium on payments and develop an operational plan, which helps in a balanced way to preserve the interests of its customers by continuing to provides high quality leasing services.

The Bank offered its clients facilitation mechanisms for servicing the regular exposures of its borrowers affected by the measures related to the COVID-19 pandemic, following the decisions of the European Banking Authority (EBA), the Bulgarian National Bank and the Association of Banks in Bulgaria (ABB).

On 11 December 2020, the Governing Council of the Bulgarian National Bank (BNB) pursuant to Art. 16, item 20 of the BNB Act and Art. 79a, para. 3 of the Credit Institutions Act approved the extension of the validity proposed by the Association of Banks in Bulgaria until 31 March 2021 of the adopted "Procedure for deferral and settlement of due liabilities to banks and their subsidiaries - financial institutions in connection with the state of emergency introduced on 13.03.2020 by the National Assembly, arising from the COVID-19 pandemic ", which is a private moratorium within the meaning of the Guidelines voted by the European Banking Authority (EBA) - EBA / GL / 2020/15 amending Guideline EBA / GL / 2020/02 on legislative and private moratoriums on credit payments in view of the crisis caused by COVID-19.

Credit risk management in connection with the COVID-19 pandemic (continued)

The changes are related to:

- Extension of the deadline for submission of a request by clients of the banks for deferral of liabilities and their approval by the banks - until 30 September 2020.
- Extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021.
- Extension of the deferral procedure applies to exposures for which no deferral has been requested before 22 June 2020.

In connection with the pandemic of COVID-19, Allianz Bank Bulgaria AD, based on a letter from the Bulgarian National Bank with ref. № BNB-34578 / 03.04.2020 and pursuant to the Guidelines of the European Banking Authority of 2 April 2020 - Guidelines on legislative and non-legislative moratorium on loan repayments applied in light of the COVID-19 crisis (EBA / GL / 2020/02), as amended by EBA Guidelines (EBA / GL / 2020/08 of 25 June 2020) amending Guideline EBA / GL / 2020/02 and by EBA Guidelines (EBA / GL / 2020/15) of 2 December 2020) amending Guideline EBA / GL / 2020/02, offered its clients the following general options for deferral and settlement of liabilities:

- deadline for submission of a request by clients of the banks for deferral of liabilities – until 23 March 2021;
- the deadline for approval of these requests by the banks - until 31 March 2021;
- deadline for deferral of liabilities of bank customers - until 31 December 2021, no more than 9 months;
- introduction of a requirement that the obligations subject to the moratorium were regular or overdue for less than 90 days as of the date of submission of the request for rescheduling;
- introduction of the possibility for the obligations for which a request for deferment was submitted before 30 September 2020 to be able to be additionally deferred, as the total period of all deferrals does not exceed 9 months.

Operational plan for implementation of the measures for deferral and settlement of liabilities

The Management Board and the Supervisory Board of the Bank perform adequate supervision over the critical elements of credit risk management, including the following:

- Review of risk-taking standards, risk appetite framework and strategy in realistic macroeconomic scenarios;
- Adequate monitoring and analysis of all changes in the prudential and accounting frameworks;
- Appropriate delegation of competencies and powers to experts and working groups in the Bank for dealing with the impact of the COVID-19 crisis.

In order to ensure a disciplined and effective division of responsibilities in the processes of providing loans, monitoring, restructuring and loan collection processes, an adequate organizational structure has been approved to ensure that activities allocated to individual functions and roles in the first and the second line of defense to achieve a rapid response to the COVID-19 pandemic.

The following departments have been established under the Risk Management Division:

- Risk Control and Reporting Department with Credit Risk, Monitoring and Provisioning Section, which is responsible for monitoring the credit exposures and the Bank's portfolio;
- Credit Risk Department with competencies to approve new transactions;
- Problem Loans Department with the Negotiation and Restructuring Section with competencies to take decisions for renegotiation and restructuring of the Bank's credit exposures.

The measure (s) granted by the Bank under the approved mechanisms for deferral and settlement of debtors' obligations subject to a moratorium on payments do not automatically lead to the reclassification of exposures as exposures with restructuring measures, the classification being considered on a case-by-case basis in accordance with Article 47b of Regulation (EU) № 575/2013.

Credit risk management in connection with the COVID-19 pandemic (continued)

Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)

For the purposes of Article 178 (1) (b) of Regulation (EU) № 575/2013 and in accordance with Article 178 (2) (e) of that Regulation, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium.

Similarly, for the purposes of Article 47a (3) (c) of Regulation (EU) № 575/2013, the Company shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium.

During the moratorium period, the Bank assesses the potential probability of default of debtors covered by the moratorium in accordance with the policies and practices it applies to such assessments, including when they are based on automatic checks for signs of default.

When performing individual assessments of individual debtors, the Bank gives priority to the assessment of debtors for whom the consequences of the COVID-19 pandemic are likely to lead to long-term financial difficulties or insolvency. The Bank assesses the probability of default on the basis of the most up-to-date payment plan resulting from the application of the overall moratorium on payments.

In assessing the probability of default, the Bank takes into account all additional support measures provided that may affect the creditworthiness of the debtor:

- consumer loans to individuals under the BDB Program for guaranteeing interest-free loans to help people deprived of the opportunity to work due to the pandemic of COVID-19 and
- granting / renegotiating loans under the Portfolio Guarantee Program in support of the liquidity of micro, small and medium enterprises (SMEs) affected by the emergency situation and the epidemic of COVID-19 of the Bulgarian Development Bank AD.

Any form of credit risk mitigation, including through guarantees from Bulgarian Development Bank AD, does not affect the results of the assessment of the potential probability of default by borrowers who have benefited from the moratorium after its expiration. When the borrower has other exposures to the Bank that are not subject to a moratorium, the Bank takes into account the impact and results of these exposures in assessing the borrower's ability to comply with the terms of payment after the moratorium expires.

The Bank assesses the potential probability of default by borrowers who have benefited from the moratorium and their related parties, after its expiration, in the following cases:

- Before granting new loans to debtors benefited from the moratorium on the basis of individual assessment;
- Before renegotiating / restructuring existing obligations of debtors benefiting from the moratorium, subject to a moratorium on payments based on individual assessment;
- Monthly on the basis of a systematic inspection during the moratorium;
- At least once a year after submission of the financial statements during the annual review of the debtor and its related parties on the basis of individual assessment;
- After the expiration of the moratorium measure based on a systematic and individual assessment.

The Bank performs an individual assessment of the probability of Default in respect of individual debtors after the end of the moratorium in the following cases:

- where debtors delay payment by more than 30 days within 12 months of the end of the moratorium;
- where restructuring measures are applied to a debtor for whom a moratorium rescheduling has been applied after the expiry of the moratorium;

Credit risk management in connection with the COVID-19 pandemic (continued)

Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)

In addition to the above cases, an extraordinary individual assessment is carried out after the end of the moratorium in the following cases:

- the client's exposure is over BGN 500.000;
- the exposure is included in the list for monitoring;
- the customer's rating results in a phase 3 classification within the meaning of IFRS 9.

Indicators of probability of default

The Bank recognizes exposures as probable of default and identifies indications of probable default in accordance with Section 5 of the EBA Guidelines on the application of the default definition. In assessing the probability of default, the Bank, in accordance with Annex V to Commission Implementing Regulation (EU) № 680/2014, shall consider at least the following rebuttable circumstances:

- Delay of more than 30 days during the moratorium or up to 12 months thereafter;
- The debtor's internal rating indicates default;
- Implement restructuring measures within 12 months after the moratorium expires;
- Overdue for more than 90 days for any credit exposure of the debtor or related parties;
- Existence of another non-performing exposure of the debtor and / or a related party with restructuring measures, according to Regulation (EU) № 680/2014;
- The debtor has another exposure classified as impaired;
- The debtor has been declared in liquidation / bankruptcy.

Measuring expected credit loss (ECL)

The changes caused by the COVID-19 crisis require the Bank to provide adequate assessment of its exposures and measurement of expected credit loss (ECL). The future effects of the current economic situation and the measures taken are difficult to predict, and management's current expectations and assessments may differ from actual results. For the purpose of measuring expected credit loss (ECL), the Bank applies factors such as forward-looking information (FLI), including forecasts for macroeconomic variables. As with any economic forecast, forecasts and the probability of their occurrence are subject to a high degree of inherent uncertainty and therefore actual results may differ significantly from those forecast.

Macroeconomic forecasts for the purposes of IFRS 9

The Bank bases its forecasts on regularly published macroeconomic forecasts of the European Central Bank (ECB) and the Bulgarian National Bank (BNB) without using only long-term averages. In this way, it achieves the right balance between avoiding excessive pro-cyclicality, while at the same time the risks it faces are adequately reflected in the reports and models.

The Bank has adopted a conservative approach and its input risk parameters and models are in line with the observed significant deterioration of the economic environment. Model results show higher levels of probability of default (PD) than those underlying the current observed migrations resulting from the COVID-19 pandemic.

Notwithstanding the measures taken related to COVID-19, in connection with the annual review and updating of risk parameters and models, the Bank has taken the following actions:

- The Bank has updated the documentation related to the rating models that it uses to calculate the probability of default (PD), and has explicitly defined the targets for each of the variables through which it monitors the strength of the model.

Credit risk management in connection with the COVID-19 pandemic (continued)

Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)

Macroeconomic forecasts for the purposes of IFRS 9 (continued):

- As at 31.12.2022, the Bank has made the necessary changes to the models so as to ensure the effectiveness of the models by expanding the test set and by updating with the latest data, using training sets (for a 5-year period from 28.11.2015 to 30.11.2021), examining the behavior of the debtors of the Bank until 30.11.2022. All changes have been made and integrated into the systems of the Bank. The results of the new models are documented in the PD methodology.
- An internal methodology has been developed based on observations of the portfolio of Allianz Bank Bulgaria AD. Based on this methodology, the current values for Lifetime PD were calculated.
- As at 31.12.2022, the Bank has updated the models for calculating the risk parameters: forward-looking information (FLI), loss given default (LGD) and credit conversion factor (CCF). In connection with the assessment of the adequacy of the models, an analysis of the series of data was made, including for stationarity, autocorrelation, error, stability, prediction accuracy tests. The changes in the models are documented.

Pessimistic scenarios are included with major weight in the models for calculating forward-looking information (FLI) for probability of default (PD), loss given default (LGD) and credit conversion factor (CCF). The balanced distribution of the alternative scenarios around the baseline scenario set in the ECB forecasts is achieved through the established models.

Assessment of the significant increase in credit risk

The Bank adequately assesses all risk parameters in order to correctly reflect the increased credit risk, both for the purposes of risk-weighted assets and for the purposes of calculating impairment provisions. To this end, the Bank considers the effects of COVID-19 and related mitigation measures (such as government guarantees and moratoriums) in the process of determining the ratings of each client and quantifying the risk parameter, in accordance with regulatory requirements and approved models and processes, and complying with the requirements of Regulation (EU) 529/2014.

Any change in each component or variable of the PD model implies an assessment of the materiality of the change in the model and approval by the relevant competent authorities of the Bank. In line with the significant deterioration of the economic environment, the granting of payment moratoriums does not lead to improvements in the values of risk indicators compared to those observed before COVID-19.

For moratoriums that do not meet EBA requirements, the restructuring measure is a factor that participates in the model and leads to the award of the most negative rating D (PD 100%) for those classified in Phase 3 and to the deterioration of the rating and application of lifetime PD as a result of the Phase 2 classification.

The moratorium on payments in relation to COVID-19, which allows, requires or encourages the suspension or delay of payments, is not considered an automatic trigger to trigger estimates of significant increase in credit risk (SICR). The significant increase in credit risk is identified at the earliest possible stage, in practice as soon as the moratorium measure is granted, regardless of the rating system's assessment.

For loans subject to a moratorium, the Bank has adopted the additional Phase 2 and 3 transfer triggers required by IFRS 9.B5.5.1 to IFRS 9.B5.5.18. Overdue-based triggers are not a factor in the assessment for Phase 2, given that overdue days are reported only on the basis of the revised payment schedule.

Credit risk management in connection with the COVID-19 pandemic (continued)

Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)

Assessment of the significant increase in credit risk (continued)

The Bank applies a conservative approach to the phase-shift triggers within the meaning of IFRS 9, defined on the basis of each deterioration with one grade to which the corresponding absolute PD corresponds. The Bank has not introduced higher relative thresholds for switching between stages for debtors with higher PDs or lower ratings. Phase transfer rules have not changed as a result of the Covid-19 pandemic, i.e. in the event
of occurrence or more variable rating migrations.

As at 31.12.2022, the Bank has released part of the accrued "Management Overlays" as of 31.12.2021 in the amount of BGN 20,534 thousand for exposures that have been granted a moratorium on payments as a result of COVID-19, and in order not to underestimate the risk has applied criteria related to an individual assessment of each exposure as a result of which for exposures that meet the criteria for transfer to Phase 2 or Phase 3 and/or impairment triggers are present, individual impairments are charged.

Management Overlays are considered a temporary measure that requires annual assessment and analysis. The portfolio analysis as of the current date shows that there are no risk factors related to the COVID-19 pandemic that are not reflected in the risk parameters used for the calculation of expected credit losses or are not reflected in the applied rating model and should be covered by the Management Overlays.

Despite the positive assessment related to the effects of COVID-19, the Bank has assessed other factors, such as the crisis caused by Russia's invasion of Ukraine, that need to be taken into account and evaluated. The recovery associated with the waning pandemic has been delayed by Russian aggression in Ukraine. Russia's invasion contributed to high inflation and negative sentiment about the economic outlook, leading to heightened risks in financial markets everywhere.

In this regard, the Bank has taken into account IFRS 9.5.5.11. and for all customers with COVID-19 exposures overdue for more than 30 days and/or who suffered a significant increase in credit risk, and has charged Management Overlays provisions for Phase 3 in the amount of BGN 5,554 thousand.

In connection with the requirements of IFRS 9.B5.5.17 (f) and IAS 9.B5.5.17 (i) the Bank performs a sector analysis, thus taking into account any adverse changes in the borrower's business, financial and economic environment. The Bank has in mind that borrowers are affected (directly or indirectly) by the coronavirus pandemic (COVID-19) to varying degrees, depending on their sector. In this respect, macroeconomic information and / or the adverse business impact on specific sectors may in themselves indicate that there is a significant increase in credit risk for adversely affected exposures.

The Bank has performed the relevant analyzes, from which it is necessary to conclude that the adverse effects arising from the business, financial and economic environment do not affect the entire portfolio. Allianz bank Bulgaria AD applies analytical approaches to systematically determine which parts of the portfolio have not undergone a significant increase in credit risk. The assessments are supported by the individual ratings of each debtor.

Restructuring measures that are not in line with the EBA guidelines on the payment moratorium lead to a transfer to at least Phase 2. Based on the technical criteria: Defaulted Flag, number of restructuring measures, overdue status, the Bank assigns each exposure to a pre-defined risk classification group. In the event of a delay of more than 30 days or other impairment triggers, the exposure is classified in Phase 3.

Environmental issues

Within the Bank's corporate responsibility strategy, the “low-carbon economy” pillar addresses issues related to climate change and the environment as one of the three most significant risks and megatrends. As part of a risk-focused group, environmental impact management is an important part of the Bank's approach. Climate change continues to be the biggest environmental risk and opportunity for the entire value chain, which covers both the Bank's internal operations and all of its investment and insurance products. Allianz Bank Bulgaria AD is committed to addressing climate challenges and related health risks by managing emissions from its operations as it strives to remain a carbon neutral company. Allianz Bank Bulgaria AD is committed to effectively managing its most significant environmental impacts, including pollution prevention, and strives to continuously improve the environmental performance of its operations. We also consider various environmental factors in our sourcing and delivery processes. In this way, we aim to raise our suppliers' awareness of our environmental commitments, encouraging them to take appropriate action.

The Bank as an Investment firm

Allianz Bank Bulgaria AD is a primary dealer of government securities, an investment firm with full license, member of BSE-Sofia AD and Central Depository AD. Investment intermediation activities include transactions with financial instruments for own account or for the account of clients of the bank. The main set of financial instruments that are traded are government and corporate bonds, shares and related rights, compensatory instruments, and shares in collective investment schemes.

In 2022, ABB sought to optimize its investments in fixed income instruments in terms of risk and profitability. In addition, the Bank served its clients' orders both on local and international financial markets. Of the total volume of transactions in financial instruments realized in 2022 over 90% of them are from government securities transactions.

Measures against corruption and bribery

In its activities, Allianz Bank Bulgaria AD complies with the principles and requirements laid down by the Code of Ethics (“Code of Conduct for Business Ethics and Compliance”), the Standard for Combating Financial Crimes, the Functional Rules for Combating Financial Crimes, as well as and the provisions of the anti-corruption and anti-bribery legislation.

The aim is to ensure compliance with the principles of transparency and good business practice, with a view to avoiding all forms of corruption and bribery. The main risk areas of corruption are covered, namely: conflict of interest, special business treatment, gifts and entertainment, assessment of the integrity of third parties (suppliers, intermediaries), political donations, charitable donations, sponsorship, as well as actions aimed at securing an advantage.

Allianz Bank Bulgaria AD undertakes and implements a zero-tolerance approach to fraud throughout the organization. This principle applies regardless of whether the bank or any other internal party (such as an employee, intermediary and/or third parties acting on behalf of Allianz) benefits from the fraud.

Allianz Bank Bulgaria AD does not tolerate bribery and corruption. Employees are strictly prohibited from directly or indirectly offering, soliciting, accepting, providing, paying, promising, permitting or receiving “anything of value” (defined broadly to include anything monetary or non-monetary that provides any benefit) to or from any public official or from anyone in the private sector to obtain or retain business or an improper personal or business advantage.

Measures against corruption and bribery (continued)

In Allianz Bank Bulgaria AD there are Rules for whistleblowing, which specify all the channels through which a violation can be reported. Retaliation against employees who report illegal or questionable activities in good faith is prohibited.

Other information

In the past 2022, the Bank did not have any R & D activities.

Events that occurred after the date of preparation of the financial statements and the activity report

There are no significant events occurring after the date of preparation of the statement of financial position and the statement of operations that would require additional disclosures or adjustments to the financial statements.

Management and supervisory boards

The total remuneration received in 2022 by the members of the Management and Supervisory Board of ALLIANZ BANK BULGARIA AD amounted to BGN 1,297 thousand (2021: BGN 1,194 thousand) In 2022 there are no acquired, owned and transferred shares and bonds of the Bank by the members of the Supervisory and Management Boards. The Bank's Articles of Association do not provide for any restrictions or preferential arrangements for the members of the Management Board and the Supervisory Board when acquiring shares and bonds issued by the Bank.

The shares in the capital of ALIANZ BANK BULGARIA AD are not traded on a regulated market and therefore the provisions of Directive 2004/25 / EC of the European Parliament and of the Council of 21.04.2004 on takeover bids are not applicable.

Participation of the members of the Management and Supervisory Board in commercial companies as at 31.12.2022:

1. DIMITAR ZHELEV - does not participate in commercial companies as an unlimited liability partner; owns more than 25% of the capital of BULLS AD, Sofia and DZH AD, Bankya; Administrator of ALLIANZ BULGARIA HOLDING AD, Sofia, UNICREDIT BULBANK AD, city of Sofia; DZH AD, city of Sofia; BULLS AD, city of Sofia and REAL ESTATES DEVELOPMENT EAD, Sofia, ZAD Allianz Bulgaria, Sofia, ZAD Allianz Bulgaria Life AD, Sofia.
CHRISTOPH PLEIN - does not participate in commercial companies as a general partner; does not own more than 25% of the capital of another company. administrator of ALLIANZ INVESTMENT MANAGEMENT SE, ADS, Analysis and Reporting Services GmbH, POD Allianz Bulgaria, European Reliance SA, Allianz ZB d.o.o. drustvo za upravljanje obveznim mirovinskim fondom

2. RAYMOND SEAMER- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company.

3. REINER FRANZ- does not participate in commercial companies as an unlimited liability partner; holds more than 25% of the capital of Jgenia sro, Bratislava;

4. KAI MUELLER- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is an administrator of Allianz Asset Management GMBH, Allianz Pemzijni Spolecnost a.s. , Allianz Invest Kapitalanlagegesellschaft mbH, Allianz Bank Bulgara AD, Allianz Poistovna a.s., Allianz Slovenska Poistovna a.s., A.S., ALLIANZ-TIRIAC ASIGURARI S.A., POD Allianz Bulgaria , Diamond Point a.s.

Management and supervisory boards (continued)

5. ED GUS does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; He is an administrator of Eurler Hermes Netherlands, Eurler Hermes Belgium, Eurler Hermes Services B.V. in the Netherlands, Eurler Hermes Services Belgium SA

Members of the Management Board as at 31.12.2022:

1. Ioannis Kotsianos - does not participate in commercial companies as a general partner; does not own more than 25% of the capital of another company; administrator of ZAD Allianz Bulgaria, ZAD Allianz Bulgaria Life, POD Allianz Bulgaria AD, Allianz Leasing Bulgaria EAD, ZAD Energy, member of the management board of European Reliance S.A., Greece.

2. Georgi Zamanov- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.

3. Hristina Martsenkova- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; Registered is a sole trader - ET with company "HM - Hristina Hristova".

4. Yordan Suvandzhiev- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.

5. Lyuba Pavlova - sole owner of the capital and manager of Risk Farmer EOOD; does not participate in other commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.

There is no information on the conclusion in 2022 of contracts under Art. 240b of the Commercial Act between the members of the Boards and the Bank, which go beyond the normal activity of the Company or materially deviate from the market conditions.

No transferred own shares or acquired shares in 2022 under Article 187e of the Commerce Act. “ALIANZ BANK BULGARIA" AD does not hold its own shares.

Internal control

The audit activity of the Bank's Specialized Internal Audit Service (SIAS) is regulated by the Credit Institutions Act, Regulation No. 10 of the BNB on the Organization, Management and Internal Control in Banks, Internal Audit Policy and Internal Rules for its Organization and Activity. Internal audit assesses the effectiveness and efficiency of
the internal control framework in the Bank.

The internal audit assesses the compliance of the bank processes and activities of the Bank's units with the legal framework and with the internal banking rules and procedures, performing methodological functions to unify the good practices in the Bank's system. Through an independent and objective assessment of the quality of the internal control system, the Specialized Internal Audit Service seeks to add value and improve the effectiveness of ABB.

Internal control (continued)

In 2022, the Internal Audit department carried out 35 audit engagements, of which 13 on activities/processes/units in Headquarters and 22 on units from the Bank's branch network. Detailed information on the results of the audits can be found in the Annual Report on the activities of the SIAS.

The Bank's management reacts in a timely manner and takes adequate measures to implement the recommendations proposed by the Internal Audit to improve internal control in the main banking processes and activities. In general, the control procedures introduced are adequate, the internal control system is reliable and facilitates limiting the inherent risks to the business to levels acceptable for the Bank's Management.

Responsibility of the Management

According to the Bulgarian legislation, the management should prepare a financial statement for each financial year, which gives a true and fair view of the state of the Bank at the end of the year and its accounting results. The financial statement shall be prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The Management confirms that it has consistently applied adequate accounting policies and that in preparing the financial statements as at 31 December 2022, it complied with the precautionary principle for the recognition and measurement of assets, liabilities, income and expenses.

The Management also confirms that it has adhered to the accounting standards in force, and the financial statements have been prepared on a going concern basis.

The Management is responsible for the proper keeping of accounting records, for the proper management of assets, and for taking the necessary measures to avoid and detect possible misuse and other irregularities.

Dear Shareholders,

By the end of 2022, the Bank is stable and will continue to respond adequately to unforeseen risks and fluctuations in the marketplace.

The institution carries the name of a world-famous financial leader and enjoys an excellent reputation in professional circles and among its clients. We are confident that offering integrated banking, insurance and pension insurance products, quality customer service and sustainable business growth will deliver even better results.

This Management Report was adopted by the Bank's Management Board on 14 February 2023 and was signed on its behalf by:

__________________________	__________________________
Georgi Zamanov	Hristina Martsenkova
Chief Executive officer	*Executive officer*

CORPORATE MANAGEMENT DECLARATION
of Allianz Bank Bulgaria AD
for 2022

Allianz Bank Bulgaria AD views good corporate management as a part of contemporary business practice, an aggregate of balanced relations between the Management bodies of the Company, its shareholders and all stakeholders – employees, clients, partners and the community as a whole. The bank implements appropriate practices for good corporate management, which result from the current Bulgarian legislation and the requirements of Allianz Group for good corporate management. The upper management of the Bank believes the effective implementation of good corporate management practices contribute to achieving sustainable growth and the long-term goals of the Company, as well as establishing transparent and honest relation to all stakeholders. *(information under Article 100m, paragraph 8, item 1b) of the Public Offering of Securities Act)*.

Allianz Bank Bulgaria AD adopts and implements a Business Ethics Code of Conduct / Ethical Code of Conduct/ of Allianz Group *(information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act)*:
Allianz Bank Bulgaria AD adopts and implements the group policy for stress management in the bank for the continuous improvement of occupational health and safety. *(information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act).*

When appointing people to managerial positions, Allianz Bank Bulgaria AD applies the principles underlying in the Qualification and Reliability Policy of Allianz Group.

In compliance with the above policies, Allianz Bank Bulgaria AD declares their commitment to the application of the principles of transparency, independence and responsibility of the managerial and supervisory bodies of the Bank (Supervisory and Management Board) in compliance with the established vision, goals, strategies of the companies and the interests of the shareholders. *(information under Article 100m, paragraph 8, item 5) of the Public Offering of Securities Act).*

1. Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).*

1.1. The Supervisory board of Allianz Bank Bulgaria AD consists of 6 (six) members, who are appointed by the General assembly of the shareholders for a set term.
1.2. The Supervisory board performs their activity in compliance with the Bank Statute and the Supervisory Board Working Regulations, as well as the applicable legislation.
1.3. The Management board of Allianz Bank Bulgaria AD consists of 5 (five) members, appointed by the Supervisory board.
1.4. The Management board performs their activity in compliance with the Bank Statute and the Management Board Working Regulations, as well as the applicable legislation.
1.5. In the performance of their functions and powers the Supervisory and Management boards are governed by the current legislation, by internal regulations and the standards for integrity and competence.
1.6. The members of the managerial bodies can only be competent individuals, without restrictions as to age, gender, nationality or education.
1.7. The members of the Management board and Supervisory board include individuals with good reputation, professional experience and managerial skills. Forming the composition of the managerial and supervisory bodies aims a balance between experience, professionalism, knowledge of the activity as well as independence and objectivity in expressing opinions and decision-making.
1.8. The members of the Management and Supervisory boards can be reappointed without limitation.

1. Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).* **(continued)**

1.9. The managerial bodies are assisted in their activities by internal bank bodies (committees and commissions) with particular powers, regulated by legislation or internal bank rules and procedures.

1.10. Specialized bodies to the Management and Supervisory Board of the Bank

1.10.1. RiskCommittee / RiCo /

The Risk Committee is an independent body to the Management Board of the Bank, whose main objective is to establish and maintain control over risk management activities. Creates, develops and approves the risk strategy in line with business strategy and risk appetite. Controls the risk capital allocation. Ensures appropriate monitoring and risk control at the individual and portfolio levels. The risk management structure covers systems, processes, organizational units and individuals whose main purpose is to implement the function independent of the operational units in identifying, monitoring and managing the risk assumed by the bank.

Risk management at the bank ensures identification, measurement and reporting of all material risks. The respective responsible persons performing risk management functions in the bank participate in the design of the risk management strategy when making all decisions related to the management of significant risks and are able to present a full overview of the risks to which it is exposed or may be exposed to the bank.

The risk committee is chaired by the Chief Risk Officer and meets at least once a month on a proposed agenda. The Risk Committee's work is defined in detail in the "Operating Rules of the ABB Risk Management Committee". The members of the Committee are the Chief Operating Officer, the Chief Financial Officer, the Head of the Credit Risk Department and the Head of the Risk Controlling and Reporting Department.

A Risk Committee at the Supervisory Board level is a subsidiary body of the Supervisory Board that monitors and oversees the management and control of risks. The approval of transactions with gross exposures of more than 5% of the capital base must be approved by that committee before being submitted for approval to the Supervisory Board. Members are two members of the Supervisory Board. The Chief Executive Officer and Chief Risk Officer are "permanent guests". They meet quarterly.

1.10.2. Asset and Liability Management Committee / ALMC /

The Asset and Liability Management Committee supports the Management Board's business strategy, policies and the overall asset and liability management system as well as management of the Bank's liquidity. It approves investment policy for new products. The main purpose of asset and liability management is to ensure stable earnings and optimize the return on capital of the Bank while maintaining acceptable levels of risk and capital adequacy in the implementation of the development strategy and the assigned tasks in the plan for the respective financial year.

The Committee shall be chaired by the Chief Financial Officer and shall meet at least once a month. The members of the Committee are the Chief Executive Officer, the Chief Business Officer, the Chief Risk Offices, the Head of the Liquidity and Markets Department and the Head of the Planning and Controlling Department. The Chief Risk Officer has the right to veto decisions related to liquidity management.

1. Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).* **(continued)**

1.10.3. Credit board

The Credit Board of Allianz Bank Bulgaria AD, hereinafter referred to as the "CB", is a standing internal bank collective body for making decisions on credit transactions, restructuring of problematic credit exposures for the purpose of their reorganization, approval of an action plan for collection /selling, as well as the approval of out-of-court agreements for the collection / recovery of the bank's claims.

The activities within the competence of the Credit Board of Allianz Bank Bulgaria AD are:

Any undertaking of credit risk in the portfolio, renegotiation and review of existing exposures in the three segments - Retail Banking, Corporate Banking and Investment Banking, whereby a net credit exposure of the client and its affiliates on the relevant business line is formed in excess of the specified competences.

Restructuring of credit transactions, approval of an action plan / proposal on problematic claims, incl. decision on early claims, incl. determining how to recover the claim and making an out-of-court settlement; taking a decision for the Bank to foreclose on collateral assets for sale or management; making a cession decision; write-off of the claim at the expense of provisions, termination of balance sheet or off-balance sheet exposures, etc. for the net credit exposure of the client and related parties in the respective business line.

The Credit Board is chaired by the Chief Executive Officer. The members of the Board are the Chief Business Officer, the Deputy Business Officer, the Chief Risk Officer, the Head of the Credit Risk Department, and the Head of the Non-Performing Loans Department.

1.10.4. Non-Performing Loans Credit Committee

The Non-Performing Loans Credit Committee of Allianz Bank Bulgaria AD, is a standing internal bank collective body for making decisions on restructuring of problematic credit exposures for the purpose of their reorganization, approval of an action plan for collection / sale of claims, as well as the approval of out-of-court agreements for the collection / recovery of the bank's claims.

The activities within the competence of the Non-Performing Loans Credit Committee are:

- Termination of balance sheet or off-balance sheet exposures.

- Restructuring of credit transactions, approval of an action plan / proposal on problematic claims, incl. decision on early claims, incl. determining how to recover the claim and making an out-of-court settlement; taking a decision for the Bank to foreclose on collateral assets for sale or management; making a cession decision; write-off of the claim at the expense of provisions, etc.
- Other functions deriving from domestic banking regulations approved in the appropriate order - Procurement Policy; Rules and procedures regarding the activity of managing the bank's problematic claims; as well as regulatory documents of the Allianz Group.

1. Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).* **(continued)**

1.10.4. Non-Performing Loans Credit Committee (continued)

The Non-Performing Loans Credit Committee is chaired by the Head of the Non-Performing Loans Division and meets regularly every Tuesday at 14:00 h and on the last working day of the current month. The members of the committee are the Head of the Restructuring-Centralization Department at the Non-Performing Loans Department, the Head of the Non-Performing Loans Administration Department at the Non-Performing Loans Department, the Head of the Judicial Collection Department at the Non-Performing Loans Department and Legal Adviser in the Non-Performing Loans Department.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)*

Internal control system

2.1. Allianz Bank Bulgaria AD has established an internal control system, for the purpose of protecting the interests and the rights of shareholders and clients, as well as contributing to lowering the risks, ensuring reliability and authenticity of reporting in compliance with the regulatory requirements.

2.1.1. Audit Committee

The Audit Committee of the Bank is established and acts in accordance with the requirements of the Independent Financial Audit Act (prom. SG 95/29.11.2016), Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and Directive 2006/43 / EC of the European Parliament and of the Council Of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

The Audit Committee is an independent permanent body, the members of which are elected and dismissed by the General Meeting of Shareholders on the proposal of the Chairman of the Supervisory Board of the Bank. The organization and activity of the Audit Committee are regulated in the Rules of Procedure of the Audit Committee, adopted by the General Meeting of Shareholders.

The Audit Committee assists the Bank's governing bodies in the performance of their duties relating to the supervision of financial reporting, internal audit, internal control and compliance with legal and regulatory provisions as well as the Allianz Group Business Ethics and Compliance Code of Conduct (Ethical Code).

2.1.2. The Bank's Specialized Internal Audit Service / SIAS /

The Specialized Internal Audit Service was established on the grounds of Art. 74 of the Credit Institutions Act under the requirements of BNB Ordinance No. 10 on the organization, management and internal control in banks and the Statute of the Bank. The primary objective of the SIAS is to improve the Bank's operations and achieve its objectives by implementing a systematic and disciplined approach to assessing and improving the Bank's risk management, control and management processes. It assists the Bank's governing bodies in taking decisions of a financial and organizational nature in order to protect the interests of the Bank, its shareholders and depositors and monitor their implementation.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)* **(continued)**

Internal control system (continued)

2.1.2. The Bank's Specialized Internal Audit Service / SIAS / (continued)

The internal audit carried out by the SIAS is an independent and objective valuation of bank transactions and control operations and systems that is being verified and evaluated:

- the legality of operations, compliance with internal rules and procedures and the implementation of management decisions;
- internal control procedures for conducting transactions;
- risk management systems, risk assessment methods and capital adequacy;
- performance of contracts and commitments;
- the compliance of banking practices with the Bank's operational and strategic policy;
- protection of assets and bank records from negligence and abuse;
- a reporting and information system, the usefulness of analyzes, electronic information systems and data quality;
- the efficiency and the results of the bank transactions and operations carried out;
- the selection and qualification of staff, and the relevance of job descriptions and competences;
- the reliability and timeliness of the supervisory reports.

2.2. Regulatory Control

The compliance management function is limited to preventing and limiting the occurrence of regulatory discrepancies, violations and conflicts of interest **.** The ultimate goal is to preserve the Bank's reputation and customer trust.

Risk management system

2.3. The management of the Bank strives to develop active management of all types of risks arising from the specifics of banking activity - market, liquid, credit, operational and reputational.

2.4. The risk management system determines the powers and responsibilities in the separate structural divisions of the Bank, the organization and order of cooperation in risk management, analysis and assessment of information, related to risk, preparing periodic reports of risk management.

2.5. The organization and activity of officials and units related to risk management in the Bank are fully compliant with the requirements of the Credit Institutions Act, the issued Ordinance No. 7 of the BNB dated 24 April 2014 on the organization and risk management in banks, and all other relevant legislation, rules and policies.

2.6. RiskCommittee /RiCo/ The Risk Committee is an independent body to the Management Board of the Bank, whose main objective is to establish and maintain control over risk management activities. Creates, develops and approves the risk strategy in line with business strategy and risk appetite. Controls the risk capital allocation. Ensures appropriate monitoring and risk control at the individual and portfolio levels. The risk management structure covers systems, processes, organizational units and individuals whose main purpose is to implement the function independent of the operational units in identifying, monitoring and managing the risk assumed by the bank.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)* **(continued)**

2.2. Regulatory control (continued)

Risk management system (continued)

2.6. RiskCommittee /RiCo/ (continued)

Risk management at the bank ensures identification, measurement and reporting of all material risks. The respective responsible persons performing risk management functions in the bank participate in the design of the risk management strategy when making all decisions related to the management of significant risks and are able to present a full overview of the risks to which it is exposed or may be exposed to the bank.

Detailed risk management in the Bank is described in the Annual Financial Statement and Activity Report.

Components and main characteristics of internal control system and of the risk management system in connection with the financial reporting process of the Bank

2.7. Controlled environment. The controlled environment includes the following elements:

- Communication and imposition of integrity and ethical values. Imposing integrity and ethical values includes, but is not limited to, action by the management for elimination or mitigation of stimuli or temptation which could induce the staff to engage in dishonest, illegal or unethical conduct. The policy of integrity and ethical values of the Bank includes communication of ethical standards to the staff via following the Business Ethics Code of Conduct / Ethical Code of Conduct / of Allianz Group.

- Commitment to competence. Competence means the knowledge and skills, necessary for performance of the tasks included in the job description of the respective person.

- Participation of those charged with governance via monitoring of the model design and the effective functioning of the alert procedures and efficiency review procedures of the internal Bank control.

- Philosophy and operational style of the management.

- Established proper organizational structure, including taking into consideration the main areas of powers and responsibilities and the proper hierarchy levels of reporting.

- Assigning appropriate powers and responsibilities.

- Policy and practice, related to human resources, including high standards of recruiting qualified personnel – focused on , education level and former professional experience, with accent on continued education.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)* **(continued)**

2.2. Regulatory control (continued)

Risk management system (continued)

2.8. Risk Assessment Process of the Bank. For the purpose of financial reporting, the Bank's risk assessment process includes the manner in which the management identifies business risks, material for the preparation of a financial statement in compliance with the financial reporting framework applicable to the enterprise, assesses their significance, assesses the probability of their occurrence and decides on the best response to these risks and the way to manage them and to assess the results. The risks, material to reliable financial reporting include internal and external events, transactions and circumstances, which can occur and negatively impact the ability of the Bank to initiate, register, process and report financial information, in compliance with the assertions made by the management in the financial statement.

Risks can occur or change due to circumstances like the ones listed below:

- Changes in the regulatory environment;
- New staff;
- New or updated information systems;
- Rapid growth;
- New technologies;
- New business models, products or activities;
- Corporate restructuring; and
- New accounting standards and clarifications.

2.9. Information system, including the related business processes, relevant to financial reporting and communications. The information system includes infrastructure (physical and hardware components), software, people, procedures and data. The information system of the Bank, related to the purposes of financial reporting, which includes the financial reporting system, includes methods and documentation which:

- Identify and reflect all valid deals and operations;
- Describe promptly the deals and operations with enough detail, allowing their proper classification for the purposes of financial reporting;
- Assess the value of the deals and operations in a manner which allows the reflection of their proper monetary value in the Bank's financial statement;
- Determine the time period during which the deals and operations in order to allow their recording in the proper reporting period;
- Properly represent the deals and operations and the related disclosures in the financial statement.

2.10. Control activities. The Bank has adopted a number of policies and procedures regarding the following:

- Performance and results reviews;
- Information processing;

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)* **(continued)**

2.2. Regulatory control (continued)

Risk management system (continued)

2.10. Control activities. (continued)

- Physical controls (asset security, approval of access to computer programs and data files; periodic counting and comparison of amounts in the accounting registers); and

- Separation of duties.

2.11. Current monitoring of controls. An important responsibility of the management is to establish and maintain continuous internal control. The current monitoring of controls by the management includes assessment whether they work as intended and whether they are modified appropriately to reflect changes in the circumstances. Internal auditors and other staff with similar functions contribute to the current monitoring of controls thought separate assessments.

3. Information on the existence of takeover or merger bids in 2020 *(information under Article 100m, paragraph 8, item 4 of the Public Offering of Securities Act – respectively under Article 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids)*

3.1. As at 31.12.2022 Allianz Bank Bulgaria AD has not received any takeover or merger bids from other companies.

Allianz Bank Bulgaria AD, cognizant of the public significance of their performance results, observes the principle of transparency of information regarding their activity, strives to achieve and maintain stable, constructive relations with the BNB, FSC, NSSI, NRA and other state bodies and institutions, which are related or have control over their activity. These relations are based on the principles of responsibility, good faith, professionalism, partnership, trust, and also respect and observance of commitments.

The Bank carries out their activity in strict compliance with the laws and other regulations of Republic of Bulgaria.

This Declaration of corporate management is prepared in accordance with Article 40 of the Accountancy Act and was approved by the Management Board for issuing on 14 February 2023, and in an integral part of the annual report for 2022 by Allianz Bank Bulgaria AD, together with the annual financial statement and the Management activity report.

On behalf of the Management Board of Allianz Bank Bulgaria AD:

Georgi Zamanov	Hristina Martsenkova
Chief Executive officer	*Executive officer*

Independent Auditors' Report

To the Shareholders of Allianz Bank Bulgaria AD

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of Allianz Bank Bulgaria AD (the "Bank") which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Allianz Bank Bulgaria AD as at 31 December 2022, and the Bank's financial performance and 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 financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

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Our audit approach

Overview

Materiality	Overall Bank materiality: BGN 1,204 thousand which represents 5% of the average profit before tax for 2018, 2019, 2020, 2021 and 2022.
Key audit matters	Estimation uncertainty with respect to the impairment allowance for loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Bank materiality	BGN 1,204 thousand
How we determined it	5% of the average profit before tax for the years 2018, 2019, 2020, 2021 and 2022.
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Bank is commonly measured by the users of the financial statements and it is a generally accepted benchmark. We applied average profit before tax because of its volatility for the past five years.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Estimation uncertainty with respect to the impairment allowance for loans and advances to customers Refer to Note 6 (b) “Disclosure of financial risk management policy”, “Credit risk” and Note 20 “Loans and advances to customers”. The appropriateness of the impairment allowance for loans and advances to customers requires significant judgement by management. Measuring impairment allowance for loans and advances to customers under IFRS 9 requires an assessment of the 12-month and lifetime expected credit losses and assessment of significant increases in credit risk or whether loans and advances to customers are in default. As at 31 December 2022, the gross loans and advances to customers amounted to BGN 2,013,635 thousand and the related impairment allowance at that date amounted to BGN 91,071 thousand. The identification of significant increase in credit risk and default and the measurement of 12-month or life time expected credit loss are part of the Bank’s estimation process and are, amongst others, based on credit risk models, triggers indicating significant increase in credit risk and default, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The COVID-19 pandemic as well as the impact of Russia’s military invasion of Ukraine increased the uncertainty about the economic outlook and has increased the complexity of assessing and monitoring customers' financial condition, which requires an increased level of judgment in calculating impairments of loans and advances.	Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Bank, including 12-month and lifetime expected loss modelling processes. We have also assessed the appropriateness of the impairment models and internal methodology and their compliance with IFRS 9. We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes. For individually impaired loans, we have performed, for a sample of credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries. For the 12-month and lifetime expected credit losses, we challenged the significant increase in credit risk triggers and tested the underlying models, including the Bank’s model approval and validation process. Supported by our modeling experts, we have performed an independent recalculation of the expected credit loss for a sample of loans. We performed an assessment of the adequacy of the Bank's assumptions and judgements related to the impact of the COVID-19 pandemic as well as the impact of Russia’s military invasion of Ukraine on the assessment of expected credit losses and all aspects of the process of their determination. We also assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting standards as adopted by the European Union.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances to customers.

As this position represents a substantial part of Bank's total assets and given the related estimation uncertainty, we consider this as a key audit matter.

Information other than the financial statements and auditors' report thereon

Management is responsible for the other information. The other information comprises Annual Activity Report, including information and analysis in connection with art. 48, paragraph 1 and 2 from the Accountancy Act. and the Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of 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 Annual Activity Report and the Corporate Governance Statement, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines regarding the new and enhanced auditor reporting and communication by the auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and where applicable art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

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

Based on the procedures performed, in our opinion:

a) the information included in the Annual Activity Report, prepared in accordance with art. 39 for the financial year for which the financial statements are prepared is consistent with those financial statements.
b) the Annual Activity Report including information and analysis in connection with art. 48, paragraph 1 and 2 from the Accountancy Act has been presented and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) the Corporate Governance Statement for the financial year, for which the financial statements are prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 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 the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Audit Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on other legal and regulatory requirements

Additional reporting in relation to Ordinance 58/2018 issued by the Financial Supervision Commission ("FSC")

Statement in relation to Art. 11 of Ordinance 58/2018 issued by FSC in relation to the requirements for protection of the clients' financial instruments and cash, for product management, and for the providing or receiving of remuneration, commissions and other monitory or non-monetary benefits.

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts is in accordance with the requirements of Art. 3-10 of Ordinance 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

Additional reporting on the audit of the financial statements in connection with art. 10 of Regulation (EU) 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) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2022 by the general meeting of shareholders held on 20 July 2022 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as auditors of the Bank on 28 September 2018.

- HLB Bulgaria OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2022 by the general meeting of shareholders held on 20 July 2022 for a period of one year. HLB Bulgaria OOD was first appointed as auditors of the Bank on 28 September 2018.

- The audit of the financial statements of the Bank for the year ended 31 December 2022 represents fifth of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.

- The audit of the financial statements of the Bank for the year ended 31 December 2022 represents fifth of total uninterrupted statutory audit engagements for that entity carried out by HLB Bulgaria OOD.

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit 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.

- For the period to which our statutory audit refers, we have provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's management report or financial statements

- Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2022 (jointly with HLB Bulgaria OOD) for the amount of 5 thousand leva.

For PricewaterhouseCoopers Audit OOD:

Jock Nunan
Procurist

Anna Boteva
Registered Auditor responsible for the audit
9-11, Maria Luiza blvd.
1000 Sofia, Bulgaria

16 February 2023

For HLB Bulgaria OOD:

Stoycho Milev
Manager

Stoyan Stoyanov
Registered Auditor responsible for the audit
149-151, Konstantin Velichkov blvd.,
1309 Sofia, Bulgaria

16 February 2023

For the year ended 31 December

In BGN thousand	**App.**	**2022**	**2021**
Interest Income	9	69,855	57,662
Interest expense	9	(693)	(1,927)
Net interest income	9	**69,162**	**55,735**
Fees and commissions income	10	31,625	26,664
Fees and commissions expenses	10	(9,539)	(10,223)
Net income from fees and commissions	10	**22,086**	**16,441**
Net income from trade operations	11	(20,715)	414
Income from investment operations	12	145	173
Total income from banking operations		**70,678**	**72,763**
Other operating income	14	8,404	6,813
Net impairment losses on financial assets measured at amortized cost and fair value through other comprehensive income	20	(5,837)	(18,311)
Net impairment losses on other financial assets	20	(1)	(12)
Administrative and other costs	13	(47,473)	(41,894)
Profit before tax		**25,771**	**19,359**
Tax expenses	15	(2,558)	(2,033)
Profit for the year		**23,213**	**17,326**

The profit or loss account should be read in conjunction with the appendices on page 39 to 167 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 14 February 2023.

Georgi Zamanov
Chief Executive officer

Hristina Martsenkova
Executive officer

Lyuba Pavlova
CFO - Prepared by

According to the independent auditors' report:

PricewaterhouseCoopers Audit OOD

"HLB Bulgaria" OOD

Jock Nunan
Procurator

Stoicho Milev
Manager

Anna Boteva
Registered Auditor, responsible for the audit

Stoyan Stoyanov
Registered Auditor, responsible for the audit

For the year ended 31 December

In BGN thousand	**App.**	**2022**	**2021**
Profit for the year		**23,213**	**17,326**
Other components of comprehensive income:			
Items that may be reclassified in profit or loss:			
Net change in the fair value reserve		(28,557)	(6,270)
Other comprehensive income from sales of securities at FV_OCI recognized in profit and loss		21,006	-
Income tax related to components of other comprehensive income that may be reclassified		756	627
		(6,795)	**(5,643)**
Items that will not be reclassified in profit or loss:			
Net change in the fair value reserve of capital instruments		(666)	1,245
Income tax related to components of other comprehensive income that will not be reclassified		66	(125)
Subsequent measurement of obligations under a defined benefit plan	32	(42)	(62)
Tax on subsequent measurement of obligations under a defined benefit plan		4	6
Other adjustments from previous year			
		(638)	**1,064**
Other comprehensive income, net of taxes		**(7,433)**	**(4,579)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,780**	**12,747**

The statement of comprehensive income should be read in conjunction with the appendices on page 39 to 167 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 14 February 2023.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
Chief Executive officer	*Executive officer*	*CFO - Prepared by*

According to the independent auditors' report:

PricewaterhouseCoopers Audit OOD	"HLB Bulgaria" OOD
Jock Nunan *Procurator*	Stoicho Milev *Manager*
Anna Boteva *Registered Auditor, responsible for the audit*	Stoyan Stoyanov *Registered Auditor, responsible for the audit*

In BGN thousand	**App.**	**31 DECEMBER 2022**	**31 DECEMBER 2021**
Assets			
Cash and cash equivalents	16	950,874	936,551
Financial assets at fair value through profit and loss	17	3	3
Loans and advances to banks	18	64,154	9,753
Loans and advances to clients	20	1,922,564	1,622,880
Financial assets at fair value through other comprehensive income	19.1	159,910	373,643
Financial assets measured at amortized cost:	19.2	842,663	633,413
Property, plant and equipment	21	18,778	10,697
Right-of-use assets	22	13,357	14,760
Intangible assets	23	9,739	9,565
Current tax assets		241	1,434
Deferred tax assets	29	97	46
Other financial assets	24	3,141	1,458
Other assets	25	10,802	8,669
Total assets		**3,996,323**	**3,622,872**
Liabilities			
Deposits from banks	27	20,044	24,714
Deposits from clients	26	3,665,790	3,306,667
Other borrowed funds	27	1,078	2,304
Liabilities under lease agreements	28	14,077	15,065
Provisions for guarantees		4,351	4,019
Other financial liabilities	30	7,227	5,924
Other liabilities	31	10,4 79	6,682
Total liabilities		**3,723,046**	**3,365,375**
Equity			
Fixed capital	33	69,000	69,000
Statutory reserves	33	9,850	9,850
Retained earnings		197,797	174,622
Fair value reserve		(3,370)	4,025
Total shareholders' equity		**273,277**	**257,497**
Total liabilities and equity		**3,996,323**	**3,622,872**

The statement of financial position should be read in conjunction with the appendices on pages 39 to 167 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 14 February 2023.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
Chief Executive officer	*Executive officer*	*CFO - Prepared by*

According to the independent auditors' report:

PricewaterhouseCoopers
Audit OOD

"HLB Bulgaria" OOD

Jock Nunan
Procurator

Stoicho Milev
Manager

Anna Boteva
Registered Auditor, responsible for the audit

Stoyan Stoyanov
Registered Auditor, responsible for the audit

For the year ended 31 December *In BGN thousand*	**App.**	**2022**	**2021**
Cash flows from operating activity			
Profit for the year		23,213	17,326
Adjustments for non-cash transactions:			
Net impairment losses on financial assets		5,131	17,099
Net impairment losses on other financial assets		707	1,224
Depreciation	21,23	2,681	2,095
Depreciation of right-of-use assets	22	2,714	3,066
Dividends income	12	(145)	(173)
Interest income	9	(69,855)	(57,662)
Interest expense	9	693	1,927
Net (gains) on financial asset transactions, including currency revaluation	11	19,322	(2,314)
Net (profits)/ losses from re-measurement of financial assets measured at fair value through profit or loss	11	1,392	1,900
Income tax expenses	15	2,558	2,033
Dividends received	12	145	173
Interest received		75,226	63,790
Paid interest		(1,220)	(1,949)
Tax paid on profit		(2,208)	(3,200)
Cash flows used in operating activities before changes in operating assets and		**(60,354)**	**(45,335)**
Changes in assets and liabilities in operating activities:			
Financial assets reported at fair value through profit or loss		-	2,314
Loans and advances to banks		(54,401)	29,334
Loans and advances to clients		(302,665)	(90,601)
Other assets		(1,174)	335
Deposits from banks		(4,670)	(3,437)
Deposits from clients		358,826	322,856
Other borrowed funds		(929)	(2,652)
Other liabilities		4,078	2,957
Net cash flows from operating activities		**59,419**	**306,441**
Cash flows from investing activities			
Purchase of property, plant and equipment		(9,702)	(4,327)
Purchase of intangible assets		(1,234)	(2,813)
Purchase of investment securities		(349,902)	(468,922)
Proceeds from sale and maturity of investment securities		318,108	127,318
Net cash flows used in investment activities		**(42,730)**	**(348,744)**

For the year ended 31 December

In BGN thousand	**App.**	**2022**	**2021**
Cash flows from financing activity			
(Increase) in Right-of-use assets		(1,311)	(9,288)
Increase in lease liabilities		1,371	9,346
Lease principal payments	22	(2,359)	(2,712)
Lease interest payments	22	(67)	(53)
Net cash flows used in financial activities		**(2,366)**	**(2,707)**
Net (decrease)/increase in cash and cash equivalents		14,323	(45,010)
Cash and cash equivalents at 1 January		936,551	981,561
Cash and cash equivalents at 31 December	16	**950,874**	**936,551**

The statement of cash flows should be read in conjunction with the appendices on page 39 to 167 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 14 February 2023.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
Chief Executive officer	*Executive officer*	*CFO - Prepared by*

According to the independent auditors' report:

PricewaterhouseCoopers Audit OOD	"HLB Bulgaria" OOD
Jock Nunan	Stoicho Milev
Procurator	*Manager*
Anna Boteva	Stoyan Stoyanov
Registered Auditor, responsible for the audit	*Registered Auditor, responsible for the audit*

In BGN thousand	**App.**	**Share capital**	**Statutory reserves**	**Retained earnings**	**Fair value reserve**	**Total**
Balance as at 1 January 2021	33	**69,000**	**9,850**	**156,301**	**9,599**	**244,750**
Total comprehensive income for the year						
Profit for the year		-	-	17,326	-	**17,326**
Other components of comprehensive income		-	-	1,057	(5,574)	**(4,517)**
Defined benefit plans		-	-	(62)	-	**(62)**
Total comprehensive income for the year		**-**	**-**	**18,321**	**(5,574)**	**12,747**
Balance as at 31 December 2021	33	**69,000**	**9,850**	**174,622**	**4,025**	**257,497**
Balance as at 1 January 2022	33	**69,000**	**9,850**	**174,622**	**4,025**	**257,497**
Total comprehensive income for the year						
Profit for the year		-	-	23,213	-	**23,213**
Other components of comprehensive income		-	-		(7,395)	**(7,395)**
Defined benefit plans		-	-	(38)	-	**(38)**
Total comprehensive income for the year		**-**	**-**	**23,175**	**(7,395)**	**15,780**
Balance as at 31 December 2022	33	**69,000**	**9,850**	**197,797**	**(3,370)**	**273,277**

The statement of changes in equity should be read in conjunction with the appendices on page 39 to 167 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 14 February 2023.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
Chief Executive officer	*Executive officer*	*CFO - Prepared by*

According to the independent auditors' report:

PricewaterhouseCoopers Audit OOD	"HLB Bulgaria" OOD
Jock Nunan *Procurator*	Stoicho Milev *Manager*
Anna Boteva *Registered Auditor, responsible for the audit*	Stoyan Stoyanov *Registered Auditor, responsible for the audit*

1. Legal status and ownership

Allianz Bank Bulgaria AD (the Bank) was registered in the Republic of Bulgaria, with a business address at: city of Sofia and management address: city of Sofia 1407, Lozenets district, 16 Srebarna Str. The Bank is a universal commercial bank and has a full banking license issued by the Bulgarian National Bank (BNB), on the basis of which it operates in all areas of banking in the country.

The ultimate parent and controlling entity of the Bank is Allianz SE, Germany. Direct majority owner of the Company is Allianz Bulgaria Holding AD.

(a) Management

As at 31 December 2022, the management of the Bank, namely the Management Board, consists of five members, namely: Ioannis Kotsianos, Georgi Zamanov, Hristina Martsenkova, Lyuba Pavlova and Yordan Suvandzhiev.

As at 31 December 2022, the Bank's Supervisory Board consists of the following members: Dimitar Zhelev, Christoph Plaine, Raymond Seymour, Rainer Franz, Kay Müller and Eduard Gerardus Martin Gus.

The Bank has an Audit Committee that monitors the work of its external auditors, internal auditing, risk management and accounting and financial reporting.

As at 31 December 2022, the Audit Committee has the following composition: Stefan Stefanov, Kay Müller and Maksim Sirakov.

(b) Structure of the Bank

As at 31 December 2022, the Bank has 54 structural units, including headquarters, 52 business centers and 1 small business center located in 34 cities and towns within the country.

2. Preparation basis

The financial statements were approved for issue by the Management Board of the Bank on 14 February 2023. The Bank presents comparative information in these financial statements for one year back. The accounting policies have been applied consistently in the reporting years presented, unless explicitly stated otherwise. The Bank presents its statement of financial position in the order of liquidity of the assets and liabilities.

This financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the Interpretation Committee (IFRIC), applicable to companies reporting under the IFRS, adopted by the European Union (EU). IFRS adopted by the EU is the generally accepted designation of a generic framework for fair presentation equivalent to the definition of the framework introduced in paragraph 1, item 8 of the Additional Provisions of the Accounting Act - International Accounting Standards (IAS).

3. Measurement Basis

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and defined benefit plans at present value.

The financial statements have been prepared on a going concern basis.

3. Measurement basis (continued)

The preparation of financial statements in conformity with IFRS requires the application of specific accounting estimates. The Bank's management is required to make its own judgments and assumptions in applying the accounting policies. Items in the financial statements whose presentation requires a higher degree of subjective judgment, as well as those items for which estimates have a significant effect on the financial statements as a whole, are disclosed separately in Note 7.

4. Functional currency and currency of presentation

This financial statement is presented in Bulgarian currency (BGN), which is the functional currency of the Bank. All amounts are rounded up to thousand, unless otherwise stated.

5. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. The policy has been applied consistently for all years of presentation unless otherwise stated.

(a) Recognition of interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the one that accurately discounts the expected future cash payments and proceeds over the life of the financial asset or liability to the carrying amount of the asset or liability.

The calculation of the effective interest rate includes all fees and commissions received or paid which are an integral part of the effective interest rate. Transaction costs are intrinsic costs directly attributable to the acquisition and issue of a financial asset or liability.

Interest income and expense presented in profit or loss include:

- interest on financial assets and liabilities at amortized cost calculated using the effective interest method;
- interest on financial assets at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL).

(b) Foreign currency transactions

Transactions in a foreign currency are stated in functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are stated in the functional currency at the closing exchange rate on the financial position statement drafting date.

Exchange rate differences arising from monetary items are the difference between the amortized cost in a functional currency at the beginning of the period, adjusted for effective interest and payments over the period, and the amortized cost in foreign currency translated at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are reported at fair value are translated into the functional currency at the rate at the date that the fair value was determined.

Exchange differences arising on the translation in the functional currency are recognized in profit or loss except for differences arising on the translation of available-for-sale equity instruments.

Since 1998 the exchange rate of the Bulgarian lev (BGN) has been fixed to Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

5. Significant accounting policies (continued)

(c) Fees and commissions

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard is based on the principle that revenue is recognized when the control of the good or service is transferred to the client.

IFRS 15 is only applicable to contracts where a contract counterparty is a party that can be identified as a customer in accordance with the requirements of the Standard.

Additionally, the standard provides guidance on accounting for certain costs of obtaining / performing the contract. Under IFRS 15, these costs are capitalized and should be recognized as an asset under contracts with customers only if they: (a) are made in relation to and pertain to a client contract that is within the scope of IFRS 15; (b) are not included in other IFRSs; and (c) are directly related to the contract, help generate resources for use in the course of the contract and are expected to be recovered.

Revenue from fees and commissions

The Bank realizes revenue from fees and commissions that are formed from performance and asset management. Fees and commissions revenue arises from:

- Cash transactions and cash transfers
- Guarantees and letters of credit
- Loans
- Bank cards
- Other

The management fees mentioned above are recognized when providing the services. Performance fees are recognized as revenue after the end of the respective reference period.

(d) Net income from trade operations

Net trading income consists of gains less losses on assets and liabilities in trading portfolio and includes all realized and unrealized changes in fair value, interest, dividends and exchange differences.

(e) IFRS 9 Financial instruments

(i) Recognition, classification and valuation - financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed as well as their cash flow characteristics.

IFRS 9 includes three principal classification categories of financial assets: at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not classified under FVPL:

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments(continued)

(i) Recognition, classification and measurement - financial assets (continued)

- the financial asset is held in a business model whose purpose is to hold assets in order to collect the contractual cash flows; and
- according to the contractual terms of the financial asset, cash flows arise at specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

A financial asset is measured at FVOCI if it meets both conditions and is not classified under FVPL:

- the financial asset is held within a business model that targets both the collection of contractual cash flows and the sale of financial assets; and
- according to the contractual terms of the financial asset, cash flows arise at specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

Upon the initial recognition of an equity instrument that is not held for trading, the Bank may take an irrevocable decision to present subsequent changes in fair value in other comprehensive income. This decision is made for each particular investment. All financial assets that are not classified as measured at amortized cost or at FVOCI as described above are measured at FVPL. In addition, upon initial recognition, the Bank may take an irrevocable decision and designate a financial asset that otherwise qualifies for measurement at amortized cost or at FVOCI, as measured at FVPL. If this would remove or reduce substantially the accounting mismatch, would have arisen.

Financial assets are classified in one of these categories at initial recognition.

Assessment of business model

The Bank will assess the purpose of the business model within which the financial asset is held at the portfolio level as it provides the best insight into how business is managed and how information is provided to management. The information to be considered includes:

- the policies and goals for the portfolio and the impact of these policies in practice, including whether the management strategy focuses on earning interest on contractual interest by maintaining a certain interest profile by comparing the term of the financial assets with the maturity of the liabilities that finance these assets , or on the realization of cash flows through the sale of assets;
- how the portfolio's performance is evaluated and reported to the management of the Bank;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;
- how the compensation of managers is determined - e.g. whether the it is based on the fair value of the assets under management or the contractual cash flows collected; and
- the frequency, volume and moment of sales of financial assets in prior periods, the reasons for such sales and expectations of future sales. Sales information is not considered in itself, but as part of the overall assessment of how the entity's stated objective of managing financial assets and how cash flows are being met.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(i) Recognition, classification and measurement - financial assets (continued)

Assessment of the business model (continued)

Financial assets held for trading and those that are managed and whose results are measured at fair value will be measured at FVPL because they are neither held for the purpose of collecting contractual cash flows nor for the purpose of both collecting contractual cash flows and sales of financial assets.

*Estimating whether contractual cash flows are only principal and interest payments (*IASB*)*

For the purposes of this estimate, the "principal" is determined as the fair value of the financial asset at initial recognition. “Interest" includes the remuneration for the value of money over time and for credit risk associated with the outstanding principal amount over a certain period of time and for other major credit risks and costs (e.g. liquidity risk and administrative costs) and a margin of profit.

In assessing whether contractual cash flows are only principal and interest payments, the Bank examines the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that could change the time or value of the contractual cash flows so that they do not meet this condition. In this assessment, the Bank examined:

- contingency events that would change the amount or timing of cash flows;
- characteristics of leverage;
- conditions for extension and early repayment;
- conditions that restrict the Bank's claims to cash flows from certain assets (such as non-regression features); and
- characteristics that alter the return for the value of money over time - e.g. periodic recalculation of interest rates.

The interest rates of certain loans to individuals granted by the Bank are based on standard floating rates (SFRs), which are determined at the Bank's discretion.
The Bank will assess whether the SFR meets the IASB criterion by examining a number of factors, including:

- whether the borrower can repay early loans without significant penalties;
- whether market competition guarantees comparable interest rates between banks; and
- whether regulatory frameworks or consumer protection frameworks are in place that oblige banks to treat their customers fairly.

All loans provided by the Bank contain early redemption features. The early amortization feature meets the IASB criterion if the amount of early repayment is essentially the sum of the principal outstanding and the interest on the principal outstanding amount that may include reasonable compensation for early termination of the contract.

In addition, the early repayment feature is deemed to meet this criterion if the financial asset is acquired or created at a premium or a discount on the contractual nominal amount, the amount of the early repayment is essentially the contractual nominal amount plus the accrued (but not paid) contractual interest which may also include reasonable compensation for early termination), and the fair value of the early amortization provision is insignificant on initial recognition.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(i) Recognition, classification and measurement - financial assets (continued)

Assessment of the business model (continued)

All loans provided by the Bank contain early redemption features. The early amortization feature meets the IASB criterion if the amount of early repayment is essentially the sum of the principal outstanding and the interest on the principal outstanding amount that may include reasonable compensation for early termination of the contract.

In addition, the early repayment feature is deemed to meet this criterion if the financial asset is acquired or created at a premium or a discount on the contractual nominal amount, the amount of the early repayment is essentially the contractual nominal amount plus the accrued (but not paid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the early amortization provision is insignificant on initial recognition.

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts

IFRS 9 requires the application of a "expected credit loss" model. This requires substantial judgment on the way changes in economic factors are reflected in ECL, which is determined on a probability-weighted basis. The impairment model applies to the following financial assets which are not measured at FVPL:

- financial assets comprising debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts (before impairment was determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

According to IFRS 9, impairment losses are not recognized for equity securities.

IFRS 9 requires recognition of a correction of losses amounting to 12-month ECL and lifetime ECL of the instrument. Lifetime ECL for the instrument is ECL arising from all possible cases of non-performance throughout the expected duration of a financial instrument, and 12-month ECL is the part of ECL derived from cases of non-performance which may occur within 12 months after the reporting date.

The Bank will recognize a correction for lifetime ECL except in the following cases where the recognized amount will be a 12-month ECL:

- debt investment securities that have low credit risk as of the reporting date. The Bank believes that a debt security has a low credit risk when the credit risk is equivalent to the globally accepted definition of "investment grade"; and
- other financial instruments (other than leases) for which the credit risk has not increased significantly since initial recognition.

Loss adjustments for lease receivables are always valued at an amount equal to ECL over the expected life of the instrument.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

The impairment requirements of IFRS 9 are complex and require management appraisals, estimates and assumptions, especially in the following areas, which are discussed in detail below:

- assessing whether the instrument's credit risk has increased significantly since initial recognition; and
- inclusion of information for future periods in the evaluation of the ECL.

Evaluation of ECL

ECL is the probability-weighted estimated credit loss and will be determined as follows:

- *financial assets that do not have credit impairment at the reporting date:* the present value of the entire cash deficit - i.e. the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive;
- *financial assets that have credit impairment at the reporting date:* the difference between the gross carrying amount and the present value of the expected future cash flows;
- *unutilized credit commitments:* the present value of the difference between the contractual cash flows payable to the Bank if the commitment is utilized and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the present value of the expected payments of compensation to the holder minus any amount the Bank expects to repay.

Financial assets that have credit impairment are determined using IFRS 9 similar to those that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Bank shall assume a financial asset is in default when:

- the borrower is unlikely to fulfill its credit obligations to the Bank in its entirety, without recourse by the Bank to actions such as the realization of the collateral (if any); or
- the borrower is over 90 days in arrears for any credit liability to the Bank. Overdrafts are considered overdue when the customer exceeds the specified limit or has a limit lower than the current amount due.

The definition largely corresponds to the definition of regulatory objectives.

In assessing whether the borrower is in default, the Bank will report indicators that are:

- qualitative: e.g. breach of clauses;
- quantitative: e.g. overdue status and non-payment of other liabilities by the same issuer to the Bank;
- based on data received internally or externally.

Input information in the assessment of whether a financial instrument is defaulted and its significance may change over time to reflect changes in circumstances.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Significant increase in credit risk

Under IFRS 9, when assessing whether a credit risk (e.g. a default risk) of a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and reasoned information that is relevant and available without undue expense or effort, including qualitative and quantitative information; an analysis based on past experience, expert credit assessment and future information.

The Bank shall determine whether there has been a significant increase in the credit risk of a particular exposure mainly by comparing:

- the probability of default (PD) for the remaining term of the instrument at the reporting date; and
- the probability of default for the remaining duration of the instrument that was determined at the initial recognition of the exposure.

Assessing whether credit risk has increased significantly since the initial recognition of the financial instrument requires the determination of the date of initial recognition of the instrument. For certain revolving products (e.g. credit cards and overdraft), it may have been a long time since the date they were concluded. Modification of the contractual terms of the financial instrument may also influence this assessment as described below.

Credit risk levels

The Bank shall determine the level of credit risk for each exposure based on a variety of data that is determined to predict the risk of default and applying credit based on experience. The Bank shall use these levels in determining the existence of significant credit risk increases under IFRS 9. Credit risk levels are defined by qualitative and quantitative factors that are indicative of the risk of default. These factors may vary according to the nature of the exposure and the type of borrower.

The credit risk levels are determined and calibrated so that the risk of default increases exponentially with the credit risk deterioration - e.g. the difference in default risk between credit risk level 1 and 2 is less than the difference between credit risk level 2 and 3.

For each exposure, a credit risk level at initial recognition will be determined on the basis of available information about the borrower. Exposures are subject to constant monitoring, which may lead to a shift of exposure to another level. Credit risk levels are the main input in determining the time structure of the probability of default. The Bank shall collect information on the performance and non-performance of its exposures to credit risk, analyzed by jurisdiction, by product type and by the borrower, and by the level of credit risk. For some portfolios, information purchased from external credit information agencies can also be used.

The bank shall use statistical models to analyze the collected data and generate estimates of default probability for the remaining exposure period and how it is expected to change over time.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Generating a term structure for probability of default

This analysis involves identifying and calibrating the relationship between changes in default rates and changes in key macroeconomic factors as well as an in-depth analysis of the impact of certain other factors (e.g., the existence of restructuring) on the risk of default. For most exposures, key macroeconomic factors include:

- CPI – Inflation measured using the harmonized consumer price index, average annual change, (%).
- GDP - production method
- Unemployment – Unemployment rate, seasonally weighted data, monthly
- Interest rates

For exposures to certain industries and / or regions, the analysis expands to the relevant commodity and / or real estate prices. The Bank's approach to the inclusion of future information in this assessment is described below.

Determining whether credit risk has increased significantly

The Bank has defined a framework that includes both qualitative and quantitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is in line with the Bank's internal credit risk management process. The criteria for determining whether the credit risk has increased significantly varies according to the portfolio and includes a default mechanism. The Bank will consider the credit risk of a particular exposure substantially increased after initial recognition if, based on quality modeling performed by the Bank, the probability of default for the remaining time is determined to be increased after initial recognition under the accounting policy adopted. When assessing the increase in the credit risk, the ECLs are adjusted against the changes in maturity.

In certain cases, relying on expert judgment and, where possible, relevant past experience, the Bank may determine that a particular exposure has suffered a significant increase in credit risk if specific qualitative factors indicate this and these indices can not be fully and timely covered by the quantitative analysis. As a safeguard mechanism and in line with IFRS 9, the Bank will accept in advance that there is a significant increase in credit risk when the asset was past due for no more than 30 days. The Bank sets the days past due by counting the days after the earliest expired term against which no payment was received.

The Bank monitors the effectiveness of the criteria used to identify significant credit risk increases through regular reviews confirming that:

- the criteria are capable of identifying significant increases in credit risk before exposures are defaulted;
- the criteria do not coincide with the time at which the asset becomes past due by 30 days;
- the average period between identifying a significant increase in credit risk and default seems reasonable;
- exposures in general are not transferred directly from the 12-month ECL to credit impairment;
- there is no unjustified volatility in the correction of losses from transfers between 12-month ECL and lifetime ECL of the instrument.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Modified financial assets

The contractual terms of credit may be modified for many reasons, including changes in market conditions, customer retention, and other factors that are not related to current or potential deterioration in the client's solvency. An existing credit, the terms for which it has been modified, may be derecognized and the renegotiated credit recognized as a new credit at fair value.

Under IFRS 9, when the condition of the financial asset is modified and the modifications do not lead to write-off, determining whether the credit risk of the asset has increased significantly reflects a comparison between:

- the probability of default for the remaining duration of the instrument on the basis of the modified conditions; with
- the probability of default for the remaining duration of the instrument on the basis of the data at initial recognition and the original contractual terms.

The Bank renegotiates loans to clients who have financial difficulties (called "restructuring practices") in order to maximize the possibilities for collecting claims and to minimize the risk of default. Under the Bank's Restructuring Policy, this is allowed selectively if the debtor is currently in default or if there is a high risk of default if there is evidence that the debtor has made all reasonable efforts to pay according to the original contractual terms and conditions expects the debtor to be able to comply with the revised terms.

Renegotiated terms typically include extending maturity, changing interest payment times, and changing loan terms. Both corporate and corporate loans are subject to restructuring. The Bank's Credit Committee frequently reviews the restructuring reports.

For financial assets modified as part of the Bank's Restructuring Policy, the probability of default will reflect the extent to which the modification has improved or restored the Bank's ability to collect interest and principal and prior experience with the Bank in respect of such restructuring activities. As part of this process, the Bank will assess the performance of the borrower's payments under the modified contractual terms and consider different behavioral indicators.

Overall, restructuring is a qualitative indicator of default and credit impairment, and expectations of restructuring are relevant in assessing whether there is a significant increase in credit risk. After the restructuring, the client must demonstrate a regular payer's behavior for a certain period of time before the exposure ceases to be considered a default / credit impairment, or the probability of default has declined so that the loss correction is again measured in the 12-month ECL.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Input information for the estimation of ECL

The key input to the estimation of ECL includes the term structure of the following variables:

- Probability of default (PD)
- Loss given Default (LGD); and
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that affect regulatory models. They will be adjusted to reflect future information as described below.

PD estimates are estimates at a certain date that will be calculated based on statistical rating models and will be evaluated using rating instruments tailored to different categories of counterparties and exposures. These statistical models will be based on internally compiled data containing qualitative and quantitative factors. Where available, market data can also be used to determine PD for large corporate counterparties. If a counterparty or exposure migrates between categories, this leads to a change in the PD estimate. PDs are calculated in terms of contractual maturities of the exposures and the expected repayment rates.

The LGD is the amount of the alleged loss given default. The Bank determines the parameters of LGD based on the history of the level of recovery of receivables from non-performing counterparties. LGD models take into account the structure, collateral, order of receivables, counterparty industry, and collateral security costs that are part of the financial asset. For loans secured by commercial property, the credit value / collateral value coefficients will be a key parameter in the determination of LGD. LGD estimates are calibrated for different economic scenarios and for real estate loans to reflect possible changes in property prices. They are calculated on the basis of discontinued cash flows using the effective interest rate for the discount rate. EAD is the expected exposure in the event of a default.

The Bank determined the EAD from the current exposure to the counterparty and the potential changes in the current amount authorized under the contract, including amortization and early repayment. The EAD of the financial asset will be the gross carrying amount at the default date. For credit commitments and financial guarantees, the EAD recognizes the amount utilized, as well as potential future amounts that may be utilized or repaid under the contract that will be provided on the basis of past and forward looking observations. For some financial assets, the Bank may designate an EAD by modeling the set of possible exposure outcomes at different times in time using scenarios and statistical techniques.

As described above, and provided that maximum 12 month PD is used for financial assets whose financial risk has not increased significantly, the Bank assesses the ECL by considering the default risk for the maximum duration of the contract (including the possibility of prolongation on the part of the borrower) for which he is exposed to credit risk, even if the Bank considers a longer period for the purposes of risk management. The maximum term of the contract extends to the date on which the Bank is entitled to request repayment of the advance or to terminate a credit commitment or guarantee.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Input information for the estimation of ECL (continued)

For consumer overdraft and credit cards and certain corporate revolving products that include credit and commitment for undrawn amounts, the Bank assesses the ECL for a period longer than the maximum term of the contract if the Bank's contract law requires repayment or cancellation of the uncommitted commitment limits the exposure of the Bank to credit losses up to the contractual period of notice. These products do not have a fixed term or repayment structure and are managed collectively. The Bank may cancel them with immediate effect, but this right does not apply to normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the product level. The longer period will be assessed taking into account the credit risk management measures that the Bank intends to undertake to reduce the ECL. These include lowering the limit and canceling the product.

When modeling a particular parameter is done collectively, the financial instruments will be grouped on the basis of common risk characteristics that include:

- instrument type;
- credit risk level;
- type of collateral;
- value of the loan / collateral value;
- date of initial recognition;
- remaining time to maturity;
- branch; and
- geographical location of the borrower.

Grouping is subject to regular review in order to ensure that exposures in a given group remain homogeneous.

For portfolios for which the Bank has limited past performance data, external reference information will be used to supplement available internal data.

Portfolios for which the external reference information represents a significant input in the evaluation of the ECL are:

	External reference benchmarks used	
	PD	**LGD**
Measured at amortized cost (AMORTCOST)	Studies by Fitch, S & P and other licensed agencies on default	Studies by Fitch, S & P and other licensed agencies on default
Reported at fair value through other comprehensive income (FVOCI)	Studies by Fitch, S & P and other licensed agencies on default	Studies by Fitch, S & P and other licensed agencies on default

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Information for future periods

Under IFRS 9, the Bank will include future-time information, both in its assessment of whether the credit risk of a particular instrument has increased significantly after initial recognition and in the evaluation of the ECL. The Bank will formulate a "baseline scenario" for the future development of the relevant economic variables and a representative set of other possible scenarios based on an opinion from the Bank's Risk Committee and economic experts and a variety of up-to-date and forecasted external information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each result.

External information may include economic data and forecasts published by state and monetary authorities, superstate organizations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, and selected experts from the private and academic sector.

The baseline scenario will represent the most probable outcome and will be consistent with the information used by the Bank for other purposes, such as strategic planning and budgeting. Other scenarios will be more optimistic and more pessimistic. The Bank will also perform periodic stress tests for more extreme shocks to calibrate the determination of these different representative scenarios.

The Bank has identified and documented key credit risk factors and credit losses for each portfolio of financial instruments, and using historical data analysis, has roughly estimated the relationship between macroeconomic variables and credit risk and credit losses. These key factors include interest rate, unemployment rates and GDP projections. The projected relationships between key indicators and default and loss levels of different portfolio of financial assets have been developed on the basis of data analysis for the past 5 years.

The economic scenarios used were approved by the Bank's Management Board.

(iii) Classification - financial liabilities

According to IFRS 9, the changes in fair value will be presented as follows:

- the portion of the change in fair value that is due to changes in the credit risk of the liability is reflected in other comprehensive income
- the rest of the change is reflected in profit or loss.

The Bank recognizes its financial liabilities at amortized cost.

(iv) Deletion and modification of contracts

The Bank derecognizes a financial asset when the contractual rights to cash flows from the financial asset expire or when it transfers the rights to receive the contractual cash flows from the financial asset to a transaction in which all significant risks and rewards of ownership of the financial asset are transferred. Every participation in transferred financial assets, which was created or kept by the Bank, is recognized as separate asset or liability.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments (*continued)

(iv) Deletion and modification of contracts (continued)

The Bank derecognizes a financial liability when its contractual obligations are fulfilled, canceled or when they expire. The Bank carries out transactions that transfer assets recognized in the statement of financial position but retain all or all of the material risks and rewards of the transferred assets or part of them. If some or all of the material risks and rewards are retained, the transferred assets are not derecognized from the statement of financial position. Transferring assets with retaining some or all of the material risks and gains are, for example, securities lending or repurchase transactions.

When a third party sells swap assets with a uniform total return on the transferred assets, the transaction is accounted for as a secured financial transaction similar to a repurchase transaction.

For transactions in which the Bank neither retains nor transfers all material risks and gains from the possession of a financial asset, it derecognizes the asset if it does not retain control over it. Rights and obligations retained in the transfer are separately recognized as assets and liabilities respectively.

For transactions that retain control of the asset, the Bank continues to recognize the asset to the extent of its interest, depending on how exposed it is to changes in the value of the transferred asset.

In certain transactions, the Bank retains its obligation to service the transferred financial asset for consideration. The transferred asset is derecognized entirely if it meets the derecognition criteria.

The asset or liability is recognized in the service contract depending on whether the service charge is more than sufficient (asset) or less than sufficient (liability) to perform the service.

(v) Offset

Financial assets and liabilities are offset and the net amount is recognized in the statement of financial position when and only when the Bank has a legally enforceable right to offset the recognized amounts and intends to settle the asset and liability on a net basis. Income and expense are presented in net only in the cases permitted by accounting standards or by gains and losses that arise from a group of similar transactions such as those arising from the Bank's operations.

(vi) Capital planning

The main impact on the Bank's regulatory capital s from the application of IFRS 9 shall result from the new impairment requirements.

Under the current regulatory requirements, impairment losses are treated differently depending on whether a particular portfolio falls within the IRB or Standardized Approach.

5. Significant accounting policies (continued)

(e) IFRS 9 Financial instruments (continued)

(vi) Capital planning (continued)

The Bank applies a standardized approach. The capital requirement is calculated on the basis of the gross exposure, net of specific provisions - i.e. net exposure. IFRS 9 increases write-downs related to individual assets, therefore the net exposure and the capital requirement will be reduced. However, this reduction in the capital requirement is exceeded by the increased loss adjustments under IFRS 9 of the capital resources.

(vii) Measured at amortized cost

The amortized cost of a financial asset or liability is the amount by which a financial asset or liability is measured at initial recognition minus principal repayments plus or minus cumulative amortization using an effective interest rate for the difference between the initially recognized amount and the amount of the maturity minus the cost for impairment.

(viii) Principles of fair value measurement

Fair value is the price that would be received from the sale of an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date on the main market for the Bank or in the absence thereof, in the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the risk of breach of an obligation. Whenever possible, the Bank shall measure the fair value of an instrument using quoted prices in an active market for that instrument. The market is considered as active when the transactions for the asset or liability are executed with enough frequency and volume so that it allows the provision of actual information on prices. If there is no stock market price in an active market, valuation techniques are used (such as discounted cash flows and comparison with similar instruments) by maximally using appropriate observable inputs and minimizing the use of observable ones. The chosen valuation technique covers all the factors that market participants would take into account when pricing the deal.

The best evidence of a fair value of a financial instrument at initial recognition is the price of the transaction (i.e. the fair value of the remuneration received or given). If the Bank determined that the fair value at initial recognition differs from the transaction price and there is no evidence of fair value through stock exchange price of a similar asset or liability, either it is based on a valuation technique that uses data from observable markets, then the financial instrument initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognized in profit and loss rescheduled of an appropriate basis for the life of the instrument, but no later than the time when the assessment can be entirely supported by observable market data or transaction is completed.

The fair value of a call deposit is not less than the amount due on demand deducted from the original date on which the deposit may become chargeable. The Bank shall disclose the transfer between the levels in the fair value hierarchy at the end of the reporting period of the change occurrence.

5. Significant accounting policies (continued)

e) Financial assets measured amortized cost

A financial asset is measured at amortized cost if compliant with the requirements:

- the financial asset is held in a business model whose purpose is to hold assets in order to collect the contractual cash flows; and
- under the contractual terms of the financial asset at specific dates
- cash flows arise, which are only principal payments
- and interest on the outstanding amount of the principal.

This group includes loans, purchased bonds, deposits with banks and other forms of debt financing held by the bank that are held for the purpose of obtaining the contractual cash flows;

(g) Financial assets reported at fair value through other comprehensive income (FVOCI)

Financial assets are held within a business model that targets both the collection of contractual cash flows and sales of financial assets, and according to the contractual terms of financial assets at specific dates, cash flows arise, which are only principal and interest payments on the outstanding principal amount.

This group includes debt instruments measured at fair value in other comprehensive income and equity instruments without subsequent reclassification of changes in the deferred income statement.

(h) Financial assets reported at fair value through profit and loss (FVPL)

All other financial assets that are not classified in the above two categories are measured at fair value through profit or loss of debt instruments measured at fair value through profit or loss.

Depending on the classification of the financial assets, for the purpose of their subsequent measurement, the differences arising from the change in their value are recognized in profit or loss or other comprehensive income. Recognition of differences from the subsequent evaluation is performed only on assets that are measured at fair value. In summary, the subsequent evaluation of financial assets is presented in the following table:

Categories of financial assets	**Subsequent evaluation**	**Recognition of differences of subsequent evaluation**
Financial assets, measured at amortized cost	Amortized cost	The value of the asset is sequentially brought to its amortized cost
Financial assets measured by fair value through other comprehensive income	Fair value	In other comprehensive income
Financial assets evaluation at fair value through profit and loss	Fair value	In profit and loss

5. Significant accounting policies (continued)

(h) Financial assets reported at fair value through profit and loss (FVPL) (continued)

The Bank has not reclassified FVTPL assets in other categories during the reporting period.

(i) IFRS 16 Leases

(i) Leases - the Bank as a lessee

Leases are recognized as an asset with a right of use and, accordingly, a liability on the lease on the date that the leasing asset is available for use by the Bank. Each lease payment is apportioned between the lease liability and the financial cost. Financial expenses are accrued in profit or loss during the lease term so that a constant periodic interest rate is payable on the balance of the liability for each period. The right-of-use asset is depreciated over the lease term using the straight-line method.

A right-of-use asset is presented separately in the statement of financial position., except for right-of-use assets that meet the requirements for classification as investment property, which are also presented in the statement of financial position on a separate line - “investment properties”.

Assets and liabilities arising from a lease are initially measured at their present value. Leasing liabilities include the net present value of the following lease payments:

- fixed payments, net of receivables on incentives received;
- variable lease payments, which are determined on the basis of an index or percentage;
- amounts expected to be payable by the lessee in the form of residual value guarantees;
- the purchase price if the lessee is reasonably certain that this option will be exercised, and
- lease termination penalty payments if the lease term reflects the lessee's ability to exercise this option.

Lease payments shall be discounted at the rate of interest set out in the lease if that rate can be directly determined. If this rate cannot be directly determined, the Bank uses the differential interest rate. This is the percentage that the Bank would have to pay to borrow for a similar period of time and with similar collateral the funds needed to obtain an asset of similar value to an asset with a right to use in a similar economic environment.

Each lease payment is apportioned between the lease liability and the financial cost. Subsequently, the lease liabilities are valued using the effective interest method. The carrying amount of the lease liability is remeasured to reflect revaluations or changes to the lease, or to reflect the substantially adjusted lease payments.

The lease term is the irrevocable period for which the lessee has the right to use the underlying asset; the periods in respect of which there is an option to extend or terminate the lease, if it is reasonably certain that the lessee will exercise that option.

Right-of-use assets are initially measured at cost, which includes:

- the value of the initial assessment of the lease liability;
- lease payments made before or on the date of the lease occurrence, less lease incentives received;
- any initial direct costs associated with the lease, and
- leasing reimbursement costs.

5. Significant accounting policies (continued)

(i) IFRS 16 Leases (continued)

(i) Leases - the Bank as a lessee (continued)

Subsequently, the eligible assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and are adjusted for any revaluation of the lease liability due to a revaluation or change in the lease. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Payments related to short-term leases and leasing of low-value assets are recognized as an expense on a straight-line basis over the term of the lease in the statement of comprehensive income. The Bank considers the possibility of derecognition in respect of the lease of low value assets for each lease separately. When an asset is acquired through a lease agreement, it is recognized as an asset with a right to use and a lease liability. For all other low-value asset leases, the lessee recognizes the related lease payments as an expense on a straight-line basis over the lease term. Short-term leases have a term of no more than 12 months and include rents of parking spaces and ATMs, IT equipment and others.

(ii) Lease activity of the Bank

The Bank leases various assets (administrative offices and buildings, computer equipment and cars), other small equipment. Lease contracts are concluded on an individual basis and contain a wide range of conditions. The main characteristics of leases are summarized below:

- Offices and buildings are leased for specific periods of 1 to 10 years, with terms determined individually. Contracts may contain clauses for renewal and / or early termination of the lease. Lease payments are usually fixed, and in some cases price indexation clauses are negotiated under certain conditions. Annexes are signed for the changes under the initially agreed conditions.
- Vehicles are leased for a fixed period of 1 year with the possibility of extension.
- Computer equipment is leased for a fixed period of 2 years.

Leases do not have covenants, but leased assets cannot be used as collateral for loans.

(iii) Extension and termination options

A number of the Bank's leases include options for extension and termination. They are used to provide maximum operational flexibility with respect to the management of the assets used in the Bank's operations. For significant accounting estimates and judgments in determining the lease term, please see Appendix 7.

(iv) Short-term leases

The Bank has short-term leases for buildings, vehicles and equipment and expenses are recognized on a straight-line basis over the reporting period.

(v) Leases - the Bank as a Lessor

When the Bank is the lessor under a lease under which a significant portion of the risks and rewards of ownership of an asset is transferred to the lessee, a finance lease is recognized and a net investment made by the Bank is reported and shown in loans and receivables.

5. Significant accounting policies (continued)

(й) Loans and advances

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and which the Bank does not intend to sell immediately or in the near future.

Loans and advances to banks are classified as loans and receivables. Loans and advances to clients include:

- those classified as loans and receivables;
- receivables under a finance lease;
- receivables under factoring contracts;
- receivables under cash pool agreements.

Loans and advances are initially recognized at fair value, including the initial direct cost of acquiring the assets. Upon subsequent evaluation, loans and advances are stated at amortized cost on an effective interest rate basis.

When a bank acquires a financial asset and simultaneously concludes a reverse repurchase agreement (or similar instrument) at a fixed price at a future date (reverse repurchase agreement), the agreement is accounted for as a loan or advance and the asset subject to collateral is not recognized in the statement of financial position.

(k) Receivables under factoring contracts

Factoring is a transfer of one-off or recurring claims arising from the supply of goods or the provision of services. Receivables arising from factoring include non-derivative financial assets with fixed or determinable payments that are not traded on an active market. The Bank recognizes its receivables on factoring depending on the extent of the risks and rewards of ownership of the transferred asset.

In the case of a factoring contract without regression, the contract client transfers substantially all the risks and rewards of ownership of the financial asset to the Bank. In this case, the Bank recognizes and reports in the financial statements the transferred receivable in its entirety as a financial asset.

Under a factoring agreement with regression, the risk of the transferred asset is retained by the client under the contract. The transfer of the claim in this case is not a sufficient condition for the derecognize \the financial instrument sold to the client under a factoring contract. At the Bank, receivables under factoring agreements with regression are recognized and recognized in the financial statements up to the amount of the amount paid, representing an advance to the clients with whom factoring contracts have been concluded. Upon initial recognition of the receivables, the Bank assesses them at their fair value, including the costs directly attributable to the acquisition of the financial asset. In the reporting year 2022, the Bank has concluded domestic and export factoring contracts with and without regression.

The subsequent evaluation of claims depends on the original term of the factoring contract. If it is greater than a year, the receivable is measured at amortized cost using the effective interest method. For factoring contracts with a term of up to one year, as is customary practice, no amortized cost is applied, as this method has no significant effect in shorter terms. At each reporting date, receivables are impaired on a simplified basis. Undrawn limits on factoring contracts with regression are not recognized as a financial asset in the Bank's financial statements and are reported off-balance sheet.

5. Significant accounting policies (continued)

(l) Property, plant and equipment

Property, plant and equipment are reported in the statement of financial position at their cost less accumulated depreciation and impairment losses.

Profit and losses from sale of property, plant and equipment are recognized in profit or loss.

Depreciation is accrued based on the straight line method, according to set norms for the purpose of the full depreciation of the value of property, plant and equipment for the expected period of use. The following are the annual depreciation rates used:

Assets	**%**
Buildings	4
Property, plant and equipment	20-30
Computers and computer equipment	20-50
Fixtures and fittings	10
Motor vehicles	25

Assets are not depreciated until they are put into operation and / or transferred from the cost of acquiring fixed assets in the relevant asset category.

The depreciation methods, the useful life and the residual values of property plant and equipment are reassessed at each reporting date and should be corrected if appropriate.

(м) Intangible assets

Intangible assets acquired by the Bank are presented at cost, less the accrued depreciation and impairment loss.

Expenditure on internally generated intangible assets is recognized as an asset when the Bank demonstrates the ability to complete the asset, its use results in future economic benefits, and its value can be reliably measured.

Subsequent costs are capitalized only when they increase the future economic benefit of the specific asset to which they relate. All other future expenses are recognized as expenses as they are incurred.

Depreciation is calculated on the basis of the straight-line method over the expected useful life. The following are the annual depreciation rates used:

Intangible assets	%
Software and licenses	10-50
Other fixed intangible assets	10

The depreciation methods, the useful life and the residual values of intangible assets are reassessed at each reporting date and should be corrected if appropriate.

(n) Impairment of non-financial assets

The reporting amounts of the Bank's non-financial assets are reviewed at each reporting date in order to determine whether there are indications of impairment. If such indications exist, an estimate of the recoverable amount of the asset is made.

5. Significant accounting policies (continued)

(n) Impairment of non-financial assets (continued)

For the purpose of the impairment test, assets that can not be tested individually are grouped together into the smallest possible group of assets generating cash proceeds from continuing use that are largely independent of the cash receipts from other assets or cash-generating unit (CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and its fair value less costs to sell. When assessing the value in use, future cash flows are discounted to their present value using a pre-tax discount rate reflecting current market assessments, time money, and asset- or CGU-specific risk. An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount.

The impairment losses are recognized in profit and loss. They are allocated first to reduce the value of the goodwill allocated to the CGU and subsequently to reduce the carrying amount of the assets part of the CGU.

(o) Deposits and other borrowed funds

Deposits from customers and banks and attracted funds from public funds are the sources of the Bank to finance loans and advances. When the Bank sells a financial asset and simultaneously concludes a repurchase agreement for that (or similar) asset at a fixed price at a future date ("repo"), the agreement is accounted for as a deposit and the principal asset continues to be recognized in the Bank's financial statements. Deposits and other borrowings are initially measured at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.

(p) Provisions

A provision is recognized in the statement of financial position when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of cash that can be reliably measured will be required to repay it. Provisions are determined by discounting future cash flows at a pre-tax discount rate that reflects the current market valuation of the time value of money and the specific risks for the respective liability.

(q) Income tax

The tax expense includes current and deferred taxes. It is recognized in profit or loss except when it pertains to items recognized directly in equity or in other comprehensive income. Interest and income tax losses, including uncertain tax procedures, are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i) Current taxes

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and all correction to tax liabilities or receivables for previous years. The amount of the current tax liability or receivable is the best estimate of the amount of tax that is expected to be paid or received that reflects the income tax uncertainties.

5. Significant accounting policies (continued)

(q) Income tax (continued)

(ii) Deferred taxes

Deferred tax are recognized on temporary differences between the amounts of assets and liabilities recognized in the financial statements and the amounts used for taxation purposes. Deferred tax are not recognized for:

- temporary differences on initial recognition of assets and liabilities in a transaction that is not a business combination and that affects profit or loss, neither accounting nor taxable;
- temporary differences relating to investments in subsidiaries and jointly controlled entities, as much as the Bank can control in time the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

Deferred tax assets shall be recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and reduced as long as future profits are unlikely to be realized and such rebates are restored when the probability of future taxable profits improves.

In the determination of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may have been due. The Bank believes that the accruals for taxation liabilities are adequate for all open tax years based on the assessment of many factors, including interpretations of tax law and prior experience. This assessment is based on estimates and assumptions and may involve judgments about future events. It is possible new information becomes available whereby the Bank to change its judgment on the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax is measured at the tax rates expected to apply to temporary differences when they occur back, based on laws that were in force or were essentially the reporting date.

The deferred tax assets and liabilities are compensated only if there is a legal basis for deduction of current tax assets and liabilities, and they relate to income taxes imposed by the same taxation authority.

(r) Staff benefits

(i) Short-term employee benefits

Payables for short-term employee benefits are recognized as an expense when related services are provided. A liability is recognized for the amount that is expected to be paid if the Bank has a legal or constructive obligation to pay that amount as a result of past service provided by an employee and the liability can be measured reliably.

(ii) Defined contribution plans

Contributions to defined contribution plans include contributions to government institutions and statutory pension funds managed by private management companies according to legal requirements or individual choice. The obligation to transfer contributions to defined contribution plans is recognized as an expense when the related services are provided.

5. Significant accounting policies (continued)

(r) Staff benefits (continued)

(ii) Defined payment plans (continued)

The Bank's obligation for defined benefit plans is limited to the statutory requirements for paying employees between two and six months of retirement depending on their length of service. The amount of the liability that the employee will receive is determined by his remuneration in previous and current periods, this amount being discounted at an appropriate discount rate, which represents the yield of bonds that have an appropriate credit rating and a maturity approximating the term of the Bank's obligation; which are denominated in the currency of the liability.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected credit unit method. The Bank sets the net interest rate on the net defined benefit obligation net of the defined benefit plan using the discount rate used at the beginning of the period to discount the liability to a net defined benefit plan liability.

Revaluations arising from defined benefit plans are actuarial gains and losses that are recognized in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(s) Assets acquired from collateral

Assets acquired from collateral are reported at their lower cost and net realizable value. Costs include costs of acquiring the asset, state fees for private enforcement agents, etc.

Net realizable value is the presumed selling price less the estimated costs necessary to realize the sale.

(t) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for its annual reporting period beginning on 1 January 2022:

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018-2020 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)

Amendment to IFRS 4 Insurance Contracts - deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021)

Amendment to IFRS 16 Leases - COVID-19-Related Rent Concessions (issued on 31.03.2021 and effective for annual periods beginning on or after 1 April 2021)

All changes in the adopted standards have no impact on the amounts recognized in prior periods and are not expected to have a significant impact on current or future periods.

(u) New standards and interpretations which have not yet been applied by Bank

Certain new accounting standards and explanations have been published as non-mandatory for the reporting period as at 31 December 2022 and have not been previously adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below.

5. Significant accounting policies (continued)

(u) New standards and interpretations which have not yet been applied by Bank (continued)

Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)

Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction(issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)

IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023); **including Amendments to IFRS 17 and Amendments to IFRS 4 Insurance Contracts** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023)

Amendment to IFRS 17: Transition option to insurers applying IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023)

There are no other standards that are not yet adopted and which are expected to have a significant impact on the Bank during the current or future reporting period as well as in prospective future transactions.

(x) New standards, clarifications and amendments not yet adopted by the EU

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current — Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 and 31 October 2022 respectively and effective for annual periods beginning on or after 1 January 2024)

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024)

6. Disclosure of the financial risk management policy

(a) Introduction and general

The Bank is exposed to the following types of risk in its operations with financial instruments:

- credit risk
- liquidity risk
- market risk
- compliance with capital adequacy requirements.

This appendix provides information about the Bank's exposures to each of the financial risks, the Bank's purposes, policies, and processes to measure and manage these risks.

6. Disclosure of the financial risk management policy (continued)

(a) Introduction and general (continued)

General provisions of risk management

The Management Board is responsible for the preparation and implementation of the Bank's risk management general position. The Management Board selects the Asset and Liability Management Committee and the Risk Committee (RICO), which are responsible for the preparation and monitoring of the Bank's risk management policies in their specific areas.
The Bank's risk management policies are designed to identify and analyze the risks faced by the Bank to provide appropriate risk and control limits and to observe compliance with these limits. The policies and systems for risk management are reviewed periodically in order to reflect changes on the market conditions, products and services offered.

The Specialized Internal Audit Service division monitors whether applied risk management policies are in compliance with the Bank's risk management policies, and also the extent to which the general principles of management match the acceptable risk for management.

(b) Credit Risk

When performing commercial operations, credit and investment activity, and also in cases where it plays the role of an intermediary on behalf of clients or other organizations and in its capacity as guarantor, Allianz Bank Bulgaria AD is exposed to credit risk.

Concentration of credit risk arises mainly depending on the sector of activity and the type of clients. There is also a risk of significant concentration of credit risk on financial instruments in counterparties with similar economic characteristics for the Bank, and therefore changes in economic and other conditions would have a similar effect on their ability to meet their contractual obligations.

Credit risk management

The Management Board of the Bank delegates the responsibility for managing the credit risk of the Executive Officers of the Bank, Credit Risk Division, Risk Control and Reporting Division, Non-Performing Loans Division, Large Corporate and International Clients Directorate, Corporate Banking Division, Retail Banking Division, Sales Control Division and the Bank’s Credit Board.

The Management Board of the Bank formulates credit policies with the support of business units, taking into account the collateral, credit risk, valuation and legal requirements for documentary and legal justification. The Bank's Management Board determines the amount of competence to approve and renew credit transactions. Credit Risk Division prepares an opinion with a credit risk assessment for all credit exposures that exceed certain limits.

After issuing a credit risk assessment opinion, credits are submitted for review and approval by the bank's competent authority.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk management (continued)

Qualitative assessment is based on evaluation of indicators such as company history and ownership, management, credit history, professional experience, sectoral analysis, environmental assessment, etc. The Bank implements specialized software (Litis-POD) to generate a behavioral scoring model based on the borrower's credit history for corporate clients and individuals. Behavioral scoring is prepared for every individual and legal entity. As a factor in the specialized software of the bank was implemented the internal corporate rating model (MicroCap) and application scoring (Critesis).

The application rating is established based on a quantitative assessment (financial scoring) and a qualitative assessment of the borrower and his/her related persons. Financial scoring is calculated based on the latest available annual financial statements and calculation of the main financial ratios for the respective reporting period.

The Risk Control and Reporting Department performs "back testing" of the impairment model at least once a year. The distribution, the significance of the Kolmogorov-Smirnov coefficient and the Gini coefficient, as well as the achieved levels of default rates, are compared with the predictions (limits of the rating intervals). Any change in the structure of the model that results in a change in the individual credit ratings of the borrowers is approved by the Bank's RICO.

The Bank has implemented a dedicated Product Delivery System (PD) that covers the entire business process of the Retail Banking business, from the submission of the loan application, the processing of the request, the decision making, the signing of the loan agreement to the loan utilization. The system is designed to have separate modules for each product (mortgage loans, consumer credits, credit cards, etc.), with a separate set of indicators for each module. The system calculates a rating for credit risk assessment.

The Bank's Management board approves at the beginning of each calendar year and reviews the concentration of exposures by credit programs, sectors, sectors, types of clients, loan amount, maturity, etc., as well as issuers, credit rating, liquidity and state (for investment securities books).

The Credit Risk, Monitoring and Provisioning Department and the Restructuring - Centralization Department are responsible for managing the Bank's credit risk in respect of the review, assessment and classification of the Bank's risk exposures, depending on the allowed delay of due liabilities, according to the terms set in the Bank legislation and assessment of the debtor's financial condition and the sources of payment of his obligations, focusing the management's attention on the risk under consideration.

The Credit Risk, Monitoring and Provisioning Department performs a periodic review of the compliance of the business centers / financial centers with their credit limits, in compliance with the Bank's Rules and Procedures for Credit Activity. Periodic reports on the results of inspections and the quality of local portfolios are provided to the Executive Directors of the Bank. The Bank carries out ongoing monitoring, including an analysis of the debtor's financial position, depending on the amount of the total credit exposure of the borrower and the related parties, as follows: at least once a year for all exposures and extraordinary monitoring in case of risk change.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk management (continued)

The bank monitors the value of accepted collateral real estate periodically - for commercial real estate at least once a year, and for residential real estate once every three years. The Bank also monitors more frequently when significant changes occur in market conditions. Accepted collateral for risk exposures in default are reassessed at least once a year. The collateral is revalued by an independent valuer by determining net realizable value. For loans exceeding EUR 3 million or 5% of the Bank 's equity, the valuation of real estate is subject to review by a valuer at least once per year.

The Bank classifies the risk exposures according to the degree of credit risk in the following classification groups, in accordance with the adopted "Provisioning policy" - servicing exposures and default risk exposures.

The Credit Board approves for corporate exposures from BGN 1 million to BGN 4 million and for exposures in the business line retail banking from BGN 500 thousand to BGN 4 million, as well as restructuring of exposures over BGN 250 thousand.

Serviced exposures

A risk exposure is classified as serviced if it meets the following conditions at the same time: the principal and interest are paid in accordance with the terms of the contract or with a delay of up to 90 days and there is no recorded default event.

Defaulting risk exposures

It is considered that a default has occurred in respect of a particular debtor where at least one of the following conditions is met:

a) It is unlikely that the borrower will pay his/her credit liabilities to the Bank in full without taking of actions by the Bank, e.g. Realization of collateral, regardless of the size of overdue payment and days overdue;
b) the borrower is over 90 days overdue for a substantial part of his/her credit liability to the Bank.

The classification of the risk groups is as follows:

“Regular" are risk exposures on loans and other receivables that are serviced and for which the debtor's financial statements do not give reason to doubt that he will fully settle his obligations.

“Under Supervision" exposures are risk exposures on loans and other receivables where there are minor breaches in their servicing or there is a possibility for a deterioration in the debtor's financial condition that may call into question the full repayment of the obligation.

Non-performing exposures are risk exposures on loans and other receivables where there are significant breaches in their service, or there is evidence that the debtor's financial position is not stable, its current and expected receipts are insufficient to fully pay off its debts to the Bank and to other creditors, as well as when there are identified weaknesses with a clear possibility for the Bank to suffer a loss.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk management (continued)

Defaulting risk exposures (continued)

The classification of the risk groups is as follows (continued)

“Loss" exposures are risk exposures where, owing to a deterioration in the financial condition of the obligor, it is probable that its liabilities will become irrecoverable, even though they have a partial recoverable amount that can be realized in the future.

Risk exposures in default are classified as "non-performing" and "loss". The Bank assesses individually all individually significant risk exposures in default. If a debtor has more than one exposure, the highest risk class is assigned to all of his exposures.

Credit risk analysis

The table below provides information on maximum exposure to credit risk.

Credit risk exposure

In BGN thousand	**App.**	**2022**	**2021**
Cash and cash equivalents (excluding cash at hand)	16	920,900	909,936
Financial assets at fair value through profit and loss (excl. equity instruments)	17	1	1
Loans and advances to banks	18	64,154	9,753
Financial assets reported at fair value through other comprehensive income (excl. equity instruments)	19.1	151,895	365,033
Financial assets at amortized cost	19.2	842,663	633,413
Loans and advances to clients	20	1,922,564	1,622,880
incl. Cash pool		*9,405*	*9,405*
Total book value of the credit risk		**3,902,177**	**3,541,016**
Off-balance sheet commitments			
Unutilized overdrafts and credit lines		222,196	181,845
Guarantees		45,927	43,281
Letters of credit		4,966	9,486
Total off-balance sheet commitments	**34**	**273,089**	**234,612**
Total credit risk exposure		**4,175,266**	**3,775,628**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

The table below provides information on the distribution of loans in the loan portfolio of Allianz Bank Bulgaria AD by type of loan for each of the products offered by the Bank. Securities and promissory notes are not included in the collateral.

Loan type	**Consumer loans**	**Mortgage loans**	**Corporate loans and loans to SMEs**	**Financial Institutions**	**Total net carrying amount**
Unsecured Loans	373,366	4,473	115,633	815	494,287
Loans secured by:	42,622	740,547	695,571	40,608	1,519,348
Residential Properties	48	717,734	81,783	-	799,565
Commercial properties	-	22,051	246,116	3,568	271,735
Cash	2,641	12	4,831	-	7,484
Other collateral	39,933	750	362,841	37,040	440,564
Total loans at 31.12.2022	**415,988**	**745,020**	**811,204**	**41,423**	**2,013,635**

Loan type	**Consumer loans**	**Mortgage loans**	**Corporate loans and loans to SMEs**	**Financial Institutions**	**Total net carrying amount**
Unsecured Loans	307,040	2,430	78,192	536	388,198
Loans secured by:	43,210	635,555	605,736	37,950	1,322,451
Residential Properties	-	612,353	62,137	-	674,490
Commercial properties	-	21,945	207,021	6,326	235,292
Cash	1,377	38	6,241	-	7,656
Other collateral	41,833	1,219	330,337	31,624	405,013
Total loans at 31.12.2021	**350,250**	**637,985**	**683,928**	**38,486**	**1,710,649**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

The analysis of loans and advances to customers, banks and other financial institutions and investment securities classified by risk is presented below:

In BGN thousand	Loans and advances to clients (App. 20)		Loans and advances to banks (App. 18)		Investment securities (excluding equity instruments) (App. 19)		Off-balance sheet commitments (App. 34)	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Regular	1,767,678	1,561,423	9,783	9,754	991,333	998,445	47,686	50,472
Under supervision	193,699	101,637	-	-	10,009	-	3,295	2,266
Non-performing	52,258	56,994	-	-	-	-	474	1,011
Total	**2,013,635**	**1,720,054**	**9,783**	**9,754**	**1,001,342**	**998,445**	**51,455**	**53,749**
Impairment losses	(91,071)	(97,174)	(1)	(1)	(6,784)	(790)	(562)	(982)
Carrying amount	**1,922,564**	**1,622,880**	**9,782**	**9,753**	**994,558**	**997,655**	**50,893**	**52,767**
W/o arrears or impairment								
Regular	1,767,678	1,561,423	9,783	9,754	991,333	998,445	47,686	50,472
Under supervision	193,699	101,637	-	-	10,009	-	3,295	2,266
including restructured	*46,157*	*2,808*	-	-	-	-	-	-
	1,961,377	**1,663,060**	**9,783**	**9,754**	**1,001,342**	**998,445**	**50,981**	**52,738**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

In BGN thousand	**Loans and advances to clients**		**Loans and advances to banks**		**Investment securities (excluding equity instruments)**		**Off-balance sheet commitments**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Individually impaired								
Non-performing	19,139	16,683	-	-	-	-	-	-
Loss	31,981	39,425	-	-	-	-	474	1,011
including restructured	*18,937*	*22,944*	-	-	-	-	-	-
	51,120	**56,108**	**-**	**-**	**-**	**-**	**474**	**1,011**
Overdue, but not impaired								
1≤ 30 days	912	592	-	-	-	-	-	-
> 30 days ≤ 60 days	100	254	-	-	-	-	-	-
> 60 days ≤ 90 days	126	40	-	-	-	-	-	-
> 90 days ≤ 180 days	-	-	-	-	-	-	-	-
> 180 days	-	-	-	-	-	-	-	-
including restructured	*213*	*251*	-	-	-	-	-	-
	1,138	**886**	**-**	**-**	**-**	**-**	**-**	**-**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

In BGN thousand	**Loans and advances to clients**		**Loans and advances to banks**		**Investment securities (excluding equity instruments)**		**Off-balance sheet commitments**	
Impairment losses	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Individually impaired	(47,374)	(52,036)	(1)	(1)	(6,784)	-	(23)	(548)
Collectively impaired	(43,697)	(45,138)	-	-	-	-	(539)	(434)
	(91,071)	**(97,174)**	**(1)**	**(1)**	**(6,784)**	**-**	**(562)**	**(982)**

Credit analysis and customer advances for 2022, by type of loan, classified by Phases is presented below:

Loan type	**Mortgage loans**	**Consumer loans**	**Credit cards individuals**	**Other loans**	**Working capital loans**	**Investment loans**	**Credit cards entities**	**Total**
Phase 1 (Regular)	681,105	257,351	6,501	71,040	485,117	266,290	273	1,767,677
Phase 2 (Under supervision)	36,710	16,028	1,452	47,143	47,821	44,477	69	193,700
Phase 3 (Non-performing)	27,205	14,803	553	1,916	6,162	1,560	59	52,258
Total Gross value before impairment	**745,020**	**288,182**	**8,506**	**120,099**	**539,100**	**312,327**	**401**	**2,013,635**
Phase 1 (Regular)	4,112	2,260	33	832	7,486	4,703	5	19,431
Phase 2 (Under supervision)	3,458	1,319	32	1,639	7,934	9,881	3	24,266
Phase 3 (Non-performing)	23,310	14,618	551	1,916	5,390	1,530	59	47,374
Impairment losses	**30,880**	**18,197**	**616**	**4,387**	**20,810**	**16,114**	**67**	**91,071**
Carrying amount	**714,140**	**269,985**	**7,890**	**115,712**	**518,290**	**296,213**	**334**	**1,922,564**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Loan type	Mortgage loans	Consumer loans	Credit cards individuals	Other loans	Working capital loans	Investment loans	Credit cards entities	Total
W/o arrears or impairment	**719,973**	**273,479**	**7,955**	**118,183**	**533,022**	**310,767**	**342**	**1,963,721**
Phase 1 (Regular)	681,105	257,351	6,501	71,040	485,117	266,290	273	1,767,677
Phase 2 (Under supervision)	36,710	16,028	1,452	47,143	47,821	44,477	69	193,700
Phase 3 (Non-performing)	2,158	100	2	-	84	-	-	2,344
including restructured	*1,148*	*34*	-	*19,637*	*25,919*	-	-	*46,738*
Individually impaired	**23,985**	**14,627**	**551**	**1,916**	**6,078**	**1,560**	**59**	**48,776**
Phase 3 (Non-performing)	23,985	14,627	551	1,916	6,078	1,560	59	48,776
including restructured	*13,454*	*1,770*	-	*93*	*2,240*	*788*	*11*	*18,356*
Overdue, but not impaired	**1,062**	**76**	**-**	**-**	**-**	**-**	**-**	**1,138**
1≤ 30 days	852	60	-	-	-	-	-	912
> 30 days ≤ 60 days	92	8	-	-	-	-	-	100
> 60 days ≤ 90 days	118	8	-	-	-	-	-	126
> 90 days ≤ 180 days	-	-	-	-	-	-	-	-
> 180 days	-	-	-	-	-	-	-	-
including restructured	*213*	-	-	-	-	-	-	*213*
	745,020	**288,182**	**8,506**	**120,099**	**539,100**	**312,327**	**401**	**2,013,635**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Loan type	Mortgage loans	Consumer loans	Credit cards individuals	Other loans	Working capital loans	Investment loans	Credit cards entities	Total
Impairment losses	**30,880**	**18,197**	**616**	**4,387**	**20,810**	**16,114**	**67**	**91,071**
Individually impaired	**23,309**	**14,618**	**551**	**1,916**	**5,390**	**1,530**	**59**	**47,373**
Collectively impaired	**7,571**	**3,579**	**65**	**2,472**	**15,420**	**14,584**	**7**	**43,698**
	714,140	**269,985**	**7,890**	**115,712**	**518,290**	**296,213**	**334**	**1,922,564**

Credit analysis and customer advances for 2021, by type of loan, classified by Phases is presented below:

Loan type	Mortgage loans	Consumer loans	Credit cards individuals	Other loans	Working capital loans	Investment loans	Credit cards entities	Total
Phase 1 (Regular)	577,296	217,386	6,545	70,528	417,219	272,211	237	1,561,422
Phase 2 (Under supervision)	29,826	15,486	1,608	21,876	20,682	12,122	38	101,638
Phase 3 (Non-performing)	30,863	14,205	620	2,531	6,924	1,718	133	56,994
Total Gross value before impairment	**637,985**	**247,077**	**8,773**	**94,935**	**444,825**	**286,051**	**408**	**1,720,054**
Phase 1 (Regular)	5,848	2,569	37	575	13,181	12,498	4	34,712
Phase 2 (Under supervision)	4,027	1,534	40	1,533	1,431	1,860	1	10,426
Phase 3 (Non-performing)	26,355	13,973	615	2,531	6,705	1,724	133	52,036
Impairment losses	**36,230**	**18,076**	**692**	**4,639**	**21,317**	**16,082**	**138**	**97,174**
Carrying amount	**601,755**	**229,001**	**8,081**	**90,296**	**423,508**	**269,969**	**270**	**1,622,880**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Loan type	Mortgage loans	Consumer loans	Credit cards individuals	Other loans	Working capital loans	Investment loans	Credit cards entities	Total
W/o arrears or impairment	**609,706**	**232,984**	**8,159**	**92,404**	**437,901**	**284,333**	**275**	**1,665,762**
Phase 1 (Regular)	577,296	217,386	6,545	70,528	417,219	272,211	237	1,561,422
Phase 2 (Under supervision)	29,826	15,486	1,608	21,876	20,682	12,122	38	101,638
Phase 3 (Non-performing)	2,584	112	6	-	-	-	-	2,702
including restructured	*1,402*	*116*	-	*15*	*329*	*1,531*	-	*3,393*
Individually impaired	**27,449**	**14,037**	**614**	**2,531**	**6,924**	**1,718**	**133**	**53,406**
Phase 3 (Non-performing)	27,449	14,037	614	2,531	6,924	1,718	133	53,406
including restructured	*16,679*	*1,656*	-	*36*	*2,928*	*1,050*	*10*	*22,359*
Overdue, but not impaired	**830**	**56**	**-**	**-**	**-**	**-**	**-**	**886**
1≤ 30 days	569	23	-	-	-	-	-	592
> 30 days ≤ 60 days	223	31	-	-	-	-	-	254
> 60 days ≤ 90 days	38	2	-	-	-	-	-	40
> 90 days ≤ 180 days	-	-	-	-	-	-	-	-
> 180 days	-	-	-	-	-	-	-	-
including restructured	*251*	-	-	-	-	-	-	*251*
	637,985	**247,077**	**8,773**	**94,935**	**444,825**	**286,051**	**408**	**1,720,054**
Impairment losses	**36,230**	**18,076**	**692**	**4,639**	**21,317**	**16,082**	**138**	**97,174**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Loan type	Mortgage loans	Consumer loans	Credit cards individuals	Other loans	Working capital loans	Investment loans	Credit cards entities	Total
Individually impaired	**26,355**	**13,973**	**615**	**2,531**	**6,705**	**1,724**	**133**	**52,036**
Collectively impaired	**9,875**	**4,103**	**77**	**2,108**	**14,612**	**14,358**	**5**	**45,138**
	601,755	**229,001**	**8,081**	**90,296**	**423,508**	**269,969**	**270**	**1,622,880**

The analysis of loans and advances to customers for 2022 (cash pool and factoring receivables are not included in the analysis) in Phase 1 according to the internal rating assessment is presented below:

Gross book value:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	1,950	-	-	**1,950**
A	-	-	-	-	654	-	-	**654**
BBB+	-	-	-	-	-	-	-	**-**
BBB	-	-	-	-	19,608	5	-	**19,613**
BBB-	-	1,617	6,943	177	-	236	29	**9,002**
BB+	-	2,559	18,939	1,656	206	856	12	**24,228**
BB	24	4,574	44,098	1,441	4,894	2,179	1,150	**58,360**
BB-	28	58,601	42,727	821	10,344	6,431	14,319	**133,271**
B+	0	44,773	496,662	2,191	75,642	209,784	11,072	**840,124**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Gross book value (continued):

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
B	119	128,397	61,268	386	170,250	24,582	38,802	**423,804**
B-	(9)	21,500	6,828	16	31,521	6,170	5,227	**71,253**
CCC+	-	360	2,620	48	9,525	5,247	267	**18,067**
CCC	-	3,909	939	24	13,948	1,661	-	**20,481**
CCC-	-	-	57	14	-	196	-	**267**
CC	-	-	24	-	-	2	-	**26**
Total	**162**	**266,290**	**681,105**	**6,774**	**338,542**	**257,349**	**70,878**	**1,621,100**

Expected credit loss:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	-	-	-	**-**
A	-	-	-	-	-	-	-	**-**
BBB+	-	-	-	-	-	-	-	**-**
BBB	-	-	-	-	19	-	-	**19**
BBB-	-	2	4	-	-	-	-	**6**
BB+	-	5	21	3	-	1	-	**30**
BB	-	13	84	4	15	5	1	**122**
BB-	-	307	135	3	61	25	24	**555**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Expected credit loss (continued):

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
B+	-	614	2,832	16	678	1,433	30	**5,603**
B	1	2,860	814	7	4,267	399	722	**9,070**
B-	-	660	123	0	973	145	52	**1,953**
CCC+	-	13	64	2	467	173	3	**722**
CCC	-	231	32	1	854	76	-	**1,194**
CCC-	-	-	2	1	-	2	-	**5**
CC	-	-	1	-	-	-	-	**1**
Total	**1**	**4,705**	**4,112**	**37**	**7,334**	**2,259**	**832**	**19,280**
Carrying amount	**161**	**261,585**	**676,993**	**6,737**	**331,208**	**255,090**	**70,046**	**1,601,820**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

The analysis of loans and advances to customers for 2021 (cash pool and factoring receivables are not included in the analysis) in Phase 1 according to the internal rating assessment is presented below:

Gross book value:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	1,960	-	-	**1,960**
A	-	-	-	-	616	-	-	**616**
BBB+	-	-	-	-	-	-	-	**-**
BBB	-	-	-	-	-	4	-	**4**
BBB-	-	2,305	9,239	200	19,619	625	-	**31,988**
BB+	-	2,120	16,612	1,824	9,960	1,823	416	**32,755**
BB	42	8,103	34,279	1,507	7,062	4,252	587	**55,832**
BB-	68	75,130	51,147	876	6,362	9,751	5,491	**148,825**
B+	47	65,058	382,408	1,936	67,334	158,998	17,789	**693,570**
B	213	68,703	70,201	328	119,685	27,358	42,914	**329,402**
B-	13	47,576	8,932	24	56,340	7,943	1,706	**122,534**
CCC+	-	725	3,189	40	18,010	4,637	53	**26,654**
CCC	-	2,491	1,036	33	12,976	1,749	28	**18,313**
CCC-	-	-	137	14	40	236	1,161	**1,588**
CC	-	-	116	-	-	10	-	**126**
Total	**383**	**272,211**	**577,296**	**6,782**	**319,964**	**217,386**	**70,145**	**1,464,167**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Expected credit loss:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	-	-	-	**-**
A	-	-	-	-	-	-	-	**-**
BBB+	-	-	-	-	-	-	-	**-**
BBB	-	-	-	-	-	-	-	**-**
BBB-	-	3	10	-	20	-	-	**33**
BB+	-	25	28	3	10	3	13	**82**
BB	-	36	126	4	27	12	10	**215**
BB-	-	516	380	4	40	49	17	**1,006**
B+	-	776	3,223	18	771	1,424	64	**6,276**
B	1	2,612	1,402	7	2,641	528	318	**7,509**
B-	-	8,338	357	1	7,977	235	119	**17,027**
CCC+	-	31	195	2	880	199	-	**1,307**
CCC	-	161	112	2	712	105	-	**1,092**
CCC-	-	-	7	-	3	12	33	**55**
CC	-	-	8	-	-	2	-	**10**
Total	**1**	**12,498**	**5,848**	**41**	**13,081**	**2,569**	**574**	**34,612**
Carrying amount	**382**	**259,713**	**571,448**	**6,741**	**306,883**	**214,817**	**69,571**	**1,429,555**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Expected credit loss (continued)

IFRS 9 replaces the model of “occurred loss” in IAS 39 with the model of “expected credit loss” (ECL). This will require substantial judgment on the way changes in economic factors are reflected in ECL.

The impairment model applies to the following financial assets which are not measured at FVPL:

- financial assets comprising debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts (before impairment was determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Evaluation of ECL

ECL is the probability-weighted estimated credit loss and will be determined as follows:

- *financial assets that do not have credit impairment at the reporting date:* the present value of the entire cash deficit - i.e.. the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive;
- *financial assets that have credit impairment at the reporting date:* the difference between the gross carrying amount and the present value of the expected future cash flows;
- *unutilized credit commitments:* the present value of the difference between the contractual cash flows payable to the Bank if the commitment is utilized and the cash flows that the Bank expects to receive.

The full description of the estimates and the method of estimating the expected credit loss are described in item 5, (e), (ii).

W/o arrears or impairment

Loans without arrears or impairment are serviced exposures that have no objective impairment indicators and for which the Bank allocates collective provisions for losses incurred but unrecorded at the exposure level. For the purpose of monitoring, the Bank groups the risk exposures on a portfolio basis in separate sub-portfolios on the basis of similar characteristics, according to their type, purpose and risk profile. The Bank considers exposures subject to collective impairment for unrated exposures.

Individually impaired

Individually impaired loans are those for which the Bank considers that it will not be able to collect all principal and interest under the contractual terms of the transaction.

Overdue, but not impaired

Loans where the agreed principal and / or interest are overdue, but the Bank considers that it is not necessary to set aside uncollectible impairment on the basis of the collateral available or the collection stage of the amounts owed by the borrower.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Restructured loans

Restructured loans are risk exposures whose original terms of the agreement have been altered by the Bank's concession to the debtor, caused by a deterioration in the latter's financial condition, leading to the inability to repay the full amount of the debt, which concessions the Bank would not consider in other circumstances.

A concession means any of the following actions:

(a) modification of the previous duration and contractual terms, which the borrower is not able to comply with due to his/her financial difficulties ("problematic debt") leading to an inability to service the debt, whereas such modifications would not have been made, had the debtor not experienced financial difficulties;

(b) Full or partial refinancing of a problematic debt contract that would not have been provided to a debtor if he had no financial difficulties.

The concession may lead to a loss for the Bank.

Exposures are not treated as exposures with renegotiated terms when the Bank has reason to believe that it will collect principal and interest and there are no circumstances showing a deterioration in the debtor's financial position.

The table below presents an analysis of gross and net (after deduction of impairment losses) carrying amounts of the individually impaired assets by risk groups:

	Loans and advances to clients		
In BGN thousand	**Gross**	**Net**	**% of impairment**
2022			
Non-performing	20,068	3,935	80%
Loss	32,190	949	97%
Total	**52,258**	**4,884**	**91%**
2021			
Non-performing	39,845	1,174	97%
Loss	17,149	3,784	78%
Total	**56,994**	**4,958**	**91%**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Restructured loans (continued)

The table below shows the amounts of derecognized loans and advances to customers:

In BGN thousand	**2022**	**2021**
Derecognized loans	4,656	645
Impairment losses	(4,656)	(645)
Value after impairment	**-**	**-**

The table below presents an analysis of restructured loans and advances to customers as of 31.12.2022 and 31.12.2021:

In BGN thousand	**2022**	**2021**
Restructured loans and advances to clients	65,307	26,003
Impairment losses	(30,722)	(22,786)
Carrying amount	**34,585**	**3,217**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

			Provisions				**Gross book value**	
Loans	**Phase 1**	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1.01.2022	**34,712**	**10,426**	**52,036**	**97,174**	**1,561,423**	**101,637**	**56,994**	**1,720,054**
Changes that affected the provisioning expense over the period	*(15,281)*	*13,840*	*(4,662)*	***(6,103)***	*206,255*	*92,062*	*(4,736)*	***293,581***
Changes due to migration from Phase 1 to Phase 2	(14,447)	14,447	-	**-**	(120,167)	120,167	-	**-**
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(42)	(955)	997	**-**	(4,020)	(4,589)	8,609	**-**
Changes due to migration from Phase 2 and Phase 3 to Phase 1	692	(156)	(536)	-	4,219	(3,683)	(536)	-
Increases due to occurrence and acquisition	9,104	6,499	12,170	**27,773**	788,872	32,186	6,360	**827,418**
Decrease of the correction due to derecognition	-	-	(4,656)	**(4,656)**	-	-	(4,656)	**(4,656)**
Changes in accrued interest	-	-	-	**-**	-	-	-	**-**
Changes due to repayments	(10,588)	(5,995)	(12,637)	**(29,220)**	(462,649)	(52,019)	(14,513)	**(529,181)**
Movements with an impact on loan provision for the period 31.12.2022	**19,431**	**24,266**	**47,374**	**91,071**	**1,767,678**	**193,699**	**52,258**	**2,013,635**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

			Provisions			**Gross book value**		
Loans	**Phase 1**	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1.01.2021	**27,952**	**8,329**	**45,690**	**81,971**	**1,482,615**	**85,158**	**61,864**	**1,629,637**
Changes that affected the provisioning expense over the period	*6,760*	*2,097*	*6,346*	***15,203***	*78,808*	*16,479*	*(4,870)*	***90,417***
Changes due to migration from Phase 1 to Phase 2	(386)	386	-	**-**	(31,366)	31,366	-	**-**
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(90)	(686)	776	**-**	(3,563)	(4,358)	7,921	**-**
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	666	(666)	**-**	308	846	(1,154)	**-**
Increases due to occurrence and acquisition	13,225	5,272	18,492	**36,989**	553,010	18,525	5,223	**576,758**
Decrease of the correction due to derecognition	-	-	(645)	**(645)**	-	-	(645)	**(645)**
Changes in accrued interest	-	-	-	**-**	-	-	-	**-**
Changes due to repayments	(5,989)	(3,541)	(11,611)	**(21,141)**	(439,581)	(29,900)	(16,215)	**(485,696)**
Movements with an impact on loan provision for the period 31.12.2021	**34,712**	**10,426**	**52,036**	**97,174**	**1,561,423**	**101,637**	**56,994**	**1,720,054**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Financial guarantees	**Phase 1**	**Phase 2**	**Phase 3**	**Total provisions**	**Gross book value**
Provisions for financial guarantees as at 01.01.2022	**386**	**48**	**548**	**982**	**53,749**
Changes that affected the provisioning expense for financial guarantees over the period	(44)	149	(525)	**(420)**	(2,294)
Transfer					
Changes due to migration from Phase 1 to Phase 2	(6)	6	-	**-**	979
Changes due to migration from Phase 1 and Phase 2 to Phase 3	-	-	-	**-**	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	**-**	-
Guarantees issued and change in ECL without Phase change	124	165	-	**289**	19,119
Change from tax depreciation	-	-	-	**-**	-
Changes due to modification without derecognition	-	-	-	**-**	-
Changes due to updating the institution's valuation methodology	-	-	-	**-**	-
Decrease of the correction due to derecognition	-	-	-	**-**	-
Changes resulting from cancellation of bank guarantees or change in ECL without Phase change	(162)	(22)	(525)	**(709)**	(22,392)
Total cost of provisions on financial guarantees	**(44)**	**149**	**(525)**	**(420)**	**(2,294)**
Provisions for financial guarantees as at 31.12.2022	**342**	**197**	**23**	**562**	**51,455**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Financial guarantees	**Phase 1**	**Phase 2**	**Phase 3**	**Total provisions**	**Gross book value**
Provisions for financial guarantees as at 01.01.2021	**621**	**28**	**65**	**714**	**49,472**
Changes that affected the provisioning expense for financial guarantees over the period	(235)	20	483	**268**	4,277
Transfer					
Changes due to migration from Phase 1 to Phase 2	(1)	1	-	**-**	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(3)	-	3	**-**	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	**-**	-
Guarantees issued and change in ECL without Phase change	286	27	519	**832**	31,946
Change from tax depreciation	-	-	-	**-**	-
Changes due to modification without derecognition	-	-	-	**-**	-
Changes due to updating the institution's valuation methodology	-	-	-	**-**	-
Decrease of the correction due to derecognition	-	-	-	**-**	-
Changes resulting from cancellation of bank guarantees or change in ECL without Phase change	(517)	(8)	(39)	**(564)**	(27,669)
Total cost of provisions on financial guarantees	**(235)**	**20**	**483**	**268**	**4,277**
Provisions for financial guarantees as at 31.12.2021	**386**	**48**	**548**	**982**	**53,749**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

				Provisions				**Credit commitments**
	Phase 1	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1.01.2022	**1,650**	**103**	**1,284**	**3,037**	**134,552**	**5,724**	**1,294**	**141,570**
Changes that affected the provisioning expense over the period	1,065	228	(542)	**751**	74,156	10,801	(542)	**84,415**
Changes due to migration from Phase 1 to Phase 2	(36)	36	-	**-**	(4,495)	4,495	-	**-**
Changes due to migration from Phase 1 and Phase 2 to Phase 3	-	-	1	**1**	(81)	(33)	114	**-**
Changes due to migration from Phase 2 and Phase 3 to Phase 1	2	(2)	-	**-**	143	(143)	-	**-**
Increases due to occurrence and acquisition	2,090	277	249	**2,616**	128,508	8,907	174	**137,589**
Changes due to modification without derecognition	-	-	-	-	-	-	-	**-**
Changes due to updating the institution's valuation methodology	-	-	-	-	-	-	-	**-**
Decrease of the correction due to derecognition	-	-	-	-	-	-	-	**-**
Changes in accrued interest	-	-	-	-	-	-	-	**-**
Changes due to repayments	(991)	(83)	(792)	**(1,866)**	(49,919)	(2,425)	(830)	**(53,174)**
Movements with an impact on loan provision for the period	**2,715**	**331**	**742**	**3,788**	**208,708**	**16,525**	**752**	**225,985**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

	Phase 1	Phase 2	Phase 3	Provisions Total	Phase 1	Phase 2	Phase 3	Credit commitments Total
1.01.2021	**1,322**	**228**	**617**	**2,167**	**110,143**	**9,239**	**694**	**120,076**
Changes that affected the provisioning expense over the period	328	(125)	667	**870**	24,409	(3,515)	600	**21,494**
Changes due to migration from Phase 1 to Phase 2	(53)	52	1	**-**	(2,692)	2,692	-	**-**
Changes due to migration from Phase 1 and Phase 2 to Phase 3	-	-		**-**	(71)	(33)	104	**-**
Changes due to migration from Phase 2 and Phase 3 to Phase 1	5	31	(36)	**-**	50	29	(79)	**-**
Increases due to occurrence and acquisition	1,131	41	872	**2,044**	73,847	1,684	860	**76,391**
Changes due to modification without derecognition	-	-	-	-	-	-	-	**-**
Changes due to updating the institution's valuation methodology	-	-	-	-	-	-	-	**-**
Decrease of the correction due to derecognition	-	-	-	-	-	-	-	**-**
Changes in accrued interest	-	-	-	-	-	-	-	**-**
Changes due to repayments	(755)	(249)	(170)	**(1,174)**	(46,725)	(7,887)	(285)	**(54,897)**
Movements with an impact on loan provision for the period	**1,650**	**103**	**1,284**	**3,037**	**134,552**	**5,724**	**1,294**	**141,570**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

The table below presents the concentration of credit risk by economic sectors:

In BGN thousand	**2022**	**2021**
Concentration by sector		
State government	22,303	25,412
Administrative and auxiliary activities	54,387	2,741
Operations with Real Estate	59,730	60,014
Manufacturing	170,874	71,296
Production and distribution of electricity and heat energy	70,347	71,284
Professional activities and research	8,988	4,797
Agriculture, forestry and fishery	68,339	60,529
Construction	32,541	19,823
Creation and dissemination of information and creative products; telecommunications	2,266	2,245
Transport, storage and mail	17,476	8,881
Trade, repair of motor vehicles and motorcycles	203,232	247,744
Financial and insurance services	73,382	82,454
Hospitality and restaurant business	63,365	61,264
Other	5,397	13,335
	852,627	**731,819**
Loans to the population		
Mortgage	745,020	637,985
Consumer	415,988	350,250
	1,161,008	**988,235**
Impairment losses	(91,071)	(97,174)
	1,922,564	**1,622,880**

Collateral and other credit facilities

The Bank's policy includes consideration of the need to provide collateral before granting approved loans. The degree of collateral of each specific risk exposure is established against the amount of collateral accepted by the Bank for the application of specific security margins.

Collaterals on loans, guarantees and letters of credit, excluding credit cards, include cash, property, plant and equipment, exchange-traded government securities, or other property, a pledge of receivables, a pledge of a commercial enterprise, and others.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Collateral and other credit facilities (continued)

The Bank holds collateral and other credit facilities against certain credit exposures. The table below lists the major types of collateral held against different types of financial assets.

		Percentage of the exposure subject to an agreement requiring collateral	
Credit exposure type	**Main type of collateral**	**2022**	**2021**
Loans and advances to banks			
Sale and redemption agreements	Tradeable securities	100	100
Loans and advances to individuals			
Home loans	Residential Properties	100	100
Consumer lending	Guarantee, pledge of receivables originating from salary and other remuneration	100	100
Credit cards	None	-	-
Loans and advances to corporate clients			
Other lending to corporate clients	Commercial property, Commercial property rights	100	100

The Bank requires valuers to measure net realizable value, which is the sale price of the asset on a liquid market, less the additional costs directly associated with the realization (sale) of the asset.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Collateral and other credit facilities (continued)

The table below shows the total amount before deduction of impairment of loans and advances to customers provided by the Bank:

In BGN thousand	**2022**	**2021**
Cash	**7,484**	**7,656**
Regular	6,900	7,179
Under supervision	278	213
Non-performing	201	239
Loss	105	25
Mortgage on Real Estate	**1,071,300**	**909,782**
Regular	927,155	821,955
Under supervision	113,088	52,220
Non-performing	10,850	9,159
Loss	20,207	26,448
Other collateral	**440,564**	**405,013**
Regular	421,525	385,603
Under supervision	13,583	13,396
Non-performing	2,866	1,853
Loss	2,590	4,161
Secured loans	**1,519,348**	**1,322,451**
Unsecured loans	**494,287**	**397,603**
Total loans and advances to clients	**2,013,635**	**1,720,054**

Other collateral includes pledges on current assets - inventories, receivables from third parties as well as bets on commercial enterprises.

Mortgage lending (individuals and corporate clients)

The tables below provide credit exposures from mortgage loans and advances to customers - corporate clients and corporate clients - depending on the value of the loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross loan amount (or the corresponding amount of credit commitment) to the value of the collateral. Gross value does not include accrued impairment. The valuation of the collateral includes future costs for the acquisition and realization of the collateral. The value of mortgage collateral is based on the latest valuation made by an independent expert assessor.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

Mortgage lending (individuals and corporate clients) (continued)

In BGN thousand	**2022**	**2021**
Loan to value (LTV) ratio		
Less than 50%	351,703	326,364
51% to 70%	359,546	276,299
71% to 90%	273,986	271,998
91% to 100%	52,831	12,936
More than 100%	69,585	43,540
Total	**1,107,651**	**931,137**

As at 31 December 2022, the book value of the assets acquired from collaterals - real estate amounts to BGN 232 thousand (as at 31 December 2021: BGN 331 thousand).

Financial assets at fair value through profit and loss

Below is an analysis of the credit quality of financial assets measured at fair value through profit or loss based on ratings of Standard & Poor's rating agency:

In BGN thousand	**2022**	**2021**
Corporate bonds		
No rating	2	2
Compensatory instruments		
No rating	1	1
	3	**3**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

he tables below set out the financial assets of the Bank by country of registration of the issuer at 31 December 2022 and 31 December 2021. (excluding capital instruments)

2022

In BGN thousand	**Bulgaria**	**Netherlands**	**Romania**	**USA**	**Total**
Financial assets at fair value through profit and loss					
Compensatory instruments	1	-	-	-	1
	1	-	-	-	**1**
Financial assets reported at fair value through other comprehensive income					
Government securities	103,086	-	24,249	15,819	143,154
Corporate bonds	-	8,741	-	-	8,741
	103,086	**8,741**	**24,249**	**15,819**	**151,895**
Financial assets measured at amortized cost					
Government securities	789,856	-	34,897	17,910	842,663
	789,856	**-**	**34,897**	**17,910**	**842,663**
Total	**892,943**	**8,741**	**59,146**	**33,729**	**994,559**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit Risk analysis (continued)

2021

In BGN thousand	**Bulgaria**	**Netherlands**	**Spain**	**Poland**	**Romania**	**Croatia**	**USA**	**Total**
Financial assets at fair value through profit and loss								
Compensatory instruments	1	-	-	-	-	-	-	1
	1	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Financial assets reported at fair value through other comprehensive income								
Government securities	228,795	-	31,600	-	55,141	5,079	33,565	354,180
Corporate bonds	-	8,883	-	1,969	-	-	-	10,852
	228,795	**8,883**	**31,600**	**1,969**	**55,141**	**5,079**	**33,565**	**365,032**
Financial assets measured at amortized cost								
Government securities	598,209	-	9,809	-	11,130	14,265	-	633,413
Corporate bonds	-	-	-	-	-	-	-	-
	598,209	**-**	**9,809**	**-**	**11,130**	**14,265**	**-**	**633,413**
Total	**827,005**	**8,883**	**41,409**	**1,969**	**66,271**	**19,344**	**33,565**	**998,446**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic

During the reporting period the Bank's activity was affected by the global COVID-19 pandemic as a result of the measures and recommendations taken in previous periods by regulatory authorities, such as changes in prudential requirements that continued in 2022, temporary suspension of payment of dividends, changing the postponement of monthly installments for loans meeting certain conditions and providing guarantees and public guarantees for companies and individuals or terminating the already approved measures for debt rescheduling, as well as any changes related to the reduced impact of the COVID- 19 on economic activity, thereby affecting the Bank's activities.

The unprecedented blow dealt by COVID-19, both at EU level and globally, initially led to a sudden shutdown of economic activity and a sharp deterioration in the short-term economic outlook. To mitigate the impact on the economy, the Government of the Republic of Bulgaria implemented a number of support measures such as a loan moratorium, state-guaranteed loans and programs for the unemployed and for SMEs. The application of the moratorium on payments continued until March 2021 with the end date of the effect for some of the borrowers 31.12.2021. The measures complemented the monetary policy and prudential actions taken by the ECB and EU supervisory authorities.

As a result of high lending activity and uncertainty regarding the development of the economic environment, the BNB Governing Council increased the level of the countercyclical capital buffer applicable to credit risk exposures in the Republic of Bulgaria to 1.5% effective 1 January 2023, based on of assessment under Art. 5, para. 3 and para. 4 of Ordinance No. 8 of the BNB on Capital Buffers, the Combined Buffer Requirement, Restrictions on Allocations and the Recommendation for Additional Equity.

In connection with the continuing uncertainty and the challenges related to the economic effects of the spread of COVID-19 and the imposed restrictive measures, the Governing Council of the Bulgarian National Bank (BNB) decided to maintain the macroprudential measure to capitalize the full profit of banks for 2020.

Since the beginning of the COVID-19 crisis, the Bank has taken the necessary security and business continuity measures to ensure the sustainability of banking operations and to support its customers and employees, such as:

- establishing adequate control measures regarding the spread of infection in the workplace, which include a system of measures to reduce the transmission of infection and training of employees;
- activation of contingency plans, which include pandemic scenarios and which provide for measures for the specific Phases of pandemic development;
- an assessment of how quickly the measures provided for in the pandemic emergency scenario can be implemented and how long the Bank's operations can be maintained in such a scenario;
- remote working and other flexible working conditions for employees to ensure business continuity;
- assessment and testing of the capacity of the existing IT infrastructure, also in the light of the potential increase in cyber attacks and the potential greater dependence on remote banking services;

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

- assessment of the risks of increased fraud related to cybersecurity, aimed at both customers and the Bank through phishing emails, etc.;
- entering into a dialogue with service providers in order to ensure the continuity of services in the event of a pandemic;
- a moratorium on payments under loan contracts to clients affected by the crisis, as an effective tool in the short-term liquidity difficulties of bank customers.

In connection with the COVID-19 pandemic and in pursuance of the Guidelines of the European Banking Authority (EBA), the decisions of the Bulgarian National Bank and the Association of Bulgarian Banks (ABB) on legislative and private moratoriums on payments under loan contracts applied by In view of the crisis caused by COVID-19, Allianz Bank AD has decided to join the established conditions for a private moratorium on payments and develop an operational plan, which helps in a balanced way to preserve the interests of its customers by continuing to provides high quality leasing services. The Bank offered its clients facilitation mechanisms for servicing the regular exposures of its borrowers affected by the measures related to the COVID-19 pandemic, following the decisions of the European Banking Authority (EBA), the Bulgarian National Bank and the Association of Banks in Bulgaria (ABB).

On 11 December 2020, the Governing Council of the Bulgarian National Bank (BNB) pursuant to Art. 16, item 20 of the BNB Act and Art. 79a, para. 3 of the Credit Institutions Act approved the extension of the validity proposed by the Association of Banks in Bulgaria until 31 March 2021 of the adopted "Procedure for deferral and settlement of due liabilities to banks and their subsidiaries - financial institutions in connection with the state of emergency, introduced on 13.03.2020 by the National Assembly, arising from the COVID-19 pandemic ", which is a private moratorium within the meaning of the Guidelines voted by the European Banking Authority (EBA) - EBA / GL / 2020/15 amending Guideline EBA / GL / 2020/02 on legislative and private moratoriums on credit payments in view of the crisis caused by COVID-19.

The changes are related to:

- extension of the deadline for submission of a request by clients of the banks for deferral of liabilities and their approval by the banks - until 30 September 2020;
- extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021;
- extension of the deferral procedure applies to exposures for which no deferral has been requested before 22 June 2020;

In connection with the pandemic of COVID-19, Allianz Bank Bulgaria AD, based on a letter from the Bulgarian National Bank with ref. № BNB-34578 / 03.04.2020 and pursuant to the Guidelines of the European Banking Authority of 2 April 2020 - Guidelines on legislative and non-legislative moratorium on loan repayments applied in light of the COVID-19 crisis (EBA / GL / 2020/02), as amended by EBA Guidelines (EBA / GL / 2020/08 of 25 June 2020) amending Guideline EBA / GL / 2020/02 and by EBA Guidelines (EBA / GL / 2020/15) of 2 December 2020) amending Guideline EBA / GL / 2020/02, offered its clients the following general options for deferral and settlement of liabilities:

- deadline for submission of a request by clients of the banks for deferral of liabilities – until 23 March 2021;
- the deadline for approval of these requests by the banks - until 31 March 2021;
- deadline for deferral of liabilities of bank customers - until 31 December 2021, no more than 9 months;

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

- introduction of a requirement that the obligations subject to the moratorium were regular or overdue for less than 90 days as of the date of submission of the request for rescheduling;
- introduction of the possibility for the obligations for which a request for deferment was submitted before 30 September 2020 to be able to be additionally deferred, as the total period of all deferrals does not exceed 9 months.

The table below provides information on the distribution of loans with applied measured under the moratorium in the loan portfolio of Allianz Bank Bulgaria AD by Phases within the meaning of IFRS 9, for each of the products offered by the Bank as at 31 December 2022 and 2021.

In BGN thousand **Loan type**	**2022** **Mortgage loans Moratorium**	**Consumer loans Moratorium**	**Other loans**	**Working capital loans Moratorium**	**Investment loans Moratorium**	**Total**
COVID19 Phase 1 (Regular)	15,345	1,760	625	1,326	14,654	33,710
COVID19 Phase 2 (Under supervision)	4,190	674	1,742	21,763	27,953	56,322
COVID19 Phase 3 (Non-performing)	5,411	1,222	584	-	139	7,356
Total gross value before impairment COVID-19	**24,946**	**3,656**	**2,951**	**23,089**	**42,746**	**97,388**
COVID19 Phase 1 (Regular) Impairment	(122)	(29)	(4)	(36)	(295)	(486)
COVID19 Phase 2 (Under supervision) Impairment	(314)	(55)	(26)	(5,834)	(6,730)	(12,959)
COVID19 Phase 3 (Regular) Impairment	(4,265)	(1,222)	(584)	-	(139)	(6,210)
COVID19 Total losses from impairment	**(4,701)**	**(1,306)**	**(614)**	**(5,870)**	**(7,164)**	**(19,655)**
COVID19 Phase 1 (Regular) additional impairment (Management Overlay)	-	-	(464)	(515)	(229)	(1,208)
COVID19 Phase 2 (Under supervision) additional impairment(Management Overlay)	(247)	(308)	(825)	(1,465)	(1,501)	(4,346)
COVID19 Losses from additional impairment (Management Overlay)	**(247)**	**(308)**	**(1,289)**	**(1,980)**	**(1,730)**	**(5,554)**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

In BGN thousand Loan type (continued)	2022 Mortgage loans Moratorium	Consumer loans Moratorium	Other loans	Working capital loans Moratorium	Investment loans Moratorium	Total
COVID19 Phase 1 (Regular) Impairment	(122)	(29)	(468)	(551)	(524)	(1,694)
COVID19 Phase 2 (Regular) Impairment	(561)	(363)	(851)	(7,299)	(8,231)	(17,305)
COVID19 Phase 3 (Regular) Impairment	(4,265)	(1,222)	(584)	-	(139)	(6,210)
COVID19 Total losses from impairment	**(4,948)**	**(1,614)**	**(1.903)**	**(7,850)**	**(8,894)**	**(25,209)**
Total net carrying amount as at 31 December 2022	**19,998**	**2,042**	**1,048**	**15,239**	**33,852**	**72,179**

In BGN thousand Loan type	2021 Mortgage loans Moratorium	Consumer loans Moratorium	Other loans	Working capital loans Moratorium	Investment loans Moratorium	Total
COVID19 Phase 1 (Regular)	19,463	2,880	610	22,449	51,066	96,468
COVID19 Phase 2 (Under supervision)	6,162	1,120	2,913	1,589	4,130	15,914
COVID19 Phase 3 (Non-performing)	5,816	1,321	1,244	-	360	8,741
Total gross value before impairment COVID-19	**31,441**	**5,321**	**4,767**	**24,038**	**55,556**	**121,123**
COVID19 Phase 1 (Regular) Impairment	(170)	(51)	(5)	(757)	(1,347)	(2,330)
COVID19 Phase 2 (Under supervision) Impairment	(498)	(111)	(52)	(92)	(244)	(997)
COVID19 Phase 3 (Regular) Impairment	(4,699)	(1,321)	(1,244)	-	(360)	(7,624)
COVID19 Total losses from impairment	**(5,367)**	**(1,483)**	**(1,301)**	**(849)**	**(1,951)**	**(10,951)**
COVID19 Phase 1 (Regular) additional impairment (Management Overlay)	(1,497)	(190)	(158)	(6,087)	(8,045)	(15,977)
COVID19 Phase 2 (Under supervision) additional impairment(Management Overlay)	(1,049)	(467)	(1,169)	(785)	(1,087)	(4,557)

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

In BGN thousand **Loan type (continued)**	**2021** **Mortgage loans Moratorium**	**Consumer loans Moratorium**	**Other loans**	**Working capital loans Moratorium**	**Investment loans Moratorium**	**Total**
COVID19 Losses from additional impairment (Management Overlay)	**(2,546)**	**(657)**	**(1,327)**	**(6,872)**	**(9,132)**	**(20,534)**
COVID19 Phase 1 (Regular) Impairment	(1,667)	(241)	(163)	(6,844)	(9,392)	(18,307)
COVID19 Phase 2 (Regular) Impairment	(1,547)	(578)	(1,221)	(877)	(1,331)	(5,554)
COVID19 Phase 3 (Regular) Impairment	(4,699)	(1,321)	(1,244)	-	(360)	(7,624)
COVID19 Total losses from impairment	**(7,913)**	**(2,140)**	**(2,628)**	**(7,721)**	**(11,083)**	**(31,485)**
Total net carrying amount as at 31 December 2021	**23,528**	**3,181**	**2,139**	**16,317**	**44,473**	**89,638**

The distribution of loans by residual term of the moratorium measures is presented in the following table:

In BGN thousand	**2022** **Out of which: Expired**	**Total**
COVID19 Phase 1 (Regular)	33,710	33,710
COVID19 Phase 2 (Under supervision)	56,322	56,322
COVID19 Phase 3 (Non-performing)	7,356	7,356
Total gross value before impairment COVID19	**97,388**	**97,388**
COVID19 Phase 1 (Regular) Impairment	(1,694)	(1,694)
COVID19 Phase 2 (Under supervision) Impairment	(17,305)	(17,305)
COVID19 Phase 3 (Regular) Impairment	(6,210)	(6,210)
COVID19 Total losses from impairment	**(25,209)**	**(25,209)**
Net carrying value COVID19	**72,179**	**72,179**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

In BGN thousand	**2021**	
	Out of which: Expired	**Total**
COVID19 Phase 1 (Regular)	96,468	96,468
COVID19 Phase 2 (Under supervision)	15,914	15,914
COVID19 Phase 3 (Non-performing)	8,741	8,741
Total gross value before impairment COVID19	**121,123**	**121,123**
COVID19 Phase 1 (Regular) Impairment	(18,307)	(18,307)
COVID19 Phase 2 (Under supervision) Impairment	(5,554)	(5,554)
COVID19 Phase 3 (Regular) Impairment	(7,624)	(7,624)
COVID19 Total losses from impairment	**(31,485)**	**(31,485)**
Net carrying value COVID19	**89,638**	**89,638**

Operational plan for implementation of the measures for deferral and settlement of liabilities

The Management Board and the Supervisory Board of the Bank perform adequate supervision over the critical elements of credit risk management, including the following:

- Review of risk-taking standards, risk appetite framework and strategy in realistic macroeconomic scenarios;
- Adequate monitoring and analysis of all changes in the prudential and accounting frameworks;
- Appropriate delegation of competencies and powers to experts and working groups in the Bank for dealing with the impact of the COVID-19 crisis.

In order to ensure a disciplined and effective division of responsibilities in the processes of providing loans, monitoring, restructuring and loan collection processes, an adequate organizational structure has been approved to ensure that activities allocated to individual functions and roles in the first and the second line of defense to achieve a rapid response to the COVID-19 pandemic.

The following departments have been established under the Risk Management Division:

- Risk Control and Reporting Department with Credit Risk, Monitoring and Provisioning Section, which is responsible for monitoring the credit exposures and the Bank's portfolio;
- Credit Risk Department with competencies to approve new transactions;
- Non-Performing Loans Department with the Negotiation and Restructuring Section with competencies to take decisions for renegotiation and restructuring of the Bank's credit exposures.

The measure (s) granted by the Bank under the approved mechanisms for deferral and settlement of debtors' obligations subject to a moratorium on payments do not automatically lead to the reclassification of exposures as exposures with restructuring measures, the classification being considered on a case-by-case basis in accordance with Article 47b of Regulation (EU) № 575/2013.

For the purposes of Article 178 (1) (b) of Regulation (EU) № 575/2013 and in accordance with Article 178 (2) (e) of that Regulation, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium. Similarly, for the purposes of Article 47a (3) (c) of Regulation (EU) № 575/2013, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)

During the moratorium period, the Bank assesses the potential probability of default of debtors covered by the moratorium in accordance with the policies and practices it applies to such assessments, including when they are based on automatic checks for signs of default.

When performing individual assessments of individual debtors, the Bank gives priority to the assessment of debtors for whom the consequences of the COVID-19 pandemic are likely to lead to long-term financial difficulties or insolvency. The Bank assesses the probability of default on the basis of the most up-to-date payment plan resulting from the application of the overall moratorium on payments.

In assessing the probability of default, the Bank takes into account all additional support measures provided that may affect the creditworthiness of the debtor:

- consumer loans to individuals under the BDB Program for guaranteeing interest-free loans to help people deprived of the opportunity to work due to the pandemic of COVID-19 and
- granting / renegotiating loans under the Portfolio Guarantee Program in support of the liquidity of micro, small and medium enterprises (SMEs) affected by the emergency situation and the epidemic of COVID-19 of the Bulgarian Development Bank AD.

Any form of credit risk mitigation, including through guarantees from Bulgarian Development Bank AD, does not affect the results of the assessment of the potential probability of default by borrowers who have benefited from the moratorium after its expiration. When the borrower has other exposures to the Bank that are not subject to a moratorium, the Bank takes into account the impact and results of these exposures in assessing the lessee's ability to comply with the terms of payment after the moratorium expires.

The Bank assesses the potential probability of default by borrowers who have benefited from the moratorium and their related parties, after its expiration, in the following cases:

- Before granting new loans to debtors benefited from the moratorium on the basis of individual assessment;
- Before renegotiating / restructuring existing obligations of debtors benefiting from the moratorium, subject to a moratorium on payments based on individual assessment;
- Monthly on the basis of a systematic inspection during the moratorium;
- At least once a year after submission of the financial statements during the annual review of the debtor and its related parties on the basis of individual assessment;
- After the expiration of the moratorium measure based on a systematic and individual assessment.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)

The Bank performs an individual assessment of the probability of default in respect of individual debtors after the end of the moratorium in the following cases:

- where debtors delay payment by more than 30 days within 12 months of the end of the moratorium;
- where restructuring measures are applied to a debtor for whom a moratorium rescheduling has been applied after the expiry of the moratorium;

In addition to the above cases, an extraordinary individual assessment is carried out after the end of the moratorium in the following cases:

- the client's exposure is over BGN 500.000;
- The exposure is included in the list for monitoring;
- the customer's rating results in a Phase 3 classification within the meaning of IFRS 9.

Indicators of probability of default

The Bank recognizes exposures as probable of default and identifies indications of probable default in accordance with Section 5 of the EBA Guidelines on the application of the default definition. In assessing the probability of default, the Bank , in accordance with Annex V to Commission Implementing Regulation (EU) No. 680/2014, shall consider at least the following rebuttable circumstances:

- Delay of more than 30 days during the moratorium or up to 12 months thereafter;
- The debtor's internal rating indicates default;
- Implement restructuring measures within 12 months after the moratorium expires;
- Overdue for more than 90 days for any credit exposure of the debtor or related parties;
- Existence of another non-performing exposure of the debtor and / or a related party with restructuring measures, according to Regulation (EU) № 680/2014;
- The debtor has another exposure classified as impaired;
- The debtor has been declared in liquidation / bankruptcy.

Measuring expected credit loss (ECL)

The changes caused by the COVID-19 crisis require the Bank to provide adequate assessment of its exposures and measurement of expected credit loss (ECL). The future effects of the current economic situation and the measures taken are difficult to predict, and management's current expectations and assessments may differ from actual results.

For the purpose of measuring expected credit loss (ECL), the Bank applies factors such as forward-looking information (FLI), including forecasts for macroeconomic variables. As with any economic forecast, forecasts and the probability of their occurrence are subject to a high degree of inherent uncertainty and therefore actual results may differ significantly from those forecast.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Macroeconomic forecasts for the purposes of IFRS 9

The COVID-19 pandemic has created uncertainty about the macroeconomic outlook, having a direct impact on corporate credit risk, particularly on expected credit losses under IFRS 9. In the beginning of the pandemic, this situation was expected to cause a severe recession, followed by an economic recovery, without reaching pre-crisis GDP levels in the short term. This situation led accounting authorities and banking supervision to take measures to mitigate the effects of the crisis on the calculation of expected credit losses under IFRS 9.

The common denominator of all these recommendations is to increase the weight of long-term macroeconomic projections in the calculation of expected losses, given the difficulty of establishing a reliable macroeconomic projection , the transitory nature of the economic shock and the need to include the effect of mitigation measures.

In 2022, after the most critical phase of the pandemic has ended, the projected information included in the calculation of expected losses is in line with the macroeconomic perspectives published by the Bulgarian National Bank (BNB) and the European Central Bank (ECB). The Bank bases its forecasts on regularly published macroeconomic forecasts of the European Central Bank (ECB) and the Bulgarian National Bank (BNB) without using only long-term averages. In this way, it achieves the right balance between avoiding excessive pro-cyclicality, while at the same time the risks it faces are adequately reflected in the reports and models.

The most important macroeconomic variables assessed in relation to forward-looking information (FLI) as of 31 December 2022 are as follows:

Macroeconomic variable	Baseline scenario	Pessimistic scenario	Optimistic scenario
Annual GDP growth	0.80	(2.5)	1.7
Annual unemployment growth	4.8	7.9	4.5
Harmonized consumer price index	6.6	9.4	4.1
Euribor3m	2.9	3.5	2.9

The Bank has adopted a conservative approach and its input risk parameters and models are in line with the observed significant deterioration of the economic environment. Model results show higher levels of probability of default (PD) than those underlying the current observed migrations resulting from the COVID-19 pandemic.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Macroeconomic forecasts for the purposes of IFRS 9 (continued)

Notwithstanding the measures taken related to COVID-19, in connection with the annual review and updating of risk parameters and models, the Bank has taken the following actions:

- The Bank has updated the documentation related to the rating models that it uses to calculate the probability of default (PD), and has explicitly defined the targets for each of the variables through which it monitors the strength of the model.
- As at 31.12. 2021, the Bank has made the necessary changes to the models so as to ensure the effectiveness of the models by expanding the test set and by updating with the latest data, using training sets (for a 5-year period from 28/11/2015 to 30/11/2021), examining the behavior of the debtors of the Bank until 30/11/2022. All changes have been made and integrated into the systems of the Bank. The results of the new models are documented in the PD methodology.
- An internal methodology has been developed based on observations of the portfolio of Allianz Bank Bulgaria AD. Based on this methodology, the current values for Lifetime PD were calculated.
  As at 31/12/2022 the Bank has updated the models for calculating the risk parameters: forward-looking information (FLI), loss given default (LGD) and credit conversion factor (CCF). In connection with the assessment of the adequacy of the models, an analysis of the series of data was made, including for stationarity, autocorrelation, error, stability, prediction accuracy tests. The changes in the models are documented.

Pessimistic scenarios are included with the greatest weight in the models for calculating forward-looking information (FLI) for probability of default (PD), loss given default (LGD) and credit conversion factor (CCF). The balanced distribution of the alternative scenarios around the baseline scenario set in the ECB forecasts is achieved through the established models.

Weighing the scenarios for calculating forward-looking information (FLI):

	Optimistic scenario	Baseline scenario	Pessimistic scenario
2023	20%	17%	63%
2024	11%	16%	73%

Weighing scenarios for calculating loss given default (LGDs):

	Optimistic scenario	Baseline scenario	Pessimistic scenario
2023	0%	2%	98%
2024	0%	5%	95%

Weighing scenarios for calculating credit conversion factor (CCF):

	Optimistic scenario	Baseline scenario	Pessimistic scenario
2023	15%	12%	73%
2024	17%	15%	68%

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

<u>*Assessment of the significant increase in credit risk*</u>

The Bank adequately assesses all risk parameters in order to correctly reflect the increased credit risk, both for the purposes of risk-weighted assets and for the purposes of calculating impairment provisions. To this end, the Bank considers the effects of COVID-19 and related mitigation measures (such as government guarantees and moratoriums) in the process of determining the ratings of each client and quantifying the risk parameter, in accordance with regulatory requirements and approved models and processes, and complying with the requirements of Regulation (EU) 529/2014.

Any change in each component or variable of the PD model implies an assessment of the materiality of the change in the model and approval by the relevant competent authorities of the Bank. In line with the significant deterioration of the economic environment, the granting of payment moratoriums does not lead to improvements in the values of risk indicators compared to those observed before COVID-19.

For moratoriums that do not meet EBA requirements, the restructuring measure is a factor that participates in the model and leads to the award of the most negative rating D (PD 100%) for those classified in Phase 3 or the deterioration of the rating and application of lifetime PD as a result of the Phase 2 classification.

The moratorium on payments in relation to COVID-19, which allows, requires or encourages the suspension or delay of payments, is not considered an automatic trigger to trigger estimates of significant increase in credit risk (SICR). The significant increase in credit risk is identified at the earliest possible stage, in practice as soon as the moratorium measure is granted, regardless of the rating system's assessment.

Based on a decision of the Bank's Management Board, the Bank released „Management Overlays“ provisions in the amount of BGN 3,984 thousand for all exposures meeting the following criteria:

a. Exposures are classified as Phase 1 or Phase 2, “performing exposures” as at 31.12.2022.
b. No delay over 90 days has occurred for the debtor's exposure from the date of application of the moratorium measures until 31.12.2022.
c. There is no probability of default.
d. The exposures meet all the criteria to be classified as “performing exposures”.
e. In addition to the moratorium measures, no restructuring measures have been applied.

The table below presents information on the origin of the movement between the Phases within the meaning of IFRS 9 for loans with provided measures under the moratorium in the credit portfolio of Allianz Bank Bulgaria AD for 2022 and 2021.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

	Provisions				**Gross book value**			
Loans	**Phase 1**	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1.01.2022	**18,307**	**5,554**	**7,624**	**31,485**	**96,468**	**15,914**	**8,741**	**121,123**
Changes that affected the provisioning expense over the period	(16,613)	11,751	(1,414)	**(6,276)**	(62,758)	40,408	(1,385)	**(23,735)**
Changes due to migration from Phase 1 to Phase 2	(13,840)	13,840	-	**-**	(46,410)	46,410	-	**-**
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(7)	(668)	675	**-**	(393)	(1,256)	1,649	**-**
Changes due to migration from Phase 2 and Phase 3 to Phase 1	105	(35)	(70)	-	704	(634)	(70)	-
Increases due to occurrence and acquisition	-	100	653	**753**	1,928	1,515	-	**3,443**
Increases due to COVID19 Losses from additional impairment (Management Overlay)	1,139	2,550	-	**3,689**	-	-	-	**-**
- Changes due to repayments	(4,010)	(4,036)	(2,672)	**(10,718)**	(18,587)	(5,627)	(2,964)	**(27,178)**
31.12.2022	**1,694**	**17,305**	**6,210**	**25,209**	**33,710**	**56,322**	**7,356**	**97,388**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

	Provisions				Gross book value			
Loans	**Phase 1**	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1.01.2021	**14,724**	**3,744**	**7,415**	**25,883**	**116,440**	**18,842**	**9,789**	**145,071**
Changes that affected the provisioning expense over the period	3,583	1,810	209	**5,602**	(19,972)	(2,928)	(1,048)	**(23,948)**
Changes due to migration from Phase 1 to Phase 2	(111)	111	-	**-**	(2,633)	2,633	-	**-**
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(42)	(317)	359	**-**	(399)	(1,051)	1,450	**-**
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	-	-	-	-	-
Increases due to occurrence and acquisition	3,713	1,115	1,881	**6,709**	1,011	1,082	18	**2,111**
Increases due to COVID19 Losses from additional impairment (Management Overlay)	2,449	2 132	-	**4,581**		-	-	-
- Changes due to repayments	(2,426)	(1,231)	(2,031)	**(5,688)**	(17,951)	(5,592)	(2,516)	**(26,059)**
31.12.2021	**18,307**	**5,554**	**7,624**	**31,485**	**96,468**	**15,914**	**8,741**	**121,123**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

In BGN thousand	**2022**			
	Gross value before impairment COVID-19	**COVID-19 Total losses from impairment**	**Management Overlays**	**Total**
COVID-19 Phase 1 (Regular)	33,710	(486)	(1,208)	(1,694)
COVID-19 Phase 2 (Under supervision)	56,322	(12,960)	(4,345)	(17,305)
Total	**90,032**	**(13,446)**	**(5,553)**	**(18,999)**

In BGN thousand	**2021**			
	Gross value before impairment COVID-19	**COVID-19 Total losses from impairment**	**Management Overlays**	**Total**
COVID-19 Phase 1 (Regular)	96,468	(2,330)	(15,977)	(18,307)
COVID-19 Phase 2 (Under supervision)	15,914	(997)	(4,557)	(5,554)
Total	**112,382**	**(3,327)**	**(20,534)**	**(23,861)**

The Bank applies a conservative approach to the Phase-shift triggers within the meaning of IFRS 9, defined on the basis of each deterioration with one grade to which the corresponding absolute PD corresponds. The Bank has not introduced higher relative thresholds for switching between Phases for debtors with higher PDs or lower ratings. Phase transfer rules have not changed as a result of the COVID-19 pandemic, i.e. in the event of occurrence or more variable rating migrations.

The Bank takes into account IFRS 9.5.5.11. and considers that all COVID-19 exposures overdue for more than 30 days have undergone a significant increase in credit risk and charges them for Phase 3 provisions.

In addition to the statistics in accordance with IFRS 9.B5.18, the Bank also uses qualitative information to determine which exposures require expected lifelong losses to be recognized.

The information used for this purpose is in line with the impairment triggers used in monitoring clients and portfolios and also includes elements such as the restructuring measure applied, increased indebtedness, payment volatility and violation of lending policies. In this regard, the Bank has adopted an operational plan for assessing the probability of default.

In connection with the requirements of IFRS 9.B5.5.17 (f) and IAS 9.B5.5.17 (i) the Bank performs a sector analysis, thus taking into account any adverse changes in the borrower's business, financial and economic environment. The Bank has in mind that borrowers are affected (directly or indirectly) by the coronavirus pandemic (COVID-19) to varying degrees, depending on their sector. In this respect, macroeconomic information and / or the adverse business impact on specific sectors may in themselves indicate that there is a significant increase in credit risk for adversely affected exposures.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

The Bank may make a transfer to Phase 2 only due to these specific circumstances, unless there is more detailed information to indicate that the exposures may still remain in Phase l.

In BGN thousand **2022**

Concentration by sector of COVID-19 exposures	**Gross value before impairment COVID-19**	**COVID-19 Total losses from impairment**	**COVID-19 Losses from additional impairment (Management Overlay)**
State government	-	-	-
Administrative and auxiliary activities	1,042	39	1,003
Operations with Real Estate	6,364	182	-
Manufacturing	1,393	100	-
Production and distribution of electricity and heat energy	-	-	-
Professional activities and research	331	7	144
Agriculture, forestry and fishery	191	8	-
Construction	-	-	-
Creation and dissemination of information and creative products; telecommunications	4	-	-
Transport, storage and mail	594	8	-
Trade, repair of motor vehicles and motorcycles	6,141	309	2,522
Financial and insurance services	42	1	41
Hospitality and restaurant business	48,981	12,363	-
Other	752	17	-
	65,835	**13,034**	**3,710**
Loans to the population			
Mortgage	24,946	4,701	247
Consumer	6,607	1,920	1,597
	31,553	**6,621**	**1,844**
Total	**97,388**	**19,655**	**5,554**

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

In BGN thousand	**2021**		
Concentration by sector of COVID-19 exposures	**Gross value before impairment COVID-19**	**COVID-19 Total losses from impairment**	**COVID-19 Losses from additional impairment (Management Overlay)**
State government	-	-	-
Administrative and auxiliary activities	-	-	-
Operations with Real Estate	7,059	198	1,043
Manufacturing	3,694	191	22
Production and distribution of electricity and heat energy	2,417	14	35
Professional activities and research	211	8	-
Agriculture, forestry and fishery	391	31	-
Construction	200	133	-
Creation and dissemination of information and creative products; telecommunications	14	-	-
Transport, storage and mail	781	15	43
Trade, repair of motor vehicles and motorcycles	7,965	365	2,070
Financial and insurance services	67	1	-
Hospitality and restaurant business	55,837	1,762	12,757
Other	5,725	1,383	1,361
	84,361	**4,101**	**17,331**
Loans to the population			
Mortgage	31,441	5,367	2,546
Consumer	5,321	1,483	657
	36,762	**6,850**	**3,203**
Total	**121,123**	**10,951**	**20,534**

The Bank has performed the relevant analyzes, from which it is necessary to conclude that the adverse effects arising from the business, financial and economic environment do not affect the entire portfolio. Allianz bank Bulgaria AD applies analytical approaches to systematically determine which parts of the portfolio have not undergone a significant increase in credit risk. The assessments are supported by the individual ratings of each debtor.

Restructuring measures that are not in line with the EBA guidelines on the payment moratorium lead to a transfer to at least Phase 2. Based on the technical criteria: Defaulted Flag, number of restructuring measures, overdue status, the Bank assigns each exposure to a pre-defined risk classification group.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Financial assets - modification

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and recognizes a profit or loss on modification in profit or loss.

The gross carrying amount of a financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or the credit loss-adjusted effective interest rate for purchased or initially created financial impairment assets), or, where applicable, the revised effective interest rate calculated in accordance with paragraph 6.5.10 of IFRS 9.

In a situation where the renegotiation is due to financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the initial and revised expected cash flows with the assets whether the risks and rewards of the asset are significantly different as a result of contract modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition.

The moratoriums on payment granted by the Bank in response to the COVID-19 pandemic are treated as contractual modifications of the respective loan and advance agreements. Their impact on gross carrying amount (loss from modification) is presented in profit or loss.

If the modified terms are materially different, the rights to cash flows from the original asset expire the Bank derecognizes the original financial asset and recognizes a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for the purposes of the subsequent calculation of impairment, including the determination of whether a significant increase in credit risk (SICR) has occurred.

The Bank also assesses whether the new loan or debt instrument meets the criteria for the SPPI test - solely payment of principal and interest on the outstanding principal amount.

Any difference between the carrying amount of the original asset derecognized and fair value of the new substantially modified asset is recognized in profit or loss.

Measures taken by the Management in connection with overcoming the crisis situation:

In accordance with the measures taken by the Government of the country and the Governing Council of the Bulgarian National Bank, the Bank's Management has taken a number of actions and measures related to:

- Organization for ensuring the continuity of services and processes;
- Working conditions and a safe environment tailored to the situation, with a focus on healthy and safe working conditions;
- Communication and monitoring of the status of the situation with COVID-19;
- Information technology and infrastructure;
- Customer service and compliance;
- Key indicators for the performance and results of the Bank have been defined.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Measures to mitigate the effects of the crisis and protect business

- Introduction of credit limits for certain sectors, industries and products;
- Identification of critical business activities and alternative substitutes;
- Credit risk coverage measures - supervisory regulations, daily monitoring of early signals of deterioration, monitoring of sources for loan repayment, monitoring of defined critical indicators in the loan portfolio, collateral and additional analyzes;
- Measures to cover market risk - strict monitoring, calculation of "Value at risk", stress tests, asset and liability management;
- Active communication with clients with exposures larger than BGN 500,000, pending operational and liquidity problems.

Credit risk analysis in connection with Russia's invasion of Ukraine

Despite the positive assessment related to the effects of COVID-19, the Bank has assessed other factors, such as the crisis caused by Russia's invasion of Ukraine, that need to be taken into account and evaluated. The recovery associated with the waning pandemic has been delayed by Russian aggression in Ukraine. Russia’s invasion contributed to high inflation and negative sentiment about the economic outlook, leading to heightened risks in financial markets everywhere.

The economic and financial impact of the invasion was felt globally, alongside the enormous humanitarian consequences. Prices in energy and commodity markets rose to record highs. Production and logistics costs have increased and household purchasing power has dropped.

After a long period of very low inflation and interest rates, interest rates are rising in response to high inflation. The resulting higher financing costs and lower economic growth may put pressure on the government. The crisis is also likely to have a negative impact on the credit quality of the loan portfolios of financial institutions. In addition, financial institutions face increased operational challenges related to increased cyber risks and the implementation of sanctions against Russia.

So far, the financial system has been resilient despite growing political and economic uncertainty. In view of the above risks and uncertainties, the Bank should be prepared for possible deterioration in the quality of assets.

As a result of persistent risks, which were intensified by the Russian invasion and the deteriorating macroeconomic outlook, combined with the accumulation of medium-term risks with high uncertainty, the Bank intensified its monitoring of asset quality, including changes to its credit standards and pricing policy in lending to individuals and legal entities. The active monitoring process includes exposures where borrowers benefited from previous support measures, payment moratoriums or state-guaranteed loans related to the pandemic, and in relation to exposures that are particularly vulnerable to rising inflation and high energy and raw materials prices.

The impact of further increases in interest rates and the potential for sudden increases in risk premiums is subject to increased monitoring.

In order to cover exposures that are measured with even greater uncertainty given Russia's invasion of Ukraine, the Bank has taken into account the economic and financial impact of the crisis caused by the war and has charged “Management Overlays” provisions for Phase 3 in the amount of BGN 5,554 thousand for all customers with COVID-19 exposures with a delay of more than 30 days and/or suffered a significant increase in credit risk.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Credit risk analysis in connection with Russia's invasion of Ukraine (continued)

In BGN thousand	**2022**			
	Gross value before impairment COVID-19	**COVID-19 Total losses from impairment**	**Management Overlays**	**Total**
COVID-19 Phase 1 (Regular)	33,710	(486)	(1,208)	(1,694)
COVID-19 Phase 2 (Under supervision)	56,322	(12,960)	(4,345)	(17,305)
Total	**90,032**	**(13,446)**	**(5,553)**	**(18,999)**

In BGN thousand	**2021**			
	Gross value before impairment COVID-19	**COVID-19 Total losses from impairment**	**Management Overlays**	**Total**
COVID-19 Phase 1 (Regular)	96,468	(2,330)	(15,977)	(18,307)
COVID-19 Phase 2 (Under supervision)	15,914	(997)	(4,557)	(5,554)
Total	**112,382**	**(3,327)**	**(20,534)**	**(23,861)**

Sensitivity analysis

For credit risk management, the sensitivity of the Bank's financial assets is analyzed in the application of macroeconomic development scenarios related to the spread of COVID-19 globally, which leads to a strong and comprehensive decline in global economic activity. The analysis is applied to the entire loan portfolio of the Bank.

The sensitivity analysis of expected credit losses affects the variations of the key assumptions on which the macroeconomic scenarios are built, since these are the ones that introduce the greatest uncertainty in the estimation of expected credit losses.

As a first step, GDP and unemployment were identified as the most relevant variables for the purposes of the analysis. These variables were stressed by /- 100 bps compared to the Bank's parameters in an aggravated macroeconomic scenario. The impact of these shocks on expected credit losses was assessed. The change in expected credit loss is determined by the effects of migration of exposures from Phase 1 to Phase 2.

In addition to the result of the scenario calculations, the analyzes of the exposures that could be most affected by the circumstances caused by COVID-19 were taken into account. The macroeconomic parameters for each of the scenarios are presented in the following table.

Macroeconomic parameters for each of the scenarios:

	Baseline scenario	**Adverse scenario**
annual GDP growth	0.80	(3.50)
annual unemployment growth	4.80	8.90

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Sensitivity analysis (continued)

The projected losses due to default are the result of the projected values of macroeconomic variables.

The impact on the Bank's financial performance is a result of the hypothetical deterioration in the quality of the loan portfolio and the corresponding increase in impairment charges.

BGN thousand

Loan type	Statement 31.12.2022	Baseline scenario	Difference of baseline scenario vs statement	Adverse scenario	Difference of adverse scenario vs statement	COVID-19 Losses from additional impairment (Management Overlay)
Phase 1 (Regular)	1,767,678	1,767,678	-	1,767,678	-	33,710
Phase 2 (Under supervision)	193,699	193,699	-	193,699	-	56,322
Phase 3 (Non-performing)	52,258	52,258	-	52,258	-	7,356
Total Gross value before impairment	**2,013,635**	**2,013,635**	**-**	**2,013,635**	**-**	**97,388**
Phase 1 (Regular)	19,431	18,223	(1,208)	21,061	1,630	1,208
Phase 2 (Under supervision)	24,266	19,920	(4,346)	28,755	4,489	4,346
Phase 3 (Non-performing)	47,374	47,374	-	47,374	-	-
Impairment losses	**91,071**	**85,517**	**(5,554)**	**97,190**	**6,119**	**5,554**
Carrying amount	**1,922,564**	**1,928,118**	**5,554**	**1,916,445**	**(6,119)**	**91,834**

Based on the performed sensitivity analysis, the Bank has taken into account all potential negative effects of the COVID-19 and russian invasion crisis, and has developed and implemented an operational plan for assessing the probability of default for each specific exposure.

The Bank has taken the necessary measures to ensure its stability in the event of continued deterioration of the economic environment and the resulting negative trends in the quality of the loan portfolio, increasing credit risk impairments and potential pressure on profitability and capital position of the Bank.

6. Disclosure of the financial risk management policy (continued)

(b) Credit Risk (continued)

Credit risk analysis in connection with the COVID-19 pandemic (continued)

Sensitivity analysis (continued)

The potential negative effects of the crisis have been assessed and recognized in a timely manner, and for this purpose as of 31.12.2022 additional provisions (Management Overlays provisions) have been set aside in the amount of BGN 5,554 thousand.

(c) Liquidity Risk

Liquidity risk occurs with regard to ensuring funds for the Bank's activities and the management of its positions. It has two dimensions – risk that the Bank will be unable to cover its liabilities when they become due; and risk of inability to realize its assets at a suitable price and within an acceptable timeframe.

Liquidity risk management

The Bank's approach to liquidity management is to ensure to the greatest degree possible the ability to always have sufficient liquidity to cover its liabilities when called, both under normal circumstances and in an emergency, without taking extraordinary losses or affecting the Bank's reputation.

The Liquidity and Markets Division receives daily information from the Bank Regulations and Compliance Directorate regarding the volume of financial assets and liabilities , as well as data about other expected cash flows arising from projected future liquidity position management activities. The Liquidity and Markets Division manages a portfolio of liquid assets which consists mainly of liquid securities, loans and receivables from banks, and other money market instruments. The objective is to maintain sufficient liquidity within the Bank as a whole.

Liquidity is monitored daily, and stress tests are performed periodically according to various scenarios which cover both normal and extraordinary market circumstances. All liquidity policies and procedures are subject to review and approval by the ALMC. Daily reports cover the liquidity position of the Bank. A summary report, including analyzes, plans, reports and actions taken, is reviewed and accepted periodically / monthly by the ALMC.

For the purposes of the day-to-day operational liquidity management, the Bank analyzes information on available financial assets and liabilities, on the expected incoming and outgoing cash flows in all significant currencies (BGN, EUR and USD), transactions with unfinished settlement, amount of required minimum reserves with the BNB, ordered and / or received customer money transfers of over BGN 1 million equivalent. Within the business day, continuous monitoring is performed of balances and movements of cash funds within the Bank's account with BNB and with major correspondent banks in foreign currency.

Funds are attracted through a set of instruments including deposits and current accounts, credit lines, other legally regulated borrowings, and equity. Funds from different types of clients are attracted, most of them from citizens and households, as well as from small and medium-sized enterprises. In addition, there are deposits from non-bank financial institutions and credit lines from development banks. An insignificant part of the funds is attracted from the interbank money market. In this way, the opportunity for flexibility when financing the activities of Allianz Bank Bulgaria AD is increased, the dependence on one source of funds is reduced, and the value of attracted resource is decreased. The Bank aims to maintain balance between term and attracted resource, and flexibility in the use of funds with different maturity structure.

6. Disclosure of the financial risk management policy (continued)

(c) Liquidity Risk (continued)

Liquidity risk management (continued)

The Bank performs current assessments of liquidity risk by identifying and tracking changes with regard to the need for funds to achieve the aims embedded in the overall strategy of Allianz Bank Bulgaria AD. In addition, the Bank owns and maintains a portfolio of liquid assets as part of its liquidity risk management system.

Funds are attracted through a set of instruments including deposits and current accounts, credit lines, other legally regulated borrowings, and equity. Funds from different types of clients are attracted, most of them from citizens and households, as well as from small and medium-sized enterprises. In addition, there are deposits from non-bank financial institutions and credit lines from development banks. An insignificant part of the funds is attracted from the interbank money market. In this way, the opportunity for flexibility when financing the activities of Allianz Bank Bulgaria AD is increased, the dependence on one source of funds is reduced, and the value of attracted resource is decreased. The Bank aims to maintain balance between term and attracted resource, and flexibility in the use of funds with different maturity structure.

The Bank performs current assessments of liquidity risk by identifying and tracking changes with regard to the need for funds to achieve the aims embedded in the overall strategy of Allianz Bank Bulgaria AD. In addition, the Bank owns and maintains a portfolio of liquid assets as part of its liquidity risk management system.

Liquidity risk exposure

For liquidity risk monitoring and management, the Bank calculates various indicators such as the secondary liquidity ratio (recommended by the BNB in Ordinance No. 11), liquidity coverage ratio (LCR), net stable funding ratio (NSFR), additional liquidity monitoring indicators and survival period. Liquid assets /liquidity buffer/ for the Bank is determined on the basis of EU Regulation 2015/61 -
supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council as regards the liquidity coverage requirement for credit institutions. According to the requirements of the regulation, liquid assets are: Level 1 assets - coins and banknotes, claims on the central bank, claims on central and local government, multilateral development banks awarded 0% risk weight.

The liquidity coverage ratio is expressed as a percentage and set at a minimum level of 100% when fully implemented, indicating that the credit institution holds sufficient liquid assets to meet its net liquid outflows over a stress period of 30 calendar months. days. It is calculated as the ratio of the bank's “liquid assets” buffer to its “net liquid outflows” over a stress period of 30 calendar days.

The Bank maintains a portfolio of liquid assets, which consists mainly of liquid securities (central government assets), coins and banknotes, central bank reserves and other money market instruments called liquid resources. For the purposes of the LCR, the Bank calculates the amount of its liquid assets at market value less blocked securities / free of liquid assets.

The amount of key parameters as of 31 December 2022 and 31 December 2021 is as follows:

	31.12.2022	**31.12.2021**
	BGN thousand / %	BGN thousand / %
Liquid buffer	1,489,710	1,619,611
Net liquid outflows	579,679	529,837
Liquidity coverage ratio (%)	256.99%	305.68%
Available stable funding	2,869,877	2,668,868
Required stable funding	1,485,173	1,249,065
Net stable funding ratio (%)	193.24%	213.67%

6. Disclosure of the financial risk management policy (continued)

(c) Liquidity Risk (continued)

Liquidity risk exposure (continued)

Liquidity indicators are integrated with the Bank's Risk Strategy and Risk Appetite, as well as the minimum regulatory requirements of the BNB and the provisions of Regulation (EU) No. 575/2013.

Residual maturity of financial assets and liabilities

The table below presents the undiscounted cash flows of the Bank's financial assets and liabilities and unrecognized credit commitments based on the earliest possible maturity date. Gross Nominal incoming (outgoing) Cash Flow is the agreed undiscounted cash flow from the financial assets /liabilities or commitment. Interest income or interest expense, respectively, is included in the respective financial asset or liability from the date of the last interest payment until the end of the maturity.

The imbalance observed in the first period of less than a month is mainly due to the inclusion of current accounts for customers in this time period. The Bank's experience shows that customer deposits are expected to maintain a steady or growing balance, and not all unrecognized credit commitments are expected to be absorbed immediately.

31 December 2022 *In BGN thousand*	**Carrying value**	**Gross nominal incoming / (outgoing) cash flow**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**
Cash and cash equivalents	950,874	950,899	941,116	9,783	-	-	-
Financial assets measured at FVPL	3	3	-	-	-	-	3
Loans and advances to banks	64,154	64,154	64,154	-	-	-	-
Investment securities	1,002,573	1,009,357	-	79,295	43,123	554,072	332,867
Loans and advances to clients	1,922,564	2,561,105	99,527	115,165	238,807	475,625	1,631,981
Other financial assets	3,141	3,141	3,141	-	-	-	-
	3,943,309	**4,588,659**	**1,107,938**	**204,243**	**281,930**	**1,029,697**	**1,964,851**
Deposits from banks	20,044	(21,322)	(226)	-	-	-	(21,096)
Deposits from clients	3,665,790	(3,667,545)	(2,979,849)	(7,064)	(463,603)	(217,029)	-
Liabilities under lease agreements	14,077	(14,304)	-	-	(2,592)	(8,448)	(3,264)
Other long-term borrowed funds	1,078	(1,078)	(393)	-	-	(4)	(681)
Other financial liabilities	7,227	(7,227)	(7,227)	-	-	-	-
	3,708,216	**(3,711,476)**	**(2,987,695)**	**(7,064)**	**(466,195)**	**(225,481)**	**(25,041)**
Guarantees and letters of credit	50,893	(51,457)	(5,165)	(6,155)	(10,888)	(14,476)	(14,773)
Unutilized credit commitments:	222,196	(225,985)	(26,621)	(59,236)	(127,809)	(12,240)	(79)
	3,981,305	**(3,988,918)**	**(3,019,481)**	**(72,455)**	**(604,892)**	**(252,197)**	**(39,893)**

6. Disclosure of the financial risk management policy (continued)

(c) Liquidity Risk (continued)

Residual maturity of financial assets and liabilities (continued)

31 December 2021 *In BGN thousand*	**Carrying value**	**Gross nominal incoming / (outgoing) cash flow**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**
Cash and cash equivalents	936,551	936,562	926,784	9,778	-	-	-
Financial assets measured at FVPL	3	3	-	-	-	-	3
Loans and advances to banks	9,753	9,753	9,753	-	-	-	-
Investment securities	1,007,056	1,007,845	-	87,248	76,586	483,848	360,163
Loans and advances to clients	1,622,880	2,178,442	88,602	72,212	200,503	408,379	1,408,746
Other financial assets	1,458	1,458	1,458	-	-	-	-
	3,577,701	**4,134,063**	**1,026,597**	**169,238**	**277,089**	**892,227**	**1,768,912**
Deposits from banks	24,714	(25,535)	(249)	-	-	-	(25,286)
Deposits from clients	3,306,667	(3,306,935)	(2,687,846)	(157,387)	(360,924)	(100,778)	-
Liabilities under lease agreements	15,065	(15,309)	-	-	(2,269)	(8,957)	(4,083)
Other long-term borrowed funds	2,304	(2,311)	(300)	-	(75)	(1,936)	-
Other financial liabilities	5,924	(5,924)	(5,924)	-	-	-	-
	3,354,674	**(3,356,014)**	**(2,694,319)**	**(157,387)**	**(363,268)**	**(111,671)**	**(29,369)**
Guarantees and letters of credit	52,767	(53,748)	(6,382)	(6,986)	(11,613)	(16,154)	(12,613)
Unutilized credit commitments:	181,845	(184,882)	(48,606)	(46,050)	(81,494)	(8,651)	(81)
	3,589,286	**(3,594,644)**	**(2,749,307)**	**(210,423)**	**(456,375)**	**(136,476)**	**(42,063)**

(d) Market risk

Market risk is the risk that a change in market conditions or parameters affecting market conditions such as interest rates, equity prices, or exchange rates for foreign currencies will affect the income or value of financial instruments held by the Bank. The market risk management policy aims to manage and control market risk exposures within the allowable limits, optimizing the risk / return ratio.

6. Disclosure of the financial risk management policy (continued)

(d) Market risk (continued)

Market risk exposure

All marketable instruments are subject to market risk as a result of future changes in market conditions. Instruments are measured at fair value and any changes in market conditions directly affect net trading income.

Allianz Bank Bulgaria AD manages its tradable instruments under the changing market conditions. Exposure to market risk is managed in accordance with exposure limits, concentration on instrument types and VaR limits.

The method used to measure and manage market risk is the so-called Value at Risk (VaR). VaR is an indicator of the expected loss from trading portfolio for a certain period of time (holding period) and a certain probability level (confidence level). The VaR model used by the Bank is based on a 99% confidence level and a ten-day holding period. The VaR model is based on historical data from a minimum of 250 day observation period.

Although VaR is an important tool in measuring market risk, the assumptions on which the model is based lead to some constraints:

- The ten-day holding period suggests that it is possible to hedge or release positions in that period. This is considered a real assumption in almost all cases except in situations where there is low market liquidity over a prolonged period of time.
- The 99% confidence level does not account for any losses that may arise beyond that level. Even within the model, there is a 1% probability that losses may exceed VaR.
- VaR is calculated at the end of each day and does not take account of the risks that may arise during the trading day / trading session.
- VaR depends on the position of the Bank and the volatility of market prices. The VaR in unchanged position decreases when the volatility of market prices decreases and vice versa.

Exposure to market risk - financial assets measured at fair value through profit or loss

Financial instruments at fair value through profit or loss as at 31.12.2022 and 31.12.2021 do not include instruments measurable for market risk, reflecting the adopted policy for investing in other classes of financial assets.

Exposure to market risk - financial assets measured at fair value through other comprehensive income

The 1-day VaR of the Monte Carlo simulation at 99% confidence interval as at 31 December 2022 and 2021 and during the reporting period is as follows :

6. Disclosure of the financial risk management policy (continued)

(d) Market risk (continued)

Market risk exposure (continued)

Exposure to market risk - financial assets measured at fair value through other comprehensive income (continued)

2022	**As at 31.12**	**Average**	**Maximum**	**Minimum**
Currency Risk	1,559	2,109	3,050	1,527
Interest Risk	83	289	999	83
Other price risk	706	724	839	546
Correlation	(643)	(863)	(1,692)	(475)
	1,705	**2,259**	**3,196**	**1,681**

2021	**As at 31.12**	**Average**	**Maximum**	**Minimum**
Currency Risk	2,836	1,847	2,868	658
Interest Risk	614	366	648	250
Other price risk	754	125	757	-
Correlation	(1,173)	(435)	(1,237)	(194)
	3,031	**1,903**	**3,036**	**714**

The 10-day VaR of the Monte Carlo simulation at 99% confidence interval as at 31 December and during the reporting period is as well follows:

In BGN thousand	**2022**	**2021**
As at 31 December	5,392	9,584

changes in market interest rates under the hypothesis of parallel shift of interest rate curves.

Interest risk sensitivity analysis

For the management of interest rate risk and interest rate changes, observations are made on the sensitivity of the Bank's financial assets and liabilities in applying scenarios to the movement of interest rates.

Sensitivity analysis is based on the scenario of 100 basis points parallel increase of all profitability curves of all currencies simultaneously.

The model for the measuring of market risk is based on the analysis of imbalance (GAP analysis). It is used to measure the Bank's potential loss arising from projected changes in market interest rates under the hypothesis of parallel movement of interest curves.

The model is applied to the banking and trading book at the end of the year. Bank performs calculations for 6 scenarios, the results of which are shown in the table below, while parallel shock hypotheses are at 200 Bps, for a short-term shock of 250 bps, and a long-term shock of 100 Bps, according to Annex II Interest rate risk in banking book (EBA).

6. Disclosure of the financial risk management policy (continued)

(d) Market risk (continued)

Interest risk sensitivity analysis (continued)

Scenarios 2022	**Sensitivity to interest of the value of equity (EVE)**		**Net interest income**
	%	BGN thousand	BGN thousand
Parallel upward shock	-7.39%	(18,226)	(6,171)
Parallel downward shock	0.44%	1,094	6,171
Short-term interest downward and long-term upward (steepener)	-3.97%	(9,797)	
Short-term interest upward and long-term downward (flattener)	-1.74%	(4,289)	
Short-term interest upward	-2.15%	(5,294)	
Short-term interest downward	0.97%	2,385	

Scenarios 2021	**Sensitivity to interest of the value of equity (EVE)**		**Net interest income**
	%	BGN thousand	BGN thousand
Parallel upward shock	-12.87%	(29,591)	(13,103)
Parallel downward shock	12.87%	29,591	13,103
Short-term interest downward and long-term upward (steepener)	-12.84%	(29,059)	
Short-term interest upward and long-term downward (flattener)	3.03%	6,866	
Short-term interest upward	-2.5%	(5,664)	
Short-term interest downward	2.5%	5,664	

Currency Risk

The Bank is exposed to currency risk in transactions with financial instruments denominated in foreign currency.

As a result of the introduction of a Currency Board in Bulgaria, the Bulgarian lev is fixed to the EUR. As the currency in which the Bank compiles its accounts is the Bulgarian lev, the movements in the exchange rates of the lev against the non-euro area currencies affect the accounts.

Transactions in foreign currencies result in income and expenses from foreign exchange transactions that are reported in the income statement. Such exposures are the Bank's cash assets and liabilities denominated in a currency other than the Bank's presentation currency. These exposures in foreign currency are presented in the table below.

6. Disclosure of the financial risk management policy (continued)

(d) Market risk (continued)

Currency Risk (continued)

In BGN thousand

31 DECEMBER 2022

	BGN	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	298,960	437,725	202,130	12,059	950,874
Financial assets measured at FVPL	3	-	-	-	3
Loans and advances to banks	-	-	64,154	-	64,154
Financial assets measured at FVOCI	74,576	63,133	22,201	-	159,910
Financial assets measured at AC	604,109	220,644	17,910	-	842,663
Loans and advances to clients	1,398,888	507,522	15,552	602	1,922,564
Total assets	2,376,536	1,229,024	321,947	12,661	3,940,168
Liabilities					
Deposits from banks	210	19,834	-	-	20,044
Deposits from other clients	2,166,042	1,132,364	346,080	21,304	3,665,790
Other borrowed funds	-	1,078	-	-	1,078
Liabilities under lease agreements	14,077	-	-	-	14,077
Total liabilities	2,180,329	1,153,276	346,080	21,304	3,700,989
Net currency position	196,207	75,748	(24,133)	(8,643)	239,179

31 DECEMBER 2021

	BGN	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	418,514	340,481	161,890	15,666	936,551
Financial assets measured at FVPL	3	-	-	-	3
Loans and advances to banks	-	9,753	-	-	9,753
Financial assets measured at FVOCI	157,496	175,558	40,589	-	373,643
Financial assets measured at AC	360,586	272,827	-	-	633,413
Loans and advances to clients	1,170,556	438,995	12,592	737	1,622,880
Total assets	2,107,155	1,237,614	215,071	16,403	3,576,243
Liabilities					
Deposits from banks	224	24,490	-	-	24,714
Deposits from other clients	2,119,488	957,808	213,159	16,212	3,306,667
Other borrowed funds	-	2,304	-	-	2,304
Liabilities under lease agreements	15,065	-	-	-	15,065
Total liabilities	2,134,777	984,602	213,159	16,212	3,348,750
Net currency position	(27,622)	253,012	1,912	191	227,493

6. Disclosure of the financial risk management policy (continued)

(e) Compliance with capital adequacy requirements

Capital base (equity)

The capital base (equity) includes Tier 1 and Tier 2 capital, in accordance with the applicable regulatory requirements. The Bank has no subscribed Tier 2 capital.

The Bank prepares quarterly supervisory and monthly internal reports in accordance with the requirements of Ordinance No 8 of the Bulgarian National Bank (BNB) of 24 April 2014 on the capital buffers of banks, Commission Implementing Regulation (EU) No 575/2013 and Commission Implementing Regulation (EU) 2021/451 effective from 28 June 2021 on an individual basis /change of Commission Implementing Regulation (EU) No 680 from 2014/.

The Bank complies with the regulatory capital adequacy requirements and discloses its annual data to the BNB according to Regulation (EU) No 575/2013 (Eighth part), Credit Institutions Act (Article 70 (3)) and Regulation (EU) No 2021/876 / Article 431-455/.

The approach chosen by the Bank for calculation of the operational risk is the approach of the basic indicator, according to Regulation (EU) No. 575/2013.

The Bank monitors changes in major exposure classes, capital base, and total capital adequacy on a monthly basis, and reports the levels of regulatory and internal capital to the Management and Supervisory Board.

According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%.

At the end of 2021 Allianz Bank Bulgaria AD has complied with the decisions of the BNB Governing Council dated 21.06.2022 for capital stability - the total capital adequacy should not be less of 15,74%, formed on the basis of:

- Minimum total capital ratio of 8% for risk-weighted assets in accordance with Article 92 (1) of Regulation 575/2013 and additional common equity requirement of 1,24% for risk-weighted assets, or 9,24% total capital requirement under the Supervisory Review and Evaluation Process /SREP; EBA/GL/2014/13/.
- Systemic risk buffer equal to 3% of the amount of risk-weighted assets
- Safeguard capital buffer, equal to 2.5% of the amount of risk-weighted assets
- Countercyclical capital buffer, applied to risk loan expositions in Republic of Bulgaria at the end of 2022 – 1,0%, according to a BNB decision.

7. Use of estimates and assumptions

The presentation of a financial statement in accordance with International Financial Reporting Standards requires management to make the best estimates, accruals and reasonable assumptions that have an effect on the reported amounts of assets and liabilities, income and expense, and the disclosure of contingent liabilities and contingent liabilities at the reporting date. These estimates, accruals and assumptions are based on the information available at the date of the financial statements, so the future factual results could be different from them. Estimates and the underlying assumptions are reviewed on an ongoing basis. Revised accounting estimates are recognized in the period in which the measurement is reviewed and in all future periods.

7. Use of estimates and assumptions (continued)

Uncertainty in the assumptions and estimates

The Bank makes assumptions and assessments of uncertain events, including assumptions and assessments of the future. Such accounting assumptions and assessments are reviewed on an ongoing basis and are based on historical experience and other factors such as the expected flow from a future event that can reasonably be assumed under the circumstances but is nevertheless required to constitute a source of suspected uncertainty. The assessment of impairment of the portfolio by credit risk groups and, as a part, the assumptions about the realizable value of collateral - real estate - represents the main source of uncertainty in the valuation. This and other major sources of uncertainty in the estimates that carry a significant risk of a possible material adjustment of the carrying amount of assets and liabilities in subsequent reporting periods are described below and in the following notes.

Measuring expected credit loss (ECL)

Calculating the expected credit loss of financial assets carried at amortized cost and financial assets carried at fair value through other comprehensive income requires the use of models and significant accounting estimates and assumptions about future economic conditions and changes in the credit quality of assets. client fails to meet its obligations on credit exposures and losses that this would lead to).

The significant accounting estimates and assumptions required by IFRS 9 in calculating the expected credit loss are:

- Determining the criteria for significant increase in credit risk
- Selection of appropriate models for the calculation of ECL
- Selecting appropriate economic variables to produce forward-looking information
- Determining the weight of each scenario for the future development of the selected economic variables

The full description of the estimates and the method of estimating the expected credit loss are described in item 5, (e), (ii).

The specific component of the total provision for impairment for a single counterparty relates to financial assets that are individually assessed for impairment and is based on the management's best estimate of the present value of the cash flows expected to be received. When assessing these cash flows, the management makes judgments about the counterparty's financial position and the net realizable value of the collateral. Each impaired asset is measured individually, the strategy for recovering the impaired asset and the estimated cash flows that are considered recoverable are approved regardless of the credit risk assessment function.

Collectively assessed impairment losses cover losses on loans inherent in loan portfolios and receivables with similar credit risk characteristics when there is objective evidence that they contain impaired loans and receivables but individual impaired assets can not be identified. When assessing the need for portfolio impairment losses, management takes into account factors such as loan quality, portfolio size, concentrations and economic factors. In order to assess the necessary provision for impairment, assumptions are made to determine how inherent losses are based on historical experience and current economic conditions. The accuracy of the provisions depends on the estimates of future cash flows for the impairment losses of a particular counterparty as well as on the assumptions and parameters of the models used to determine the impairment losses on a portfolio basis.

7. Use of estimates and assumptions (continued)

Uncertainty in the assumptions and estimates (continued)

Determining the fair value of financial instruments

The determination of the fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in accounting policy 5 (e) (vi). For financial instruments that are rarely traded and whose price is not available or observed on the market, fair value is less objective and requires a range of ratings depending on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting the specific instrument.

Evaluation of financial instruments

The Bank measures fair value using the following hierarchy of methods:

- Level 1: the level 1 incoming data are the quoted (unadjusted) prices of instruments at active markets for identical financial instruments;
- Level 2- the level 2 incoming data are the incoming data for an asset or a liability different from the quoted prices included at level 1 which are directly or indirectly accessible for observation. This category includes instruments, measured using: quoted prices of similar assets or liabilities at active markets; quoted prices of identical or similar assets or liabilities at markets which are not considered active; other valuation techniques where all the significant incoming data are directly or indirectly accessible for observation using market data;
- Level 3: the level 3 incoming data are non-observable incoming data for an asset or a liability. This category includes all the instruments whereupon the valuation technique does not include observable incoming data, and the non-observable incoming data have a significant impact on the instrument valuation. This category includes instruments valuated on the basis of quoted prices of similar instruments where significant non-observable adjustments or assumptions are required to reflect the differences among the instruments.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices on stock or dealer markets. For all other financial instruments The Bank defines fair values using other valuation techniques.

Other valuation techniques include models based on present value and discounted cash flows compared to similar instruments for which observable market prices, option pricing models and other models exist. Assumptions and incoming data used in assessment techniques include risk-free and reference interest rates, credit spreads and other premiums used in determining discount rates, prices of debt and equity securities, exchange rates and prices of equity indices and expected fluctuations and correlation of prices. The purpose of valuation techniques is to determine fair value, which reflects the price that would be received to sell an asset or to be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at fair value - hierarchy

The following table analyzes financial instruments measured at fair value through the fair value hierarchy.

In BGN thousand **2022**	**Level 1- Announced Market Prices in Active Markets**	**Level 2 - Evaluation techniques - using market data**	**Level 3 - Evaluation techniques - without market data market data**	**Total**
Financial assets measured at FVPL	-	3	-	3
Financial assets measured at FVOCI	156,111	-	3,799	159,910
Total:	**156,111**	**3**	**3,799**	**159,913**

7. Use of estimates and assumptions (continued)

Uncertainty in the assumptions and estimates (continued)

Financial instruments measured at fair value – hierarchy (continued)

In BGN thousand **2021**	**Level 1- Announced Market Prices in Active Markets**	**Level 2 - Evaluation techniques - using market data**	**Level 3 - Evaluation techniques - without market data market data**	**Total**
Financial assets measured at FVPL	-	3	-	3
Financial assets measured at FVOCI	369,142	-	4,501	373,643
Total:	**369,142**	**3**	**4,501**	**373,646**

(i) Reconciliation of Level 3 fair value

The following table presents a reconciliation of the movement from the opening to the closing balance of the Level 3 fair values.

In BGN thousand	**Equity and debt securities at FVOCI**
Balance as at 1 January 2022	4,501
Profit included in other comprehensive income	
Net change in fair value (unrealized)	(702)
Balance as at 31 December 2022	**3,799**
Balance as at 1 January 2021	3,682
Profit included in other comprehensive income	
Net change in fair value (unrealized)	819
Balance as at 31 December 2021	**4,501**

The table below analyzes the fair values of financial instruments measured at fair value through a fair value hierarchy where the fair value is categorized. In the table is not included information about the fair values of financial assets and liabilities that are not measured at fair value if the carrying value is approximately equal the fair value.

7. Use of estimates and assumptions (continued)

Uncertainty in the assumptions and estimates (continued)

Financial instruments measured at fair value – hierarchy (continued)

(i) Reconciliation of Level 3 fair value (continued)

31 DECEMBER 2022 *In BGN thousand*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	950,874	-	950,874	950,874
Loans and advances to banks	-	64,154	-	64,154	64,154
Financial assets measured at amortized cost	729,982	-	-	729,892	842,663
Loans and advances to clients	-	-	1,922,564	1,922,564	1,922,564
Total assets	**729,982**	**1,015,028**	**1,922,564**	**3,667,574**	**3,780,255**
Liabilities					
Deposits from banks	-	-	20,044	20,044	20,044
Deposits from clients	-	-	3,665,790	3,665,790	3,665,790
Other borrowed funds	-	-	1,078	1,078	1,078
Total liabilities	-	-	**3,686,912**	**3,686,912**	**3,686,912**

The fair value of cash and cash equivalents, loans and advances to banks, deposits from banks and other borrowed funds is approximately equal to their book value because they are short-term. The fair value of loans granted to customers is based on observable market transactions. In cases where market information is not available, fair value measurement is based on valuation models, such as discounted cash flow techniques, applying interest rates to the reporting date for loans with similar terms and conditions, and accrued impairment. The fair value of customer deposits is calculated using discounted cash flow techniques applying the interest rates currently available in the country for deposits with similar maturities and conditions.

31 DECEMBER 2021 *In BGN thousand*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	936,551	-	936,551	936,551
Loans and advances to banks	-	9,753	-	9,753	9,753
Financial assets measured at amortized cost	633,413	-	-	633,413	633,413
Loans and advances to clients	-	-	1,622,880	1,622,880	1,622,880
Total assets	**633,413**	**946,304**	**1,622,880**	**3,202,597**	**3,202,597**
Liabilities					
Deposits from banks	-	-	24,714	24,714	24,714
Deposits from clients	-	-	3,306,667	3,306,667	3,306,667
Other borrowed funds	-	-	2,304	2,304	2,304
Total liabilities	-	-	**3,333,685**	**3,333,685**	**3,333,685**

7. Use of estimates and assumptions (continued)

Uncertainty in the assumptions and estimates (continued)

Financial instruments measured at fair value – hierarchy (continued)

(i) Reconciliation of Level 3 fair value (continued)

The fair value of cash and cash equivalents, loans and advances to banks, deposits from banks and other borrowed funds is approximately equal to their book value because they are short-term.

The fair value of loans granted to customers is based on observable market transactions. In cases where market information is not available, fair value measurement is based on valuation models, such as discounted cash flow techniques, applying interest rates to the reporting date for loans with similar terms and conditions, and accrued impairment.

The fair value of customer deposits is calculated using discounted cash flow techniques applying the interest rates currently available in the country for deposits with similar maturities and conditions.

Significant accounting estimates and judgments for leases

Significant accounting estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Their authenticity is checked regularly.

The Bank makes estimates and judgments for accounting and disclosure purposes in its annual financial statements. Estimates and judgments rarely coincide with actual results. The following are estimates that could lead to a significant adjustment to the carrying amount of assets and liabilities in the next financial year.

(a) Extension and termination options; significant accounting estimates and judgments in determining the term of the lease

In determining the term of the lease, management takes into account all the facts and circumstances that create economic preconditions for exercising the option to extend or refuse termination. Extension options (or periods after a termination option) are included in the lease term only if it is sufficiently certain that the lease term will be extended (or that the contract will not be terminated).

The following are the most relevant factors for leases of buildings, vehicles and computer equipment:

- If there are significant fines for exercising the termination option (or for not exercising the extension option), in most cases it is considered that there is sufficient certainty that the Bank will exercise the lease extension option (or will not exercise the termination option).
- If the significant improvements made to the leased property are expected to have a significant residual value, then in most cases it is considered that there is sufficient certainty that the Bank will exercise the lease extension option (or will not exercise the termination option).
- In the absence of the above two conditions, the Bank takes into account other factors, including the historical duration of the leases where the Bank was the lessee, as well as the costs and lost business benefits associated with the replacement of the leased asset. In most cases, the options for extension of leases of offices and vehicles are not included in the lease liabilities because the Bank could replace the assets without requiring significant costs and lost business benefits.

7. Use of estimates and assumptions (continued)

Uncertainty in the assumptions and estimates (continued)

3 Significant accounting estimates and judgments for leases (continued)

(a) Extension and termination options; significant accounting estimates and judgments in determining the term of the lease (continued)

The term of the lease agreement is reviewed if the option to extend is actually exercised or if the Bank has been required to exercise it. The existence of sufficient certainty is reviewed only if a material event or change in the circumstances affecting this assessment occurs that is under the control of the lessee. As at 31 December 2022 and 2021, potential future cash outflows amounting to BGN 88 thousand, respectively and BGN 89 thousand (undiscounted) were not included in the lease liabilities because it was not sufficiently certain that the leases would be extended (or not terminated). During the current reporting period, the financial effect of the revision of the lease agreements period to reflect the exercised termination options is a decrease in recognized lease liabilities and assets with the right of use by BGN 1,680 thousand (2021: BGN 179 thousand).

8. Classification of financial assets and liabilities

In BGN thousand	Reported at FVPL	Reported at AC	Loans and advances at AC	Reported at FVOCI	Liabilities at amortized cost	Gross carrying amount
31 DECEMBER 2022						
Cash and cash equivalents	-	-	950,874	-	-	950,874
Financial assets reported at fair value through profit and loss	3	-	-	-	-	3
Loans and advances to banks	-	-	64,154	-	-	64,154
Investment securities	-	842,663	-	159,910	-	1,002,573
Loans and advances to clients	-	-	1,922,564	-	-	1,922,564
Total financial assets	**3**	**842,663**	**2,937,592**	**159,910**	**-**	**3,940,168**
Deposits from banks	-	-	-	-	20,044	20,044
Deposits from clients	-	-	-	-	3,665,790	3,665,790
Other borrowed funds	-	-	-	-	1,078	1,078
Total financial liabilities	**-**	**-**	**-**	**-**	**3,686,912**	**3,686,912**

8. Classification of financial assets and liabilities (continued)

In BGN thousand	**Reported at FVPL**	**Reported at AC**	**Loans and advances at AC**	**Reported at FVOCI**	**Liabilities at amortized cost**	**Gross carrying amount**
31 DECEMBER 2021						
Cash and cash equivalents	-	-	936,551	-	-	936,551
Financial assets reported at fair value through profit and loss	3	-	-	-	-	3
Loans and advances to banks	-	-	9,753	-	-	9,753
Investment securities	-	633,413	-	373,643	-	1,007,056
Loans and advances to clients	-	-	1,622,880	-	-	1,622,880
Total financial assets	3	**633,413**	**2,569,184**	**373,643**	**-**	**3,576,243**
Deposits from banks	-	-	-	-	24,714	24,714
Deposits from clients	-	-	-	-	3,306,667	3,306,667
Other borrowed funds	-	-	-	-	2,304	2,304
Total financial liabilities	**-**	**-**	**-**	**-**	**3,333,685**	**3,333,685**

9. Net interest income

In BGN thousand	2022	2021
Net interest income		
Interest Income		
Interest income arising from:		
Loans and advances to banks	3,426	58
Loans and advances to clients	49,744	38,780
Factoring transactions	3,039	1,190
Borrowed funds from clients	347	5,258
Investments	13,299	12,376
	69,855	**57,662**
Interest expense		
Interest expense arising from:		
Deposits from banks	(1,221)	(667)
Negative interest on borrowed funds	2,977	5,237
Interest on MRR	(877)	(3,020)
Deposits of clients and other borrowed funds	(119)	(3,424)
Lease contract payables	(67)	(53)
	(693)	**(1,927)**
Net interest income	**69,162**	**55,735**

10. Net income from fees and commissions

In BGN thousand	2022	2021
Fees and commissions income		
Fees and commissions income, arising from		
Cash transactions and cash transfers	14,802	13,152
Bank cards	9,036	7,266
Loans	5,351	4,079
Guarantees and letters of credit	846	1,087
Factoring	1,296	800
Other	294	280
	31,625	**26,664**
Fees and commissions expenses		
Expenses for fees and commissions, arising from:		
Servicing of current accounts	(105)	(36)
Bank card transactions	(3,597)	(3,227)
Payment systems	(1,922)	(1,690)
Fees and commissions on secutities	(787)	(670)
Transfers, incl. through RINGS	(187)	(227)
Other	(2,941)	(4,373)
	(9,539)	**(10,223)**
Net income from fees and commissions	**22,086**	**16,441**

11. Net income from trade operations

In BGN thousand	**2022**	**2021**
Net income from operations arising from:		
Financial assets reported at fair value through profit and loss	4	16
Loss from selling assets reported at other comprehensive income recognized in P&L statement	(21,006)	-
Financial assets at fair value through other comprehensive income	(3,151)	(1,900)
Currency trading	3,438	2,298
Net income from trade operations	**(20,715)**	**414**

12. Net income from investment operations

In BGN thousand	**2022**	**2021**
Income from operations arising from:		
Dividends	145	173
Income from investment operations	**145**	**173**

13. Administrative and other costs

In BGN thousand	**2022**	**2021**
Expenses for inventory	(422)	(783)
Expenditure on external services, incl. audit	(8,430)	(7,457)
Management, marketing and other costs	(3,419)	(3,146)
Rental costs	(536)	(501)
Depreciation costs (App. 21, 23)	(2,681)	(2,095)
Depreciation costs of right-of-use assets(App. 22)	(2,714)	(3,066)
Staff expenses	(21,456)	(20,152)
Bank restructuring costs	(2,038)	-
Expenses for deposit guarantee	(4,421)	(3,548)
Other costs	(1,356)	(1,146)
Total administrative costs	**(47,473)**	**(41,894)**

The amounts accrued in 2022 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 158 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT. In 2022 the Bank has not charged amounts for other non-statutory audit services provided by registered auditors or members of the relevant network.
The amounts accrued in 2021 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 144 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT. In 2021 the Bank has not charged amounts for other non-statutory audit services provided by registered auditors or members of the relevant network.

Personnel expenses amount to BGN 21,456 thousand. (2021: BGN 20,152 thousand) and includes salaries, social security contributions and health insurance under local law. At the end of 2022 Allianz Bank Bulgaria AD employs 569 employees on an employment contract (2021: 590 employees).

14. Other operating income

In BGN thousand	**2022**	**2021**
Fees income by Tariff, subject to VAT	1,885	1,832
Income from collected unrecognized receivables	3,303	3,160
Other income	3,216	1,821
Other operating income	**8,404**	**6,813**

15. Income tax expenses

a) Taxes, recognized in profit and loss

In BGN thousand	**2022**	**2021**
Current taxes	(1,787)	(1,625)
Deferred taxes	(771)	(408)
Total profits tax recognized in profit or loss	**(2,558)**	**(2,033)**
Income tax expense recognized in other comprehensive income	**826**	**508**

		2022	
	Before tax	**Tax (expense) income**	**Net of taxes**
Change in reserve of subsequent fair value measurements of financial assets	(8,217)	822	(7,395)
Subsequent measurement of obligations under a defined benefit plan	(42)	4	(38)
	(8,259)	**826**	**(7,433)**

		2021	
	Before tax	**Tax (expense) income**	**Net of taxes**
Change in reserve of subsequent fair value measurements of financial assets	(5,025)	502	(4,523)
Subsequent measurement of obligations under a defined benefit plan	(62)	6	(56)
	(5,087)	**508**	**(4,579)**

b) Explanation of effective tax rate

	2022	**2021**
Profit before taxation	25,771	19,359
Nominal tax rate	10%	10%
Expected tax	2,577	1,936
Taxable permanent differences	4	114
Exempt income from dividends	(23)	(17)
	2,558	**2,033**
Effective tax rate	9.93%	10.50%

16. Cash and cash equivalents

In BGN thousand	**2022**	**2021**
Cash in hand	29,974	26,615
Balances with the Central Bank	672,353	692,892
Current accounts and deposits with banks with original maturity of up to 3 months	248,561	217,055
Impairment	(14)	(11)
Total cash and cash equivalents	**950,874**	**936,551**

Below are presented the funds under credit ratings. The rating agency Standard & Poor's has been used:

In BGN thousand	**2022**	**2021**
Cash in hand	29,974	26,615
The central bank BBB-	672,353	692,892
Current accounts and deposits with banks with original maturity of up to 3 months	**248,561**	**217,055**
AA	100	82
AA-	81,207	81,306
A+	55	41,998
A	74,865	48,850
A-	50,726	-
BBB+	17,262	25,284
BBB	-	33
BBB-	24,346	19,502
Total	**950,888**	**936,562**

Balances with the Central Bank include a current account with the BNB and minimum required reserves. The minimum required reserves as of 31.12.2022 amounts to BGN 346,882 thousand (2021: BGN 313,106 thousand). The current account with the BNB is used for payments on the money market and the government securities market (GS) as well as for the purposes of settlement. The minimum required reserves with the BNB are interest-free and regulated on a monthly basis. Daily fluctuations are allowed. The shortage of funds on a monthly basis is sanctioned with penalty interest.

17. Financial assets reported at fair value through profit and loss

In BGN thousand	**2022**	**2021**
Financial assets measured at FVPL		
Equity securities	2	2
Other	1	1
Total financial assets at FVPL	**3**	**3**

18. Loans and advances to banks

In BGN thousand	**2022**	**2021**
Loans and advances to foreign banks	64,154	9,753
Total loans and advances to banks	**64,154**	**9,753**

19. Investment securities

19.1. Financial assets at fair value through other comprehensive income

In BGN thousand	**2022**	**2021**
Government securities issued or guaranteed by Bulgaria	103,086	228,795
Government securities issued or guaranteed by Romania	24,249	55,141
Government securities issued or guaranteed by USA	15,819	33,565
Government securities issued or guaranteed by Spain	-	31,600
Government securities issued or guaranteed by Croatia	-	5,080
Corporate bonds	8,741	10,852
Equity securities	8,015	8,610
Total financial assets at *FVOCI*	**159,910**	**373,643**

19.2. Financial assets measured at amortized cost

In BGN thousand	**2022**	**2021**
Government securities issued or guaranteed by Bulgaria	789,856	598,209
Government securities issued or guaranteed by Croatia	-	14,265
Government securities issued or guaranteed by Romania	34,897	11,130
Government securities issued or guaranteed by Spain	-	9,809
Government securities issued or guaranteed by USA	17,910	-
Total financial assets at amortized cost	**842,663**	**633,413**
Total investment securities	**1,002,573**	**1,007,056**

20. Loans and advances to clients

In BGN thousand	**2022**	**2021**
Loans and advances to clients at amortized cost	1,740,494	1,524,740
Factoring receivables	143,813	91,427
Claims from a cash pool	9,405	9,405
Finance lease receivables	119,923	94,482
Minus losses from impairment	(91,071)	(97,174)
Total loans and advances to clients	**1,922,564**	**1,622,880**

20. Loans and advances to clients (continued)

(a) Credit product analysis

	2022	2021
Individuals		
Mortgage loans	745,020	637,985
Consumer loans	288,182	247,077
Credit cards	8,506	8,773
Other loans	120,099	94,935
	1,161,807	**988,770**
Entities		
Working capital loans	539,100	444,825
Investment loans	312,327	286,051
Credit cards	401	408
	851,828	**731,284**
Total loans and advances to clients at amortized cost	**2,013,635**	**1,720,054**
Impairment losses	(91,071)	(97,174)
Total loans and advances to clients, net of impairment	**1,922,564**	**1,622,880**

31 DECEMBER 2022
In BGN thousand

Individuals	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Other loans	71,040	47,143	1,916	120,099
Mortgage loans	681,105	36,710	27,205	745,020
Credit cards	6,501	1,452	553	8,506
Consumer loans	257,351	16,028	14,803	288,182
Total	**1,015,997**	**101,333**	**44,477**	**1,161,807**
Entities				
Investment loans	266,290	44,477	1,560	312,327
Working capital loans	485,117	47,821	6,162	539,100
Credit cards	273	69	59	401
Total	**751,680**	**92,367**	**7,781**	**851,828**
Total loans and advances to clients at amortized cost	**1,767,677**	**193,700**	**52,258**	**2,013,635**
Impairment losses	(19,431)	(24,266)	(47,374)	(91,071)
Total loans and advances to clients, net of impairment	**1,748,246**	**169,434**	**4,884**	**1,922,564**

20. Loans and advances to clients (continued)

(a) Credit product analysis (continued)

31 DECEMBER 2021
In BGN thousand

Individuals	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Other loans	70,528	21,876	2,531	94,935
Mortgage loans	577,296	29,826	30,863	637,985
Credit cards	6,545	1,608	620	8,773
Consumer loans	217,386	15,486	14,205	247,077
Total	**871,755**	**68,796**	**48,219**	**988,770**
Entities				
Investment loans	272,211	12,122	1,718	286,051
Working capital loans	417,219	20,682	6,924	444,825
Credit cards	237	38	133	408
Total	**689,667**	**32,842**	**8,775**	**731,284**
Total loans and advances to clients at amortized cost	**1,561,422**	**101,638**	**56,994**	**1,720,054**
Impairment losses	(34,712)	(10,426)	(52,036)	(97,174)
Total loans and advances to clients, net of impairment	**1,526,710**	**91,212**	**4,958**	**1,622,880**

(b) Receivables under a finance lease

A detailed description of the finance lease receivables is presented in the table below.

In BGN thousand	**2022**	**2021**
Gross investment in finance leases, receivables:		
Less than one year	5,297	6,243
Between one and five years	107,047	81,835
More than five years	5,414	5,107
	117,758	**93,185**
Unearned financial income	2,165	1,297
Net investment in finance lease	**119,923**	**94,482**
Minus losses from impairment	(4,387)	(4,595)
	115,536	**89,887**
Net investment in finance leases, receivables:		
Less than one year	4,771	5,416
Between one and five years	105,518	79,371
More than five years	5,247	5,100
	115,536	**89,887**

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients

Individual provisions for impairment losses

In BGN thousand	**2022**	**2021**
Status as at 1 January	52,036	45,690
Accrued costs of impairment	13,144	19,268
Reintegrated	(13,150)	(12,277)
Written off	(4,656)	(645)
Status as at 31 December	**47,374**	**52,036**

Collective provisions for impairment losses

In BGN thousand	**2022**	**2021**
Status as at 1 January	45,138	36,281
Accrued costs of impairment	16,139	19,549
Reintegrated	(17,580)	(10,692)
Status as at 31 December	**43,697**	**45,138**
Total	**91,071**	**97,174**

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Costs of impairment of assets

In BGN thousand	**2022**	**2021**
Loans and advances	1,336	(15,793)
Securities	(6,151)	(168)
Off-balance sheet and credit commitments	(331)	(1,138)
Receivables and cash	(692)	(1,224)
Total	**(5,838)**	**(18,323)**

Loans and advances to customers during the year of depreciation before impairment 2022

	Initial Balance 01.01.2022	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodolo gy	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Cash pool and factoring	**97,265**	-	-	-	**50,200**	-	-	-	**147,465**
Loans and advances	**1,464,157**	**(120,166)**	**(4,019)**	**4,219**	**651,136**	**-**	**-**	**(375,115)**	**1,620,212**
Retail	**824,064**	**(27,004)**	**(3,377)**	**3,351**	**354,485**	**-**	**-**	**(182,613)**	**968,906**
Other loans	383	-	-	-	-	-	-	(220)	163
Mortgage loans	577,296	(14,400)	(1,878)	1,632	216,652	-	-	(98,197)	681,105
Credit cards	6,545	(151)	(29)	9	2,421	-	-	(2,294)	6,501
Consumer loans	217,386	(6,237)	(1,369)	1,710	121,644	-	-	(75,783)	257,351
Finance lease	22,454	(6,216)	(101)	-	13,768	-	-	(6,119)	23,786

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2022 (continued)

	Initial Balance 01.01.2022	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Corporate	**640,093**	**(93,162)**	**(642)**	**868**	**296,651**	**-**	**-**	**(192,502)**	**651,306**
Finance lease	47,692	(25,232)	(186)	789	33,192	-	-	(9,164)	47,091
Investment loans	272,211	(35,907)	-	-	119,129	-	-	(89,143)	266,290
Credit cards	237	(33)	(4)	-	162	-	-	(89)	273
Working capital loans	319,953	(31,990)	(452)	79	144,168	-	-	(94,106)	337,652
Phase 2									
Cash pool and factoring	**3,567**	**-**	**-**	**-**	**988**	**-**	**-**	**-**	**4,555**
Loans and advances	**98,071**	**120,166**	**(4,590)**	**(3,683)**	**27,511**	**-**	**-**	**(48,330)**	**189,145**
Retail	**51,766**	**27,004**	**(3,661)**	**(3,351)**	**8,290**	**-**	**-**	**(16,338)**	**63,710**
Other loans	43	-	-	-	-	-	-	(29)	14
Mortgage loans	29,826	14,400	(1,700)	(1,632)	1,943	-	-	(6,127)	36,710
Credit cards	1,608	151	(43)	(9)	349	-	-	(604)	1,452
Consumer loans	15,486	6,237	(1,831)	(1,710)	3,845	-	-	(5,999)	16,028
Finance lease	4,803	6,216	(87)	-	2,153	-	-	(3,579)	9,506

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2022 (continued)

	Initial Balance 01.01.2022	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognitio n	Changes due to repayments	Balance at the end of the period
Phase 2									
Corporate	**46,305**	**93,162**	**(929)**	**(332)**	**19,221**	**-**	**-**	**(31,992)**	**125,435**
Finance lease	17,030	25,232	(786)	(253)	9,914	-	-	(13,514)	37,623
Investment loans	12,122	35,907	(92)	-	5,060	-	-	(8,520)	44,477
Credit cards	38	33	-	-	21	-	-	(23)	69
Working capital loans	17,115	31,990	(51)	(79)	4,226	-	-	(9,935)	43,266
Phase 3									
Cash pool and factoring	**-**	**-**	**-**	**-**	**1,644**	**-**	**-**	**-**	**1,644**
Loans and advances	**56,994**	**-**	**8,609**	**(536)**	**4,685**	**-**	**(4,655)**	**(14,483)**	**50,614**
Retail	**45,956**	**-**	**7,038**	**-**	**3,647**	**-**	**(3,231)**	**(10,504)**	**42,906**
Other loans	28	-	-	-	-	-	(18)	(10)	-
Mortgage loans	30,863	-	3,578	-	1,361	-	(2,105)	(6,492)	27,205
Credit cards	620	-	72	-	182	-	-	(321)	553
Consumer loans	14,205	-	3,200	-	2,020	-	(1,108)	(3,514)	14,803
Finance lease	240	-	188	-	84	-	-	(167)	345

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2022 (continued)

	Initial Balance 01.01.2022	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 3									
Corporate	**11,038**	**-**	**1,571**	**(536)**	**1,038**	**-**	**(1,424)**	**(3,979)**	**7,708**
Finance lease	2,263	-	972	(536)	202	-	-	(1,330)	1,571
Investment loans	1,718	-	92	-	317	-	(12)	(555)	1,560
Credit cards	133	-	4	-	9	-	-	(87)	59
Working capital loans	6,924	-	503	-	510	-	(1,412)	(2,007)	4,518
Total correction for debt instruments	**1,720,054**	**-**	**-**	**-**	**736,164**	**-**	**(4,655)**	**(437,928)**	**2,013,635**

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2021

	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Cash pool and factoring	**236,014**	-	-	-	-	-	-	(138,749)	97,265
Loans and advances	**1,246,601**	**(31,365)**	**(3,563)**	**307**	**553,009**	**-**	**-**	**(300,832)**	**1,464,157**
Retail	**685,417**	**(15,552)**	**(3,026)**	**-**	**312,550**	**-**	**-**	**(155,325)**	**824,064**
Other loans	765	(42)	-	-	49	-	-	(389)	383
Mortgage loans	460,215	(8,595)	(1,377)	-	203,822	-	-	(76,769)	577,296
Credit cards	9,054	(219)	(35)	-	2,615	-	-	(4,870)	6,545
Consumer loans	195,718	(5,353)	(1,565)	-	95,693	-	-	(67,107)	217,386
Finance lease	19,665	(1,343)	(49)	-	10,371	-	-	(6,190)	22,454

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2021 (continued)

	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Corporate	**561,184**	**(15,813)**	**(537)**	**307**	**240,459**	**-**	**-**	**(145,507)**	**640,093**
Finance lease	242,356	(7,841)	(139)	-	26,711	-	-	(213,395)	47,692
Investment loans	172	(1,866)	-	-	90,501	-	-	183,404	272,211
Credit cards	278,260	(2)	-	-	187	-	-	(278,208)	237
Working capital loans	40,396	(6,104)	(398)	307	123,060	-	-	162,692	319,953
Phase 2									
Cash pool and factoring	**-**	**-**	**-**	**-**	**3,567**	**-**	**-**	**-**	**3,567**
Loans and advances	**85,158**	**31,365**	**(4,360)**	**847**	**18,525**	**-**	**-**	**(33,464)**	**98,071**
Retail	**49,098**	**15,552**	**(3,612)**	**200**	**4,763**	**-**	**-**	**(14,235)**	**51,766**
Other loans	87	42	-	-	-	-	-	(86)	43
Mortgage loans	27,921	8,595	(1,406)	181	1,148	-	-	(6,613)	29,826
Credit cards	1,934	219	(77)	19	453	-	-	(940)	1,608
Consumer loans	14,997	5,353	(2,036)	-	1,793	-	-	(4,621)	15,486
Finance lease	4,159	1,343	(93)	-	1,369	-	-	(1,975)	4,803
Phase 2									
Corporate	**36,060**	**15,813**	**(748)**	**647**	**13,762**	**-**	**-**	**(19,229)**	**46,305**
Finance lease	15,880	7,841	(562)	106	3,693	-	-	(9,928)	17,030
Investment loans	12,725	1,866	(186)	-	2,138	-	-	(4,421)	12,122
Credit cards	34	2	-	-	31	-	-	(29)	38
Working capital loans	7,421	6,104	-	541	7,900	-	-	(4,851)	17,115

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2021 (continued)

	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 3									
Cash pool and factoring	**26**	**-**	**-**	**-**	**-**	**-**	**(26)**	**-**	**-**
Loans and advances	**61,838**	**-**	**7,923**	**(1,154)**	**5,224**	**-**	**(645)**	**(16,192)**	**56,994**
Retail	**46,873**	**-**	**6,637**	**(200)**	**3,552**	**-**	**(455)**	**(10,451)**	**45,956**
Other loans	49	-	-	-	-	-	-	(21)	28
Mortgage loans	33,603	-	2,783	(181)	1,794	-	(397)	(6,739)	30,863
Credit cards	805	-	112	(19)	83	-	(2)	(359)	620
Consumer loans	12,229	-	3,601	-	1,631	-	(56)	(3,200)	14,205
Finance lease	187	-	141	-	44	-	-	(132)	240

20. Loans and advances to clients (continued)

(c) Impairment losses on loans and advances to clients (continued)

Loans and advances to customers during the year of depreciation before impairment 2021 (continued)

	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 3									
Corporate	**14,965**	**-**	**1,286**	**(954)**	**1,672**	**-**	**(190)**	**(5,741)**	**11,038**
Finance lease	3,083	-	701	(106)	290	-	-	(1,705)	2,263
Investment loans	2,364	-	186	-	412	-	(24)	(1,220)	1,718
Credit cards	138	-	-	-	7	-	-	(12)	133
Working capital loans	9,380	-	399	(848)	963	-	(166)	(2,804)	6,924
Total correction for debt instruments	**1,629,637**	**-**	**-**	**-**	**580,325**	**-**	**(671)**	**(489,237)**	**1,720,054**

20. Loans and advances to clients (continued)

(d) Movement of impairment of loans and advances to customers in 2022

	Initial Balance 01.01.2022	**Changes due to migration from Phase 1 to Phase 2**	**Changes due to migration from Phase 1 and Phase 2 to Phase 3**	**Changes due to migration from Phase 2 and Phase 3 to Phase 1**	**Increases due to occurrence and acquisition**	**Changes due to updating the valuation methodology**	**Decrease of the correction due to derecognitio n**	**Changes due to repayments**	**Balance at the end of the period**
Phase 1									
Cash pool and factoring	**100**	**-**	**-**	**-**	**50**	**-**	**-**	**-**	**150**
Loans and advances	**34,612**	**(14,448)**	**(41)**	**693**	**8,954**	**-**	**-**	**(10,489)**	**19,281**
Retail	**8,585**	**(279)**	**(35)**	**146**	**2,287**	**-**	**-**	**(4,248)**	**6,456**
Other loans	2	-	-	-	-	-	-	(1)	1
Mortgage loans	5,848	(168)	(17)	144	1,201	-	-	(2,896)	4,112
Credit cards	37	(1)	-	-	11	-	-	(14)	33
Consumer loans	2,569	(82)	(18)	2	1,042	-	-	(1,253)	2,260
Finance lease	129	(28)	-	-	33	-	-	(84)	50
Corporate	**26,027**	**(14,169)**	**(6)**	**547**	**6,667**	**-**	**-**	**(6,241)**	**12,825**
Finance lease	444	(301)	(1)	546	701	-	-	(608)	781
Investment loans	12,498	(6,953)	-	-	2,708	-	-	(3,550)	4,703
Credit cards	4	(1)	-	-	3	-	-	(1)	5
Working capital loans	13,081	(6,914)	(5)	1	3,255	-	-	(2,082)	7,336

20. Loans and advances to clients (continued)

(d) Movement of impairment of loans and advances to customers in 2022 (continued)

Phase 2	Initial Balance 01.01.2022	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Cash pool and factoring	**4**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**5**
Loans and advances	**10,422**	**14,448**	**(955)**	**(157)**	**6,396**	**-**	**-**	**(5,893)**	**24,261**
Retail	**5,764**	**279**	**(599)**	**(146)**	**1,966**	**-**	**-**	**(2,285)**	**4,979**
Other loans	15	-	-	-	-	-	-	(15)	-
Mortgage loans	4,027	168	(288)	(144)	1,206	-	-	(1,511)	3,458
Credit cards	40	1	(6)	-	15	-	-	(18)	32
Consumer loans	1,534	82	(304)	(2)	641	-	-	(632)	1,319
Finance lease	148	28	(1)	-	104	-	-	(109)	170
Corporate	**4,658**	**14,169**	**(356)**	**(11)**	**4,430**	**-**	**-**	**(3,608)**	**19,282**
Finance lease	1,370	301	(347)	(10)	951	-	-	(796)	1,469
Investment loans	1,860	6,953	(7)	-	2,021	-	-	(946)	9,881
Credit cards	1	1	-	-	1	-	-	-	3
Working capital loans	1,427	6,914	(2)	(1)	1,457	-	-	(1,866)	7,929

20. Loans and advances to clients (continued)

(d) Movement of impairment of loans and advances to customers in 2022 (continued)

Phase 3	Initial Balance 01.01.2022	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Cash pool and factoring	**-**	**-**	**-**	**-**	**956**	**-**	**-**	**-**	**956**
Loans and advances	**52,036**	**-**	**996**	**(536)**	**11,192**	**-**	**(4,655)**	**(12,615)**	**46,418**
Retail	**41,211**	**-**	**634**	**-**	**9,399**	**-**	**(3,231)**	**(9,189)**	**38,824**
Other loans	28	-	-	-	-	-	(18)	(10)	-
Mortgage loans	26,355	-	305	-	4,348	-	(2,105)	(5,593)	23,310
Credit cards	615	-	6	-	231	-	-	(301)	551
Consumer loans	13,973	-	322	-	4,607	-	(1,108)	(3,176)	14,618
Finance lease	240	-	1	-	213	-	-	(109)	345
Corporate	**10,825**	**-**	**362**	**(536)**	**1,793**	**-**	**(1,424)**	**(3,426)**	**7,594**
Finance lease	2,263	-	348	(536)	559	-	-	(1,063)	1,571
Investment loans	1,724	-	7	-	351	-	(12)	(540)	1,530
Credit cards	133	-	-	-	14	-	-	(88)	59
Working capital loans	6,705	-	7	-	869	-	(1,412)	(1,735)	4,434
Total correction for debt instruments	**97,174**	**-**	**-**	**-**	**27,549**	**-**	**(4,655)**	**(28,997)**	**91,071**

20. Loans and advances to clients (continued)

(d) Movement of impairment of loans and advances to customers in 2021

Phase 1	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Cash pool and factoring	**35**	**-**	**-**	**-**	**65**	**-**	**-**	**-**	**100**
Loans and advances	**27,917**	**(386)**	**(90)**	**-**	**13,225**	**-**	**-**	**(6,054)**	**34,612**
Retail	**7,838**	**(232)**	**(76)**	**-**	**3,036**	**-**	**-**	**(1,981)**	**8,585**
Other loans	4	-	-	-	-	-	-	(2)	2
Mortgage loans	5,122	(140)	(30)	-	1,975	-	-	(1,079)	5,848
Credit cards	87	(5)	(1)	-	16	-	-	(60)	37
Consumer loans	2,550	(82)	(45)	-	954	-	-	(808)	2,569
Finance lease	75	(5)	-	-	91	-	-	(32)	129
Corporate	**20,079**	**(154)**	**(14)**	**-**	**10,189**	**-**	**-**	**(4,073)**	**26,027**
Finance lease	342	(50)	(1)	-	266	-	-	(113)	444
Investment loans	10,700	(11)	-	-	3,846	-	-	(2,037)	12,498
Credit cards	3	-	-	-	4	-	-	(3)	4
Working capital loans	9,034	(93)	(13)	-	6,073	-	-	(1,920)	13,081

20. Loans and advances to clients (continued)

(d) Movement of impairment of loans and advances to customers in 2021 (continued)

	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 2									
Cash pool and factoring	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**-**	**4**
Loans and advances	**8,329**	**386**	**(685)**	**666**	**5,272**	**-**	**-**	**(3,546)**	**10,422**
Retail	**5,310**	**232**	**(677)**	**19**	**2,546**	**-**	**-**	**(1,666)**	**5,764**
Other loans	75	-	-	-	-	-	-	(60)	15
Mortgage loans	3,296	140	(298)	-	1,727	-	-	(838)	4,027
Credit cards	153	5	(10)	19	22	-	-	(149)	40
Consumer loans	1,648	82	(368)	-	687	-	-	(515)	1,534
Finance lease	138	5	(1)	-	110	-	-	(104)	148
Corporate	**3,019**	**154**	**(8)**	**647**	**2,726**	**-**	**-**	**(1,880)**	**4,658**
Finance lease	883	50	(3)	106	928	-	-	(594)	1,370
Investment loans	1,325	11	(5)	-	816	-	-	(287)	1,860
Credit cards	6	-	-	-	1	-	-	(6)	1
Working capital loans	805	93	-	541	981	-	-	(993)	1,427

20. Loans and advances to clients (continued)

(d) Movement of impairment of loans and advances to customers in 2021 (continued)

	Initial Balance 01.01.2021	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 3									
Cash pool and factoring	**26**	**-**	**-**	**-**	**-**	**-**	**-**	**(26)**	**-**
Loans and advances	**45,664**	**-**	**775**	**(666)**	**18,492**	**-**	**(645)**	**(11,584)**	**52,036**
Retail	**32,811**	**-**	**753**	**(19)**	**15,567**	**-**	**(455)**	**(7,446)**	**41,211**
Other loans	49	-	-	-	-	-	-	(21)	28
Mortgage loans	20,071	-	328	-	10,624	-	(397)	(4,271)	26,355
Credit cards	773	-	11	(19)	160	-	(2)	(308)	615
Consumer loans	11,731	-	413	-	4,626	-	(56)	(2,741)	13,973
Finance lease	187	-	1	-	157	-	-	(105)	240
Corporate	**12,853**	**-**	**22**	**(647)**	**2,925**	**-**	**(190)**	**(4,138)**	**10,825**
Finance lease	3,083	-	4	(106)	630	-	-	(1,348)	2,263
Investment loans	1,582	-	5	-	908	-	(24)	(747)	1,724
Credit cards	104	-	-	-	39	-	-	(10)	133
Working capital loans	8,084	-	13	(541)	1,348	-	(166)	(2,033)	6,705
Total correction for debt instruments	**81,971**	**-**	**-**	**-**	**37,058**	**-**	**(645)**	**(21,210)**	**97,174**

21. Property, plant and equipment

In BGN thousand	**Lands and buildings**	**Plant and equipment**	**Fixtures and fittings**	**Transport vehicles**	**Expenses for acquisition of fixed assets**	**Total**
Carrying amount						
As at 1 January 2021	7,299	12,386	6,711	740	1,722	28,858
Received	2,068	1,733	1,193	-	5,626	10,620
Discontinued	-	(2,036)	(1,570)	(34)	(6,275)	(9,915)
	9,367	**12,083**	**6,334**	**706**	**1,073**	**29,563**
As at 1 January 2022	9,367	12,083	6,334	706	1,073	29,563
Received	6,748	2,081	546	-	10,155	19,530
Discontinued	(34)	(1,443)	(939)	-	(9,707)	(12,123)
as at 31 December 2022	**16,081**	**12,721**	**5,941**	**706**	**1,521**	**36,970**
Depreciation						
As at 1 January 2021	(3,758)	(11,008)	(5,765)	(740)	-	(21,271)
Depreciation costs for the year	(299)	(703)	(215)	-	-	(1,217)
Depreciation of out of use	-	2,031	1,557	34	-	3,622
As at 31.12.2021	**(4,057)**	**(9,680)**	**(4,423)**	**(706)**	**-**	**(18,866)**
As at 1 January 2022	(4,057)	(9,680)	(4,423)	(706)	-	(18,866)
Depreciation costs for the year	(442)	(880)	(299)	-	-	(1,621)
Depreciation of out of use	-	1,364	931	-	-	2,295
as at 31 December 2022	**(4,499)**	**(9,196)**	**(3,791)**	**(706)**	**-**	**(18,192)**
Carrying amount						
31 December 2021	**5,310**	**2,403**	**1,911**	**-**	**1,073**	**10,697**
31 December 2022	**11,582**	**3,525**	**2,150**	**-**	**1,521**	**18,778**

Management has reviewed property, plant and equipment and has not identified any indications that the carrying amount of the assets exceeds their recoverable amount. Therefore, as at 31 December 2022 and 31 December 2021, no impairment of property, plant and equipment was recognized.

22. Right-of-use assets

Right-of-use assets (by asset class)

In BGN thousand	31 DECEMBER 2022	31 DECEMBER 2021
Buildings	13,000	14,407
Plant and equipment	235	213
Motor vehicles	122	140
Towards the end of the reporting period	**13,357**	**14,760**

Right-of-use assets (by asset class)

In BGN thousand	Buildings	Motor vehicles	Plant and equipment	Total
Carrying amount				
As at 1 January 2021	**13,979**	**384**	**274**	**14,637**
Acquired - new leases	9,235	36	228	9,499
Terminated leases	(1,480)	(13)	(32)	(1,525)
As at 31.12.2021	**21,734**	**407**	**470**	**22,611**
Depreciation				
As at 1 January 2021	(5,733)	(190)	(176)	(6,099)
Depreciation for the year	(2,870)	(87)	(109)	(3,066)
Depreciation of out of use	1,276	10	28	1,314
As at 31.12.2021	(7,327)	(267)	(257)	(7,851)
Net carrying amount as at 1 January 2021	**8,246**	**194**	**98**	**8,538**
Net carrying amount as at 31 December 2021	**14,407**	**140**	**213**	**14,760**

In BGN thousand	Buildings	Motor vehicles	Plant and equipment	Total
Carrying amount				
As at 1 January 2022	**21,734**	**407**	**470**	**22,611**
Acquired - new leases	2,735	79	166	2,980
Terminated leases	(3,455)	(227)	-	(3,682)
As at 31 December 2022	**21,014**	**259**	**636**	**21,909**
Depreciation				
As at 1 January 2022	(7,327)	(267)	(257)	(7,851)
Depreciation for the year	(2,518)	(52)	(144)	(2,714)
Depreciation of out of use	1,831	182	-	2,013
As at 31 December 2022	(8,014)	(137)	(401)	(8,552)
Net carrying amount as at 1 January 2022	**14,407**	**140**	**213**	**14,760**
Net carrying amount as at 31 December 2022	**13,000**	**122**	**235**	**13,357**

22. Right-of-use assets (continued)

The following amounts are recognized in the comprehensive income statement:

Depreciation of right-of-use assets (by asset class)

In BGN thousand	**2022**	**2021**
Lands and buildings	2,518	2,870
Motor vehicles	52	87
Plant and equipment	144	109
Total depreciation expenses	**2,714**	**3,066**
Interest expense on lease liabilities (included in financial expenses)	67	53
Cost related to short-term leasing (included in administrative expenses)	536	501
(Profit) / Loss from termination of the lease contract	(2)	(5)
Total expenses associated with lease contracts	**601**	**549**

The following amounts are recognized in the cash flow statement:

In BGN thousand	**2022**	**2021**
Cash outflow from lease contracts - financing activity		
Principal	2,359	2,712
Interest	67	53
	2,426	**2,765**
Cash outflow from lease contracts - operating activity	543	504
Total cash outflow	**2,969**	**3,269**

23. Intangible assets

In BGN thousand	**Intangible assets**	**Expenditure on acquisition of intangible assets**	**Total**
Carrying amount			
As at 1 January 2021	**17,299**	**2,707**	**20,006**
Received	2,915	1,840	4,755
Discontinued	(5,145)	(1,662)	(6,807)
As at 31 December 2021	**15,069**	**2,885**	**17,954**
As at 1 January 2022	**15,069**	**2,885**	**17,954**
Received	1,782	1,404	3,186
Discontinued	(1,664)	(1,452)	(3,116)
As at 31 December 2022	**15,187**	**2,837**	**18,024**
Depreciation			
As at 1 January 2021	**(12,376)**	**-**	**(12,376)**
Depreciation costs for the year	(878)	-	(878)
Depreciation of scrap during the year	4,865	-	4,865
As at 31 December 2021	**(8,389)**	**-**	**(8,389)**

23. Intangible assets (continued)

23. Intangible assets (continued)

In BGN thousand	**Intangible assets**	**Expenses on acquisition of intangible assets**	**Total**
As at 1 January 2022	**(8,389)**	**-**	**(8,389)**
Depreciation costs for the year	(1,060)	-	(1,060)
Depreciation of scrap during the year	1,164	-	1,164
As at 31 December 2022	**(8,285)**	**-**	**(8,285)**
Carrying amount			
31 DECEMBER 2021	**6,680**	**2,885**	**9,565**
31 DECEMBER 2022	**6,902**	**2,837**	**9,739**

24. Other financial assets

In BGN thousand	**2022**	**2021**
Transfers for execution	3,141	1,458
Total other financial assets	**3,141**	**1,458**

25. Other assets

In BGN thousand	**2022**	**2021**
Deferred expenses	8,453	6,189
Receivables for fees and comissions	2,034	1,584
Depreciation of receivables for fees and comissions	(2,037)	(1,541)
Materials in stock	348	502
Other assets	2,004	1,935
Total other assets	**10,802**	**8,669**

26. Депозити от клиенти

In BGN thousand	**2022**	**2021**
Individuals		
Current accounts	1,351,381	1,174,193
Deposits	545,161	618,441
Total	**1,896,542**	**1,792,634**
Private enterprises		
Current accounts	1,582,727	1,380,416
Deposits	160,115	110,289
Total	**1,742,842**	**1,490,705**
State-owned enterprises		
Current accounts	26,198	23,135
Deposits	208	208
Total	**26,406**	**23,343**
Total client deposits	**3,665,790**	**3,306,682**

27. Other borrowed funds

In BGN thousand	**2022**	**2021**
Payable to the European Investment Fund under the JEREMIE Initiative	1,078	2,304
Payable to the European Investment Bank on a credit line received	19,817	24,465
Received from credit institutions	227	249
Total other borrowed funds	**21,122**	**27,018**

As at 31 December 2022, the borrowed funds payable to banks on received credit lines included funds for lending to small and medium-sized enterprises received by the European Investment Bank at the amount of BGN 19,817 thousand (2021 – BGN 24,465 thousand).

The Bank has concluded a contract with the European Investment Fund (JEREMIE), which is part of the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013", providing a resource for the support of small and medium-sized enterprises, with the provided resources amounting to BGN 1,078 thousand (2021 – BGN 2,304 thousand).

28. Liabilities under lease agreements

In BGN thousand	**31 DECEMBER 2022**	**31 DECEMBER 2021**
Short-term lease liabilities	2,537	2,251
Long -term leasing liabilities	11,540	12,814
Total lease liabilities	**14,077**	**15,065**

	31 DECEMBER 2022	
In BGN thousand	**Minimal lease payments**	**Present value of lease payments**
Up to 1 year	2,592	2,537
Between 1 and 5 years	8,448	8,294
More than 5	3,264	3,246
Total minimum lease payments	**14,304**	**14,077**
Reduced by amounts representing financial expenses	(227)	-
Present value of the minimum lease payments	**14,077**	**14,077**

	31 DECEMBER 2021	
In BGN thousand	**Minimal lease payments**	**Present value of lease payments**
Up to 1 year	2,311	2,269
Between 1 and 5 years	9,046	8,957
More than 5	3,961	4,083
Total minimum lease payments	**15,318**	**15,309**
Reduced by amounts representing financial expenses	(253)	(244)
Present value of the minimum lease payments	**15,065**	**15,065**

28. Liabilities under lease agreements (continued)

The tables below presents the movement of lease liabilities for the specific period:

(*In BGN thousand*)	**Lease liabilities**
Balance sheet as at 01 January 2022	**(15,065)**
Lease principal payments	2,359
Accrued and paid interest associated with leases	(67)
Total cash outflows from lease contracts	**2,292**
New leases	(2,980)
Terminated leases	1,676
Balance sheet as at 31 December 2022	**(14,077)**

(*In BGN thousand*)	**Lease liabilities**
Balance sheet as at 01 January 2021	**(8,431)**
Lease principal payments	2,712
Accrued and paid interest associated with leases	(53)
Total cash outflows from lease contracts	**2,659**
New leases	(9,499)
Terminated leases	206
Balance sheet as at 31 December 2021	**(15,065)**

29. Deferred taxes

Deferred income taxes are calculated on all temporary differences using the balance sheet liability method by applying a 2022 tax rate of 10% (2021: 10%).

The deferred income tax expense is attributable to the following balance sheet items:

In BGN thousand	**Assets**		**Liabilities**		**Net (assets)/ liabilities**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Property, plant and equipment			536	506	536	506
Other liabilities	(633)	(552)	-	-	(633)	(552)
Net tax (assets)/ liabilities	**(633)**	**(552)**	**536**	**506**	**(97)**	**(46)**

The movement of temporary tax differences during the year arises from:

In BGN thousand	**Balance 2021**	**In profit and loss**	**Balance 2022**
Property, plant and equipment	506	30	536
Other liabilities	(552)	(81)	(633)
Net deferred tax (assets)/ liabilities	**(46)**	**(51)**	**(97)**

In BGN thousand	**Balance 2020**	**In profit and loss**	**Balance 2021**
Property, plant and equipment	454	52	506
Other liabilities	(309)	(243)	(552)
Net deferred tax (assets)/ liabilities	**145**	**(191)**	**(46)**

30. Other financial liabilities

In BGN thousand	**2022**	**2021**
Transfers for execution	7,227	5,924
Total financial liabilities	**7,227**	**5,924**

31. Other liabilities

In BGN thousand	**2022**	**2021**
Payables to personnel	2,912	2,867
Payables under defined benefit plans	428	404
Tax and social security obligations	651	584
Payables to suppliers	128	114
Other liabilities	6,360	2,713
Total other liabilities	**10,479**	**6,682**

32. Payables under defined benefit pension plans

The Bank has the obligation to pay to those of its resigning employees who retire in compliance with the requirements of Article 222, § 3 of the Labor Code (LC) in Bulgaria. By virtue of these provisions of the LC, upon termination of the labor contracts with employees who have acquired the right to retire, their employer pays a compensation at the amount of two gross salaries. Provided the employee has completed 10 and more years of service at retirement, the compensation is at the amount of 6 gross salaries.

The approximate amount of payables for defined benefit plans at retirement as of every accounting period and the expenses recognized in profit and losses are based on actuarial reports (the information about the parameters and assumptions used is disclosed below).

The defined benefit plan (liability for retirement income) is unfunded.

Movements in the present value of payments under defined benefit plans

In BGN thousand	**2022**	**2021**
The present value of payables at 1 January	**404**	**394**
Expenses for hired services	39	41
Interest expense	6	1
Amounts paid during the period	(59)	(94)
Actuarial (gains) / losses from changes in demographic and financial assumptions	38	62
The present value of the payable at 31 December	**428**	**404**

Actuarial assumptions

The main actuarial assumptions at the reporting date (presented as averages) are presented as follows:

	2022	**2021**
Discount percentage at 31 December	1,51125%	0.16646%
Gross wage growth	3.00%	3.00%

33. Capital and reserves

(a) Fixed capital

As at 31 December 2022, Allianz Bank Bulgaria's registered capital amounted to BGN 69,000 thousand. (2021 - BGN 69,000 thousand), which includes registered capital amounting to BGN 69,000 thousand. The registered capital of the Bank is fully paid and consists of 69,000,000 registered shares with voting rights, each with a nominal value of 1 BGN.

The share capital structure as at 31 December 2022 and 31 December 2021 was as follows:

Shareholders	**2022** *% holding*	**2021** *% holding*
Allianz Bulgaria Holding	99.891	99.891
Other	0.109	0.109
	100.000	100.000

The ultimate beneficial owner is Allianz SE.

(b) Retained earnings

As at 31 December 2022, the balance of retained earnings amounted to BGN 174,584 thousand (2021: BGN 174,622 thousand) and includes profit from previous period amounting to BGN 174,584 thousand (2021: BGN 157,296 thousand), profit for the year BGN 23,213 thousand (2021: BGN 17,326 thousand) and loss from defined benefit plans amounting to BGN 38 thousand (2021: BGN 62 thousand).

(c) Statutory reserves

Legal reserves are created in accordance with local law requirements. Under the Commerce Act, the Bank should set aside from its profit statutory reserves until it reaches 10% of its capital. At 31 December 2022 the statutory reserves amount to BGN 9,850 thousand (2021 BGN 9,850 thousand).

(d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of financial assets at fair value through other comprehensive income until the investments are derecognized or impaired. At 31 December 2022 the fair value reserves amount to BGN (3,370) thousand (2021: BGN 4,025 thousand).

(e) Capital base

The Bank applies a standardized approach with regard to credit and market risk, and a basic indicator approach for operating risk. The Bank monitors changes in major exposure classes, capital base, and total capital adequacy on a monthly basis, and reports the levels of regulatory and internal capital to the Management and Supervisory Board. The Bank prepares quarterly reports, which it submits to the BNB in compliance with the terms specified in EU Regulation 2021/451 of 28 June 2021. According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%. At the end of 2022 Allianz Bank Bulgaria AD has complied with the decisions of the BNB Governing Council dated 21.06.2022 for capital stability - the total capital adequacy should not be less of 15,74%, formed on the basis of:

33. Capital and reserves (continued)

(e) Capital base (continued)

- Minimum total capital ratio of 8% for risk-weighted assets in accordance with Article 92 (1) of Regulation 575/2013 and additional common equity requirement of 1,24% of risk-weighted assets, or 9,24% total capital requirement under the Supervisory Review and Evaluation Process/ SREP; EBA/GL/2014/13/
- Systemic risk buffer equal to 3% of the amount of risk-weighted assets of the bank.
- Safeguard capital buffer, equal to 2.5% of the amount of risk-weighted assets of the bank.
- Countercyclical capital buffer, applied to risk loan expositions in Republic of Bulgaria at the end of 2022 – 1,0% / 2021: 0,5% /, according to a BNB decision.

The capital adequacy ratio is 16.91% / at a minimum required of 15.74%./ and Tier 1 capital adequacy ratio of 16.91%. As at 31.12.2021, the Bank does not recognize Tier 2 capital in in its capital base.

In BGN thousand	**Equity/ Capital base 2022**	**Equity/ Capital base 2021**
Registered and paid-in capital	69,000	69,000
Retained earnings from past year	174,584	157,296
Other reserves	9,850	9,850
Total other comprehensive income	(3,370)	4,025
Total capital and reserves	**250,064**	**240,171**
Intangible assets	(6,901)	(6,680)
Additional adjustments in the value	(1,147)	(3,652)
Other Transitional Adjustments of Tier 1 Capital	4,725	
Tier 1 capital for law requirements	**246,741**	**229,839**
Tier 1 capital	**246,741**	**229,839**
Additional Tier 1 capital	-	-
Tier 2 capital	-	-
Total equity/ Capital base	**246,741**	**229,839**

* the capital reductions are based on corrections for specific credit risk in the regulatory capital (Regulations 183/2014 and 241/2014), and the prudential assessment of assets and liabilities assessed at fair value introduced at the end of 2018 / Regulation 2021/451 of the EU, via Delegated regulation of the EU 2016/101 /

The capital base of the Bank does not include the financial result as of the end of 2022.

(f) Capital requirements and ratios

As of 31 December 2022, the Bank meets the supervisory requirements as follows:

33. Capital and reserves (continued)

(f) Capital requirements and ratios (continued)

In BGN thousand	**Capital requirements and ratios**
Risk exposures for credit risk, counterparty credit risk, risk of dispersion, and free supplies in BGN thousand	
Regional governments or local authorities	527
Institutions	72,038
Companies	447,541
Retail exposures	434,175
Exposures secured by real estate	273,040
Non-performing exposures	5,345
Capital Exposures	8,015
Other positions	50,031
Multilateral development banks	3,980
Total risk exposures for credit risk, counterparty credit risk, risk of dispersion, and free supplies in BGN thousand	**1,294,692**
Risk exposures for operating risk	**164,750**
Total risk exposures in BGN thousand	**1,459,442**
Total Capital adequacy ratio (%)	**16,91%**
Tier 1 capital adequacy ratio (%)	16,91%
Safeguard capital buffer	36,486
Systemic risk buffer	41,474
Institution-specific countercyclical capital buffer	14,448
Capital requirements in relation to second pillar adjustments	18,097

The described indicators demonstrate the Bank's main aim – maintaining optimum capital adequacy, i.e., optimum capital adequacy of bank risks to achieve its strategic aims, while complying with individual bank regulations.

34. Off-balance sheet commitments

Bank guarantees and letters of credit

The Bank provides bank guarantees and letters of credit in order to guarantee the execution of commitments of its clients to third parties. These agreements have fixed limits and usually have a validity period of up to two years.

Amounts under agreements to issue guarantees and letters of credit are shown in the table below according to the relevant category. It is considered that the values reflected in the commitment table are fully translated. Amounts reflected in the table as guarantees and letters of credit represent the maximum amount of accounting loss that will be reflected in the statement of financial position in the event that counterparties fail to meet their obligations.

34. Off-balance sheet commitments (continued)

Bank guarantees and letters of credit (continued)

In BGN thousand	**2022**	**2021**
Unutilized credit commitments:	225,985	184,882
Letters of credit	4,975	9,512
Guarantees	46,480	44,237
Impairment	(4,351)	(4,019)
Total off-balance sheet commitments	**273,089**	**234,612**

These commitments and contingent liabilities are reported only off-balance-sheet, with only engagement fees and expected credit loss being recognized in the statement of financial position until the engagement expires or is executed. Many of the contingent liabilities are expected to close without incurring partial or full payments. Therefore, the amounts do not represent future cash flows.

35. Assets provided as collateral

As at 31 December 2022, the Bank has pledged government securities with a nominal value of BGN 41,312 thousand (2021: BGN 41,244 thousand) and market value BGN 36,616 thousand (2021: BGN 39,655 thousand) as collateral for attracted funds from the State Budget, Government Securities with a nominal value of BGN 45,111 thousand (2021: BGN 44,835 thousand) and market value BGN 45,254 thousand (2021: BGN 48,142 thousand) as collateral for loans from the European Investment Bank under a program for targeted refinancing of commercial banks and a program for providing a targeted credit line for financing of agricultural producers.

36. Trust asset management

The Bank offers asset management trust services to Allianz Bulgaria Holding Group companies by holding and managing government securities on behalf of the Bank. For these services, the Bank recognizes income from fees. The trust assets at the end of 2022 amounted to BGN 4,398 thousand (2021: BGN 4,320 thousand) and are not assets of the Bank and are not reflected in the Bank's statement of financial position. The Bank is not exposed to credit risk related to the management of these assets because it does not guarantee them.
Fees and commissions from trust management of Allianz Bulgaria Securities are BGN 121 thousand for 2022 (2021: BGN 264 thousand).

37. Deals with related parties

(a) Parent and ultimate controlling entity

Identification of related parties

The Bank deems that it is a related party in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (IAS 24) with:

- The parent company, Allianz Bulgaria Holding AD, from which 66.16% are controlled by Allianz SE (ultimate controlling party) and group companies of Allianz SE;

An investor with significant influence, holding directly or indirectly (with/or immediate family) 33.84% of the capital of Allianz Bulgaria Holding

- AD, companies and non-profit entities under its direct or indirect control;
- Key management personnel and companies and legal persons under their direct and indirect control.

37. Deals with related persons (continued)

(a) Parent and ultimate controlling entity (continued)

The table below shows the remuneration of key management personnel:

Remuneration of key management personnel

In BGN thousand	**2022**	**2021**
Short-term earnings	1,297	1,194
Total	**1,297**	**1,194**

The related party transactions are described below.

Banking service

The Bank opens and keeps current accounts of related parties, accepts deposits from them, accrues interest charges, grants them loans from which it receives interest income. The Bank also receives income from fees and commissions from bank services provided to related parties.

Leases

The Bank acquires a financial lease from a related party. The value of the acquired lease receivables during the period amounted to BGN 68,073 thousand (2021: BGN 45,814 thousand). The Bank provides credit risk management services to the related party and the risk to the lessee of the related party.

Other financial services

The Bank receives income from fees and commissions from the sale of insurance and retirement benefits at the expense of related parties, which presents in the financial statements other operating income.

Other related party transactions include income and expense from / rents from leased or leased premises in own buildings, staff training costs, and insurance costs related to the Bank's operations.

(b) Transactions and balances

Related parties	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand			**2022**	**2021**	**2022**	**2021**
Allianz Bulgaria Holding AD	Controls directly or indirectly the Bank's activities	Current accounts	-	-	948	3,459
		Deposits	-	-	8,986	9,002
		Interest payable on deposits	3	(11)	-	-
		Interest expense	-	(29)	-	-
		Interest income	63	-	-	-
		Fees and commissions income	4	5	-	-

37. Deals with related persons (continued)

(b) Transactions and balances (continued)

Related parties	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand			**2022**	**2021**	**2022**	**2021**
IC Allianz Bulgaria AD	Company under common control	Current accounts	-	-	23,616	20,496
		Deposits	-	-	7,839	15
		Interest payable on deposits	5	-	-	-
		Interest receivables	3	-	-	-
		Interest expense	17	(207)	-	-
		Interest income	194	-	-	-
		Fees and commissions income	302	312	-	-
		Insurance expenses	1,241	1,030	-	-
		Rental costs	127	285	-	-
		Other income	114	118	-	-
		Guarantees	-	-	1,173	1,173
		Lease liabilities	-	-	46	277
		Purchased fixed assets	3,803	370	-	-
IC Energy AD	Company under common control	Current accounts	-	-	3,747	13,431
		Deposits	-	-	1,210	1,210
		Interest expense	-	(65)	-	-
		Interest income	54	-	-	-
		Fees and commissions income	20	32	-	-
		Rental costs	5	5	-	-
		Guarantees	-	-	1,173	1,173
		Lease liabilities	-	-	-	5

37. Deals with related persons (continued)

(b) Transactions and balances (continued)

Related parties	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand			**2022**	**2021**	**2022**	**2021**
IC Allianz Bulgaria Life JSC	Company under common control	Current accounts	-	-	4,132	15,191
		Deposits	-	-	2,934	-
		Accrued interest payable	2	-	-	-
		Interest expense	6	(40)	-	-
		Interest income	58	-	-	-
		Fees and commissions income	158	306	-	-
		Other income	807	520	-	-
		Rental costs	84	128	-	-
		Insurance expenses	1,342	1,674	-	-
		Purchased fixed assets	518	518	-	-
		Lease liabilities			112	225
PIC Allianz Bulgaria AD	Company under common control	Current accounts	-	-	9,290	4,577
		Deposits	-	-	1,961	6
		Interest payable	1	-	-	-
		Interest expense	4	(99)	-	-
		Interest income	60	-	-	-
		Fees and commissions income	24	21	-	-
		Other income	188	395	-	-
		Rental costs	-	6	-	-
		Guarantees	-	-	5	5
		Purchased fixed assets	-	197	-	-
Allianz Leasing Bulgaria AD	Company under common control	Current accounts	-	-	858	2,969
		Commercial credit	-	-	23,470	21,025
		Interest receivables	12	-	-	-
		Interest Income	267	192	-	-
		Interest expense	-	(1)	-	-
		Fees and commissions income	38	12	-	-
		Rental costs	64	109	-	-
		Costs for a transfer of receivables contract	1,999	1,258	-	-
		Transferred receivables	68,073	45,814	-	-
		Other income	1	2	-	-
		Lease liabilities			48	134

37. Deals with related persons (continued)

(b) Transactions and balances (continued)

Related parties *In BGN thousand*	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
			2022	**2021**	**2022**	**2021**
Allianz SE	Ultimate Controlling Owner	Receivables under cash pool	-	-	9,405	9,405
		Interest expense	-	485	-	-
		Marketing expenses	249	223	-	-
		Expenses for staff management	144	137	-	-
		IT costs	(9)	73	-	-
Shareholders and related parties	Companies under the control and joint control of an investor with significant influence and members of his family	Current accounts	-	-	14,760	30,477
		Deposits	-	-	40,737	1,300
		Interest payable on deposits	172	(1)	-	-
		Interest receivable	-	-	1	3
		Interest expense	336	(94)	-	-
		Interest income	25	93	-	-
		Fees and commissions income	70	66	-	-
		Credits and credit commitments	-	-	138	169
		Impairment losses	-	-	1	1
		Expenses for staff management	519	396	-	-
		IT costs	1,902	1,367	-	-
		Rental costs	85	547	-	-

37. Deals with related persons (continued)

(b) Transactions and balances (continued)

As at 31 December 2022, loans and credit commitments had a residual maturity of up to 1 year. The interest rate varies between 2.726 % and 13.75 %. Loans and credit commitments are fully secured. Current accounts are not blocked and allow for free payments.

	Value of transactions for the year ended 31 December		**Final balances as at 31 December**	
In BGN thousand	**2022**	**2021**	**2022**	**2021**
Current accounts	-	-	3,671	1,086
Deposits	-	-	9	4
Interest income	26	15	-	-
Fees and commissions income	2	2	-	-
Remuneration	1,297	1,194	-	-
Credits and credit commitments	-	-	883	655
Impairment losses	-	-	4	9
Guarantees under Art. 240, para. 1 of the Commercial Code	-	-	14	14

As of 31 December 2022, loans and loan commitments to key management personnel have a residual maturity of less than one year and up to twenty-four years, respectively. The interest rate varies between 1.96 % and 15.75 %. Loans and credit commitments are fully secured. Deposits and current accounts are not blocked and payments are made freely. Deposits have a residual maturity of up to one year. The interest rate on deposits is 0.03%.

38. Commitments under operating leases

The Bank has entered into contracts for the operating lease of buildings, cars and equipment. Contracts are of different duration, depending on the needs of the Bank.

In 2022, the amount of BGN 543 thousand was recognized as an expense in profit and loss in respect of operating leases (2021: BGN 501 thousand).

Irrevocable lease payments for operating lease are due as follows:

In BGN thousand	**2022**	**2021**
Less than one year	543	179
	543	**179**

Irrevocable lease payments under operating leases are commitments under short-term leases for leases of parking spaces and ATMs, IT equipment and others, which are exceptions within the meaning of IFRS 16 - Leases.

39. Capital commitments

The contractual commitments for acquiring property, plant and equipment and software amounted to BGN 348 thousand (2021: BGN 3,026 thousand).

40. Events that occurred after the date of preparation of the financial statements

There are no significant events occurring after the date of preparation of the statement of financial position and the activity report that would require additional disclosures or adjustments to the financial statements.