D Commerce Bank AD

Annual Consolidated Financial Statements

as at 31 December 2021
in accordance with IFRS

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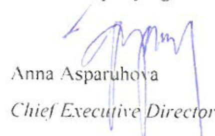
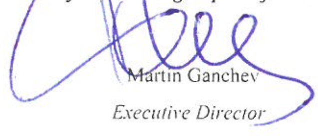
D COMMERCE BANK GROUP

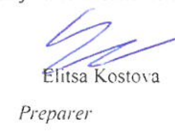
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Notes	**2021 BGN'000**	**2020 BGN'000**
Interest income		30 114	29 540
Interest expense		(2 605)	(2 851)
Net interest income	*4*	**27 509**	**26 689**
Fee and commission income		10 086	8 782
Fee and commission expense		(1 491)	(1 263)
Net fee and commission income	*5*	**8 595**	**7 519**
Net trading income	*6*	5 756	1 686
Net loss on impairment of financial assets	*7*	(1 678)	(3 766)
Operating income		**40 182**	**32 128**
Other operating income, net	*8*	3 260	1 885
Administrative operating expenses			
Personnel expenses	*9*	(12 955)	(12 606)
Depreciation and amortisation	*9, 17, 18, 19*	(3 568)	(3 438)
Other administrative operating expenses	*9*	(10 430)	(9 527)
		(26 953)	**(25 571)**
Profit before income tax		**16 489**	**8 442**
Income tax expense	*10*	(1 658)	(856)
Net profit for the year		**14 831**	**7 586**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans	*27*	(2)	(21)
		(2)	**(21)**
Items that may be reclassified to profit or loss:			
Net (loss)/gain on debt securities at fair value through other comprehensive income		(1 714)	958
		(1 714)	**958**
Other comprehensive income for the year, net of tax	*11*	**(1 716)**	**937**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13 115**	**8 523**
Net profit for the year attributable to:			
Equity holders of the parent		14 831	7 586
Total comprehensive income attributable to:			
Equity holders of the parent		13 115	8 523

The accompanying notes on pages 5 to 126 form an integral part of these consolidated financial statements.


Anna Asparuhova
Chief Executive Director


Martin Ganchev
Executive Director


Elitsa Kostova
Preparer

D COMMERCE BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2021

	Notes	31 December 2021 BGN'000	31 December 2020 BGN'000
ASSETS			
Cash and balances with the Central Bank	12	304 635	212 659
Due from banks	13	57 675	20 416
Loans and advances to customers	14	780 329	649 660
Securities at fair value through other comprehensive income	15	105 104	111 847
Securities at amortised cost	16	67 035	83 668
Investment property	17	18 688	19 874
Property and equipment and right-of-use assets	18	45 450	45 680
Intangible assets	19	3 561	2 972
Assets held for sale	20	78	139
Current tax receivables	21	78	247
Other assets	22	12 423	11 539
TOTAL ASSETS		**1 395 056**	**1 158 701**
LIABILITIES			
Due to banks	23	7 488	10 695
Due to customers	24	1 220 113	994 421
Current tax liabilities	25	100	103
Deferred tax liabilities	26	20	211
Other liabilities	27	9 464	8 514
TOTAL LIABILITIES		**1 237 185**	**1 013 944**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital		90 064	90 064
Reserves		52 763	46 948
Retained earnings		15 044	7 745
TOTAL EQUITY	28	**157 871**	**144 757**
TOTAL EQUITY AND LIABILITIES		**1 395 056**	**1 158 701**

The accompanying notes on pages 5 to 126 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 1 to 126 were approved for issue by the Management Board of the Bank and signed on 29 June 2022 by:

Anna Asparuhova
Chief Executive Director

Martin Ganchev
Executive Director

Elitsa Kostova
Preparer

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

	Notes	2021 BGN'000	2020 BGN'000
Cash flows from operating activities			
Profit before tax		16 489	8 442
Adjustments for non-cash items			
Net loss on impairment of financial assets	7	1 678	3 766
Net loss on impairment of non-financial assets		432	-
Depreciation and amortisation	9,17,18,19	3 568	3 438
Net interest income	4	(27 509)	(26 689)
Cash flows used in operating activities before changes in operating assets and liabilities		**(5 342)**	**(11 043)**
Changes in operating assets			
Decrease/(increase) in securities at fair value through other comprehensive income		4 412	(62 664)
Increase in loans and advances to customers		(128 550)	(55 331)
Decrease in assets held for sale		61	7
Increase in other assets		(675)	(109)
Changes in operating liabilities			
Increase in due to clients		225 327	138 932
Increase in other liabilities		2 064	1 764
Interest received		28 203	24 042
Interest paid		(2 132)	(2 490)
Net cash flows used in operating activities before income tax		*123 368*	*33 108*
Income tax paid		(1 658)	(828)
Net cash flows from operating activities		**121 710**	**32 280**
Cash flows from investing activities			
Purchases of property and equipment		(3 112)	(635)
Proceeds from sale of property and equipment		-	42
Purchases of investment property		(300)	(1 614)
Proceeds from sale of investment property		1 423	106
Purchases of intangible assets		(1 184)	(761)
Purchases of securities at amortised cost		-	(41 860)
Proceeds from securities at amortised cost upon maturity		15 430	14 110
Net cash flows from/ (used in) investing activities		**12 257**	**(30 612)**
Cash flows from financing activities			
Proceeds from bank loans		(3 204)	(3 591)
Payments to banks		(1 528)	(1 573)
Net cash flows (used in) financing activities		**(4 732)**	**(5 164)**
Net increase/(decrease) in cash and cash equivalents		**129 235**	**(3 497)**
Cash and cash equivalents at the beginning of the year	29	233 075	236 572
Cash and cash equivalents at the end of the year	29	**362 310**	**233 075**

The accompanying notes on pages 5 to 126 form an integral part of these consolidated financial statements.

Anna Asparuhova
Chief Executive Director

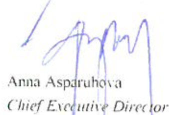
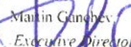
Martin Ganchev
Executive Director

Elitsa Kostova
Preparer

AUDITED BY AFA jointly with Baker Tilly Klitou and Partners
30/06/2022

	Notes	Attributable to equity holders of the parent				
		Share capital	Statutory reserves	Reserve for financial assets at fair value through other comprehensive income	Retained earnings	Total
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 1 January 2020		**90 064**	**36 427**	**1 666**	**8 077**	**136 234**
Changes in equity for 2020						
Distribution of profit for:		-	7 897	-	(7 897)	-
** reserves*		-	*7 897*	-	*(7 897)*	-
Total comprehensive income for the year, including:		-	-	958	7 565	8 523
** net profit for the year*		-	-	-	*7 586*	*7 586*
** other comprehensive income, net of taxes*		-	-	*958*	*(21)*	*937*
Balance at 31 December 2020	28	**90 064**	**44 324**	**2 624**	**7 745**	**144 757**
Changes in equity for 2021						
Distribution of profit for:		-	7 529	-	(7 529)	-
** reserves*		-	7 529	-	(7 529)	-
Total comprehensive income for the year, including:		-	-	(1 714)	14 829	13 115
** net profit for the year*		-	-	-	*14 831*	*14 831*
** other comprehensive income, net of taxes*		-	-	*(1 714)*	*(2)*	*(1 716)*
Balance at 31 December 2021	28	**90 064**	**51 853**	**910**	**15 044**	**157 871**

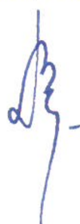
The accompanying notes on pages 5 to 126 form an integral part of these consolidated financial statements.

Anna Asparuhova
Chief Executive Director

Martin Ganchev
Executive Director

Elitsa Kostova
Preparer



1. CORPORATE INFORMATION ON THE GROUP

D Commerce Bank Group (the Group) comprises D Commerce Bank AD (the Bank, the parent) and its three subsidiaries – D Leasing EAD, D Insurance Broker EOOD, D Imoti EOOD and D Park EOOD.

1.1. General information

Parent company

D Commerce Bank AD (formerly Demirbank (Bulgaria) AD) was established on 15 April 1999 as a joint-stock company. The registered address of the Bank is: 8, Gen. E. I. Totleben Blvd., Sofia. D Commerce Bank AD is a universal bank with a full license to provide banking services in the country and abroad, in domestic and foreign currency, and to perform all other transactions under art. 2, Para 1 and 2 of the Credit Institutions Act.

Subsidiaries

D Leasing EAD

D Leasing was entered in the Commercial Register kept at the Registry Agency on 29 July 2014 as a sole owner joint-stock company. 100% of the share capital is held by D Commerce Bank AD. Company's seat and registered address is: 8, Gen. Totleben Blvd., Sofia.

D Insurance Broker EOOD

D Insurance Broker EOOD is a sole owner limited liability company. Sole owner of the capital is D Commerce Bank AD. The circumstances related to the acquisition of 100% of Company's capital by the Bank were entered in the Commercial Register kept at the Registry Agency on 31 July 2013.

Company's seat and registered office is: 8, Gen. Totleben Blvd., Krasno Selo Region, Sofia.

D Imoti EOOD

D Imoti EOOD is a sole owner limited liability company, entered in the Commercial Register kept at the Registry Agency on 14 October 2013. Sole owner of Company's capital is D Commerce Bank AD. Company's seat and registered office is: 8, Gen. Totleben Blvd., Krasno Selo Region, Sofia.

D Park EOOD

D Park EOOD is is a sole owner limited liability company, entered in the Commercial Register kept at the Registry Agency on 15 November 2021. The sole owner of the capital is D Commerce Bank AD. Company's seat and registered office is: 8, Gen. Totleben Blvd., Krasno Selo Region, Sofia.

1.2. Ownership and management

Parent company

As at 31 December 2021, the capital of the Bank (parent company) is held by Mr. Fuat Guven, who holds directly 55.52% of the capital (31 December 2020: 55.52%), and the remaining 44.48% (31 December 2020: 44.48%) through Fortera AD, UIC 175194303. The Bank has a two-tier management system which implies a Management Board and a Supervisory Board.

As at 31 December 2021, the management of the parent company, being the Management Board (MB), is composed of 5 (five) members, namely: Anna Ivanova Asparuhova – Chairperson of the MB and Chief Executive Director; Martin Emilov Ganchev – Member of the MB and Executive Director; Plamen Ivanov Dermendzhiev – Member of the MB; Valentina Dimitrova Borisova – Member of the MB; Zahari Dimitrov Alipiev – Member of the MB.

As at 31 December 2021, those charged with the governance of the parent company represent the Supervisory Board (SB), which is composed of 3 (three) members, namely: Fuat Guven – Chairman of the SB, Valeri Borisov – Member of the SB, Bahattin Gurbuz – Member of the SB.

In accordance with the Credit Institutions Act the provisions of the Articles of Association of D Commerce Bank AD and its court registration, the Bank is represented jointly by all members of the MB, or jointly by two Executive Directors. The Executive Directors of the Bank as at 31 December 2021 are: Anna Ivanova Asparuhova – Chairperson of the MB and Chief Executive Director and Martin Emilov Ganchev – Member of the MB and Executive Director.

The parent company (the Bank) has an Audit Committee, which monitors the work of its external auditors, the operation of the internal audit, the management of risk and the accounting activities as well as the financial reporting process.

The composition of the Audit Committee is as follows: Toma Stoilov – Chairman, Vasilka Ivanova – Member, Ekaterina Mangafova – Kapincheva – member.

Subsidiaries

The Bank is sole owner of the four subsidiaries – D Leasing EAD, D Insurance Broker EOOD, D Imoti EOOD and D Park EOOD.

D Leasing EAD

The management of D Leasing EAD, i.e. the Board of Directors, as at 31 December 2021 is as follows: Ivaylo Georgiev Ivanov, Petya Radeva Valeva and Zorka Iordanova Samokovliyska. The company is represented jointly by any two of the three members of the Board of Directors.

D Insurance Broker EOOD

The company is managed and represented by Lyubomir Svetoslavov Ivanov – General Manager.

D Imoti EOOD

The company is managed and represented by the General Managers Yavor Nikolov Terziev and Ivaylo Georgiev Ivanov.

D Park EOOD

The company is managed and represented by the General Managers Yavor Nikolov Terziev and Ivaylo Georgiev Ivanov.

As at 31 December 2021, the total staff number of the Group is 397 employees (31 December 2020: 415 employees).

1.3. Structure and principal activities of the Group

1.3.1. The *structure* of the Group comprises D Commerce Bank AD as a parent company and the subsidiaries listed below:

	Country	**Interest as at 31 December 2021**	**Interest as at 31 December 2020**
		%	%
D Park EOOD	Bulgaria	100%	-
D Imoti EOOD	Bulgaria	100%	100%
D Leasing EAD	Bulgaria	100%	100%
D Insurance Broker EOOD	Bulgaria	100%	100%

The table below presents information about the date when the parent has obtained control over the respective subsidiary:

	Date of acquisition of control
D Park EOOD	15 November 2021
D Leasing EAD	29 July 2014
D Insurance Broker EOOD	9 July 2013
D Imoti EOOD	14 October 2013

1.3.2. Principal activities

Parent company

The parent company (the Bank) holds a general banking license issued by the Central Bank of Bulgaria, the Bulgarian National Bank (BNB), and is allowed to perform all banking operations permitted by

the Bulgarian law.

The Bank's main activities in 2021 were related to attracting deposits from customers, granting loans to business customers and individuals, servicing payments of customers in the country and abroad, trading securities, performing repurchase agreements on the interbank market, dealing in foreign currencies, issuing letters of credit and bank guarantees and providing other financial services in Bulgaria.

As at 31 December 2021 the Bank has established 41 structural units, including Headquarters, 29 Financial Centres, 4 Offices and 7 remote workplaces (IRM) in various cities in Bulgaria.

Subsidiaries

D Leasing EAD is a financial institution in the meaning of Art. 3a of the Credit Institutions Act and by virtue of Order No BNB-135013 of 1 December 2014 it is entered in the Financial Institutions Register kept by the BNB.

The main activity of the company includes the following types of transactions: finance leases, guarantee transactions, money brokerage, acquisition of receivables on loans and other forms of financing (factoring, forfeiting, etc.), acquisition of interests in credit institutions or other financial institutions, granting of loans with funds not raised through public attraction of deposits or other recoverable funds.

The principal activities of *D Insurance Broker EOOD* include insurance brokerage or intermediation by assignment for the conclusion and performance of insurance and / or reinsurance contracts and the related consultancy services (following the receipt of a license), as well as other activities and transactions not forbidden by law, excluding security guards and similar activities.

The principal activities of *D Imoti EOOD* include the purchase-and-sale of real estate, design, furnishing, construction of real estate for sale, rental.

The principal activities of *D Park EOOD* are: building an industrial zone, creation and registration of an industrial park pursuant to the Industrial Parks Act; operation, management and development of the industrial park.

The Bank and its subsidiaries carry out their activities entirely on the territory of the Republic of Bulgaria

1.4. COVID-19 pandemic – impact, effects, actions and measures taken

On 11 March 2020 the World Health Organisation declared a COVID-19 pandemic, and on 13 March 2020 the Bulgarian Parliament imposed a state of emergency in Bulgaria, as a result of which a number of restrictive measures were taken.

On 24 March 2020, the State of Emergency Act was promulgated, imposing measures for the period of the pandemic state of emergency in various areas – employment relations and social security, taxation and annual financial closure, default and forced execution, terms and deadlines, etc. Decisions

and orders of the Council of Ministers and the Ministry of Health were adopted for introducing anti-epidemic measures on the territory of the country aimed to protect and preserve the population's life and health in relation to: a ban on entering the country and applying measures (quarantine or provision of a negative lab result from a PCR test prior to entering the country) for countries with high COVID-19 rates and significant pandemic spread; observing requirements on physical distance, hand hygiene, disinfection and wearing protective face masks in indoor public places; temporary suspension or restriction of the operations of public sites and/or other sites or services rendered to citizens, etc.

On 10 April 2020 the Bulgarian National Bank ("BNB") approved a "Procedure for deferral and settlement of payables due to banks and their subsidiaries – financial institutions, in relation to the state of emergency imposed by Parliament on 13 March 2020" (the "Procedure"), resulting from the COVID-19 pandemic and consequences thereof. The Procedure allowed borrowers affected by the restrictive measures applied to defer the repayment of their debts to financial institutions. The Procedure initially provided for deferral possibility for up to 6 months, not later than 31 December 2020. Consequently, the Procedure was amended and the period was extended to 31 March 2021. Pursuant to a new BNB decision, dated 10 December 2020, the procedure's effect was extended until 31 December 2021, and borrowers were allowed to defer repayments to financial institutions for a period of 9 months.

As a result of the restrictions imposed in Bulgaria and in most countries around the world, the normal operations of businesses in a number of economic sectors was disrupted. There were difficulties with the supplies of raw and other materials from suppliers, shipments to clients, and procuring workforce. Almost all entities, though to a different extent, had to impose certain actions and measures to reorganise business operations, work schedules, business communications and other aspects of their relations to counterparts, partners, and state institutions.

Moratorium on payments

In the beginning of April 2020, as a reaction to the initial stage of the COVID-19 pandemic and the measures taken by the different member states in relation to moratoria on payments, the European Banking Authority (EBA) approved Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. The guidelines established a common European and prudential measures regarding the possibility for a temporary deferral of repayment of the liabilities of creditworthy clients to banks due to temporary difficulties as a result of the pandemic.

On 3 April 2020 the Management Board of the Bulgarian National Bank approved a decision to comply with the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02), and as a result, the Management Board approved the draft provided by the Association of Banks in Bulgaria (ABB) of the Procedure for deferral and settlement of payables due to banks and their subsidiaries – financial institutions, in relation to the state of emergency imposed by Parliament on 13 March 2020. The approved Moratorium allows for changes to repayment schedules for principals and/or interest on liabilities, without changing key parameters of the loan agreements. It is possible to defer payments for a period of up to 6 months, not later than

31 December 2020. The deferred repayments should have been regularly serviced or not than 90 days past due as at 1 March 2020. Clients should expressly request deferral at the bank. In September 2020, following an analysis of the effects of the moratoria and the possibilities for normalizing economic activities and financial intermediation, EBA made a decision to suspend the moratoria on payments.

The subsequent accelerated spread of the pandemic resulted in restrictive measures of varied scope, depth and duration in both Bulgaria and the EU. This made it necessary to extend the effect of EBA's Guidelines and the decision to re-activate Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis with new deadline of application – 31 March 2021, replacing the previous deadline of 30 September 2020. The maximum permitted deferral period is nine months, which also includes the period of already approved deferral of the respective exposure.

In relation to this, on 11 December 2020 the Management Board of the Bulgarian National Bank (BNB) approved the proposal of ABB to extend until 31 March 2021 the effect of the Procedure for deferral and settlement of payables due to banks and their subsidiaries – financial institutions, in relation to the state of emergency imposed by Parliament on 13 March 2020 (the deferral procedure). The document constitutes a private memorandum pursuant to EBA's Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19. The guidelines adopted by the Management Board of BNB by means of a decision dated 2 December 2020 are published on the EBA webpage.

The changes are related to:

- Extending the deadline for clients' deferral requests – until 23 March 2021;
- Extending the deadline for approval of these requests by the banks – until 31 March 2021;
- Extending the deadline for deferral of liabilities of banks' clients – until 31 December 2021, but not more than 9 months;
- Introducing a requirement that the liabilities subject to the moratorium should have been regularly repaid or less than 90 days past due at the date of submission of the deferral request;
- Introducing a possibility for the liabilities for which a deferral request was submitted before 30 September 2020 to be additionally deferred, and the total deferral period shall not exceed 9 months.

The table below provides information as at 31 December 2021 about the number and amount of the Group's exposures which are subject to the Deferral Framework in relation to the COVID-19 pandemic.

	Performing			Non-performing		
Client type	Number	Gross carrying amount /BGN'000/	Net carrying amount /BGN'000/	Number	Gross carrying amount /BGN'000/	Net carrying amount /BGN'000/
Corporate clients	87	113,824	112,045	21	6,595	5,723
Natural persons	152	6,477	6,411	13	61	2
TOTAL	**239**	**120,301**	**118,456**	**34**	**6,656**	**5,725**

Business support programmes

In order to relieve the effects of the economic downturn as a result of COVID-19 and retain workplaces, a number of programmes were created for support of the business and citizens. In 2020, the Bank joined the following programmes:

- Financial agreement with Bulgarian Development Bank AD for guarantee of a portfolio of loans under the Programme for guarantee of interest-free loans to protect people deprived of the possibility to work due to the COVID-19 pandemic;
- Financial agreement with Bulgarian Development Bank AD for guarantee of a portfolio of loans under the Programme for portfolio guarantees in support of the liquidity of micro, small and medium-sized enterprises (SMEs) that suffered from the extraordinary situation and the COVID-19 pandemic. The term for including loans in the guaranteed portfolio expired on 30 June 2021;
- Guarantee agreement for performance of First Loss Portfolio Guarantees COVID-19 funded by OP Innovations and Competitiveness 2014-2020, concluded between D Commerce Bank AD and Fund Manager of Financial Instruments in Bulgaria (FMFIB). The agreement was terminated by means of an annex dated 5 November 2021.

The table below provides information on the carrying amounts at 31 December 2021 of newly granted loans which are subject to public guarantee schemes related to the crisis:

	Performing			Non-performing		
Client type	Number	Gross carrying amount /BGN'000/	Net carrying amount /BGN'000/	Number	Gross carrying amount /BGN'000/	Net carrying amount /BGN'000/
Natural persons	176	527	520	1	2	2

Actions and measures taken

In order to prevent the potential adverse impact and effects of the pandemic on the Bank's operations and financial position, the management has:

- Made a decision to propose to shareholders to capitalize the 2020 profit, amounting to BGN 7,586 thousand, which was approved at the General Meeting of Shareholders on 18 June 2021;

- Conducted multiple information and awareness campaigns on protection from COVID-19 contamination;
- Provided personal protective equipment to both its employees and its clients who visit the Bank's offices;
- Created organization for work schedules in the different offices and for work from home;
- Taken actions to facilitate the process of renegotiation of clients' credit exposures;
- Continued daily monitoring of the loan portfolio for express indication of problems of the borrowers and urgent measures for reaction and risk management;
- Continued the possibility to extend the term of revolving loans;
- Continued daily monitoring of markets in securities and forecasts thereon in order to take specific measures;
- Continued ongoing monitoring on real estate markets and forecasts thereon;
- Pursuant to the provisions of the EBA Guidelines, the Bank has continued to apply an Operational Plans in order to limit the risks resulting from the global extraordinary situation, and to identify and distinguish in a timely manner problems of its business and retail clients – borrowers. The actions planned are focused on performing a reliable assessment of the probability of default, respectively – distinction between cases/indications related to long-term financial problems of the borrowers and those resulting from the pandemic and leading to temporary liquidity difficulties.

The Bank's management continues to currently monitor for risks, respectively – consequences of the pandemic on the business, by performing ongoing analyses and assessments, and developing possible scenarios/measures for reaction and management of potential risks.

Impact on the Group's operations and financial position

Thanks to the measures applied in 2021 to reduce the negative impact of the coronavirus pandemic, D Commerce Bank Group continues to successfully address the challenges related to the high competition on the banking market, the aggravating economic environment and the significant uncertainty and difficult predictability of events.

The Group's financial position in 2021 remains stable and sustainable, with increased effectiveness and profitability. The negative economic effects have been well addressed, monitored and managed, so as to be minimised and/or eliminated.

In 2021, the Group stated pre-tax profit of BGN 16,489 million (31 December 2020: BGN 8,442 thousand) and return on equity of 9,4%, while return on assets was 1,1%. The total amount of assets of D Commerce Bank Group at the end of 2021 reached BGN 1,395,056 thousand (31 December 2020: BGN 1,158,701 thousand), increasing by 20% compared to 2020. The gross amount of loans and advances to customers increased by 17% on an annual basis, and the amount of attracted funds at 31 December 2021 is BGN 1,220,113 thousand (31 December 2020: BGN 994,421 thousand), increasing by 23% on an annual basis.

1.5. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Group's activities throughout the period 2017 – 2021 are presented in the table below:

Indicator	2017	2018	2019	2020	2021
GDP in million levs *	102,308	109,695	120,395	119,951	132,744
Actual growth of GDP *	3.5%	3.1%	4.0%	-4.4%	4.2%
Year-end inflation (HICP)	1.8%	2.3%	3.1%	0.0%	6.6%
Average exchange rate of USD for the year	1.73	1.66	1.75	1.72	1.68
Exchange rate of the USD at year-end	1.65	1.72	1.76	1.59	1.72
Basic interest rate at year-end	0.00	0.00	0.00	0.00	0.00
Unemployment rate at year-end *	7.1%	6.1%	5.9%	6.7%	4.8%
Credit rating of Republic of Bulgaria according to Standard&Poors (long-term)	BBB-	BBB-	BBB	BBB	BBB
Credit rating of Republic of Bulgaria according to Moody's (long-term)	Baa2	Baa2	Baa2	Baa1	Baa1
Credit rating of Republic of Bulgaria according to Fitch (long-term)	BBB	BBB	BBB	BBB	BBB

*Note: * BNB forecast for 2021, prepared as at 10 March 2022*

Source: BNB

1.6. Legal environment

The Bank's activity is regulated by the Credit Institutions Act and its bylaws, and BNB performs surveillance and controls compliance with banking legislation.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of D Commerce Bank AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2021 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

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

The adoption of these standards and/or interpretations, effective for annual periods commencing on 1 January 2021, has not resulted in changes to the Company's accounting policy, with the exception of some new and the expansion of already introduced disclosures, without leading to other changes in the classification or measurement of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- Amendments to *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 June 2020, endorsed by EC).* These amendments introduce a practical expedient which exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications. The practical expedient applies when all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021 (by means of a subsequent amendment to the standard dated 1 April 2021, the term was extended to 30 June 2022); and c) there is no substantial change to other terms and conditions of the lease. A lessee that uses the practical expedient accounts for any change in lease payments resulting from the rent concession in the same way that it would account for the change applying IFRS 16 if the change were not a lease modification. It does not affect lessors. Earlier application is permitted.

- *Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Disclosure", IFRS 7 "Financial Instruments: Disclosure", IFRS 4 "Insurance Contracts", and IFRS 16 "Leases" related to Phase 2 of the Interest Rate Benchmark Reform (in force for annual periods beginning on or after 1 January 2021, endorsed by EC).* The amendments to the standards related to Phase 2 of the Interest Rate Benchmark Reform constitute mainly two practical expedients: a) in identification and measurement of modification of contractual cash flows from financial assets, financial liabilities, and lease liabilities – the modifications to the interest rate benchmarks are accounted for by updating the effective interest rate; b) and in hedge accounting – by permitting an amendment (revision) in the identification of the hedging relationship and the measurement of the hedged item based on cash flows, due to and resulting from the substitution of the interest rate benchmarks applied with other alternatives. The amendments are applied retrospectively. Earlier application is permitted.

- *Amendments to IFRS 16 (in force for annual periods beginning on or after 1 April 2021, endorsed by EC).* These amendments: a) permit a lessee to apply the practical expedient regarding COVID-19 related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021); b) require a lessee applying the amendment to do so retrospectively, recognizing the cumulative effect of initially applying the amendment as an adjustment to the opening

balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual period reporting period in which the lessee first applies the amendment; and c) specify that, in the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the information required by paragraph 28 (f) of IAS 8. Earlier application is permitted (including financial statements not yet authorized for issue at the date the amendment is issued).

Regarding the amendments to the standard stated below, the management has determined that it has no effect on the accounting policy, respectively the Group's assets, liabilities, transactions, and results, since it is only applicable to companies in the insurance sector:

- *Amendments to IFRS 4 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2021, endorsed by EC).* The amendments allow entities primarily engaged with insurance activities, to defer the date of initial application of IFRS 9 "Financial Instruments" by two years, from 1 January 2021 to 1 January 2023, and continue to apply IAS 39 "Financial Instruments: Recognition and Measurement". The aim of the amendment is to align the date of enforcement of IFRS 9 with the new IFRS 17 to overcome temporary accounting consequences from the different effective dates of the two standards. The amendment also introduces a temporary exemption from the requirements of IAS 28 "Investments in Associates and Joint Ventures", with respect to the application of a uniform policy for entities using the equity method under IAS 28. For annual periods beginning before 1 January 23, such entities are allowed, but not obliged, to retain the respective accounting policy applied by the associate or joint venture when using the equity method.

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2021, which have not been adopted by the Company for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- *Amendments to IAS 16 "Property, Plant and Equipment" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* These amendments prohibit deducting from the cost for "testing whether the asset is functioning properly", which is part of the direct costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the net proceeds received from selling items produced while the entity is preparing the asset for its intended location and condition. Instead, the entity shall recognize the revenue from sales of such items and the respective costs related thereto within profit or loss for the period, in accordance with the other applicable standards. The amendments specify that testing whether the asset is functioning properly is in fact an assessment of whether the technical and physical performance and capacity of the asset correspond to its intended use in production, supply of goods or services, lease, or for administrative purposes. Additionally, the amendment requires entities to separately disclose the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The amendments are applied retrospectively, but only for property, plant and equipment brought to the location and condition necessary for their intended use on or after the start of the earliest period presented in the financial statements for which the entity first applies the amendments.

- *Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* The amendments specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract', including: a) direct labour costs and direct cost of materials; and b) additional costs which related directly to fulfilling the contract – for instance, the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. Administrative and other general costs are excluded, unless specifically billable to the counterpart. The amendments also make a small adjustment to the clarifications for recognition of impairment losses before a separate onerous contract provision is created, by highlighting that these are assets used in fulfilling the contract rather than assets intended thereto, which was the requirement prior to the amendments' enforcement. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to IFRSs 2018-2020 Cycle, to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", Illustrative Example 13 to IFRS 16 "Leases" and IAS 41 "Agriculture" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* These improvements introduce partial amendments to the following standards: **a)** the amendment to **IFRS 1** grants a relief for a subsidiary in first-time adoption of IFRS at a date later than the parent. It measures in its separate financial statements the assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements based on which the parent acquired the subsidiary. The subsidiary may, in its financial statements, measure the cumulative translation differences using the carrying amount stated in the parent's consolidated financial statements based on the date of the parent's date of transition to IFRS, unless adjustments have been made for the purpose of consolidation procedures or to account for the business combination's effects. These amendments will also be applied for associates and joint ventures which have elected the same relief under IFRS 1. Entities shall apply these amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted; **b)** the amendment to **IFRS 9** clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether in case of a modification of a financial liability the conditions of the new or amended financial liability significantly differ from the conditions of the initially recognized one. According to the amendment, the entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The entity applies the amendments to financial liabilities modified at or after the beginning of the annual reporting period in which it first applies these amendments; **c)** the amendment to **Illustrative Example 13 to IFRS 16** removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives. Since the amendment refers to an illustrative example accompanying the standard and is not a part thereof, no enforcement date is specified; **d)** the amendment to **IAS 41** removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* These amendments a) require disclosing material accounting policies information instead of significant accounting policies; b) explain how the entities can identify material accounting policy information

and to give examples of when accounting policy information is likely to be material; c) clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial; d) clarify that accounting policy information is material if users of the entity's financial statements would need it to understand other material information in the financial statements; and d) clarify that if the entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Earlier application is permitted.

- *Amendments to IAS 1 "Presentation of Financial Statements" (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* These amendments address the criteria for classification of liabilities as current or non-current. According to them, an entity classifies its liabilities as current or non-current depending on the rights that are in existence at the end of the reporting period, and the classification is unaffected by expectations about whether it will exercise its right to defer settlement of the liabilities. The amendments made clear that "settlement" refers to the transfer to a counterparty of cash, equity instruments, other assets or services. The classification does not address derivatives of convertible liabilities, which constitute equity instruments. The amendments are applied retrospectively.

- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* These amendments focus entirely on accounting estimates and clarify the following: a) "the definition of a change in accounting estimates" is replaced with a "definition of accounting estimates". Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty"; b) the entity develop accounting estimates if the accounting policies require items in the financial statements to be measured in a way that involves measurement uncertainty; c) a change in accounting estimate that results from new information or new developments is not the correction of an error; d) a change in an accounting estimate may affect only the current's period profit or loss, or the profit or loss of both the current period and future periods. Earlier application is permitted.

- *IAS 12 Income Taxes (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* Amendments to IAS 12 – Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments restrict the scope of exemption from recognition of deferred tax liabilities, as a result of which it is not applied for transactions in which equal taxable and deductible temporary differences may arise upon initial recognition. Such transactions are the recognition of a right-of-use asset and lease liability by the lessee at the commencement date of a lease, as well as in the accrual of liabilities for dismantling, removing or restoring included as part of the cost of an asset. Upon the amendments coming into force, the entities should recognize each deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability (for all deductible temporary differences) in accordance with the IAS 12 criteria for transactions related to assets and liabilities arising from a single transaction on or after the beginning of the earliest comparative period presented in the financial statements. The entities recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at that date. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, and the earlier application is permitted.

- *Amendments to IFRS 3 "Business Combinations" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* These amendments update IFRS 3 by replacing the reference to the old version of the Conceptual Framework for Financial Reporting with its latest updated 2018 version. They also add an exception from the principle for recognition of liabilities and contingent liabilities within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IFRIC 21 "Levies", explicitly specifying that contingent liabilities are not recognized at the date of acquisition. The amendments are applied prospectively.

The management is in the process of survey, analysis and assessment of the impact of the changes that might impact the accounting policies and the classification and presentation of Group's assets and liabilities as a result of the above standards.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2021, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the financial statements of the Group, namely:

- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2023 endorsed by EC).* This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules and principles on recognition and measurement, presentation and disclosure. The standard will supersede the effective standard up to date related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting and reporting aspects.

- *Improvements to IFRS 17 Insurance Contracts (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* The amendments are related to the Initial Application of IFRS 17 and IFRS 9 – Comparative Information. They provide a transitional provision regarding the comparative information on financial assets upon initial application of IFRS 17 in order to reduce accounting mismatches between financial assets and liabilities under insurance contracts in the comparative information upon initial application of IFRS 17 and IFRS 9. The application of the changes is optional and only applies to the presentation of comparative information upon initial application of IFRS 17.

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).* These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IABS postponed the initial date of application of these amendments for an indefinite period.

2.2. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year.

Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

2.3. Basis of measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial instruments at fair value through other comprehensive income, which have been measured at fair value.

2.4. Functional and presentation currency

The functional and reporting presentation currency in the Group's consolidated financial statements is the Bulgarian Lev (BGN). As from 1 January 1999, when the Euro was introduced, the fixed ratio between the two currencies is BGN 1.95583:EUR 1.

The Group keeps its accounting books in Bulgarian Lev (BGN), which is accepted as being its functional and presentation currency. The data in the consolidated financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

2.5. Use of estimates

The presentation of the consolidated financial statements in accordance with International Financial Reporting Standards requires the Group's management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results of the Group might be different from them (whereas in a situation of financial crisis the uncertainties are much more significant). Items requiring more subjective judgement or having higher level of complexity, or where assumptions and estimates are material for the consolidated financial statements, are disclosed in *Note 2.24*.

2.6. Definitions and consolidation principles

2.6.1. Definitions

Parent company

The parent is an investor that controls one or more companies (entities). Having control means that the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The parent is D Commerce Bank AD *(Note 1)*.

Subsidiary company

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent.

The subsidiaries include: D Leasing EAD, D Insurance Broker EOOD, D Imoti EOOD and D Park EOOD *(Note 1)*.

2.6.2. Consolidation principles

The consolidated financial statements include the financial statements of the parent – D Commerce Bank AD and the subsidiaries – D Leasing EAD, D Insurance Broker EOOD, D Imoti EOOD and D Park EOOD, prepared as at 31 December, which is the date when the financial year of the Group ends.

For the purposes of consolidation, the financial statements of the subsidiaries are prepared for the same reporting period as that of the parent using consistent accounting policies.

Consolidation of a subsidiary

Subsidiaries are consolidated as of the date when the Group (ultimately, the parent) obtains control and they are excluded from consolidation as of the date when it is deemed that control is transferred outside the Group (ultimately, the parent).

A subsidiary is consolidated applying the full consolidation method, on a line-by-line basis for the financial statements of the parent and the subsidiary, using the same accounting principles and uniform accounting policies. The investments of the parent are eliminated against its share in the equity of the subsidiary. All intra-group transactions and balances, including unrealised intra-group gains or losses, are eliminated.

Acquisition of a subsidiary

The acquisition (purchase-and-sale) method of accounting is used on the acquisition of a subsidiary by the Group. The acquisition cost (consideration paid) includes the fair value as at the exchange date of the assets given, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It includes also the fair value of any asset or liability resulting from a contingent consideration arrangement. The costs associated with the acquisition are recognised and are taken directly to the current expenses for the period in which they are incurred.

All identifiable assets acquired and liabilities and contingent (crystallised) liabilities assumed in the business combination are initially measured at their fair values at the date of exchange. Any excess of the acquisition cost of the subsidiary over the share of the acquirer in the fair value of the net identifiable assets, liabilities and contingent (crystallised) liabilities acquired is treated and recognised as goodwill. If the acquirer's share in the fair value of the net identifiable assets acquired exceeds the acquisition cost of the business combination, such excess is recognised immediately in the consolidated statement of profit or loss and other comprehensive income of the Group. Any non-controlling interest in a business combination is measured at the proportionate share of the acquiree's net assets.

When a business combination to acquire a subsidiary is achieved in stages, all investments previously

held by the acquirer are measured at fair value on the acquisition date and the effects of such remeasurement are recognised in the current period profit or loss of the Group, including all effects previously reported in the other components of comprehensive income are recycled.

Disposal of a subsidiary

On sale or other form of loss (transfer) of control over a subsidiary:

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The carrying amount of the non-controlling interest in the subsidiary is derecognised from the consolidated statement of financial position at the date when control is lost;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognised;
- All components of equity representing unrealised gains or losses are reclassified in the profit or loss, or are taken directly to the accumulated profits - in accordance with the requirements of the respective IFRS these equity components are subject to;
- Any resulting difference is recognised as gain or loss on disposal (sale) of a subsidiary in the consolidated statement of comprehensive income (in the current period profit or loss) attributable to the parent.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. The effects from sales of shares of the parent to holders of non-controlling interests that do not result in a loss of control are not treated as components of the Group's current period profit or loss, but rather as movements in the components of its equity. And vice versa, when the parent purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the respective share in the carrying amount of net assets acquired by the subsidiary is directly recognised in the consolidated statement of changes in equity, usually in the 'accumulated profits' reserve.

When the Group ceases to have control and significant influence, any retained minority investment as interest in the capital of the respective entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are reported in the same way as in a direct disposal of all components related to the initial investment (in a subsidiary or associate).

2.7. Foreign currency transactions

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency (Bulgarian Lev) whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, loans and receivables, investments in

securities, payables, deposits and other payables, such as monetary reporting items denominated in foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by BNB every day. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency transactions at rates different from those, at which they were converted on initial recognition, are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) in the period in which they arise and are presented on the *'net trading income'* line item.

2.8. Interest income and expense

Interest income and expense are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on accrual basis for all interest-bearing financial instruments to the extent it is probable that the Group will receive economic benefits and the income can be measured reliably.

Interest income comprises: interest income from debt securities measured at fair value through other comprehensive income, interest income from debt securities measured at amortised cost, interest income from deposits with other banks, interest income from loans and advances to customers, including fees and charges on loans and advances to customers, which form an constituent part of the effective income of the financial instrument.

Interest costs comprise: interest on deposits from banks, interest on deposits from clients, interest on other long-term borrowings, as well as interest on lease liabilities.

2.8.1.Effective interest method

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

The effective interest rate is the interest rate that discounts the future inflows and outflows that are expected to be generated during the life of a financial instrument or a shorter period of time, as appropriate, exactly to the instrument's net cost. The calculation of the effective interest rate takes into account all contractual terms and conditions of the financial instrument, including fees and other inherent costs directly attributable to the instrument that are part of the effective interest rate, but excluding future loan losses.

Interest income and expense include the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on effective interest rate basis.

2.8.2. Recognition of interest income

For financial assets classified in Stage 1 (classification risk group "regular exposures") and Stage 2 ("under-performing exposures"), interest income is recognised by applying the effective interest rate on the gross carrying amount of financial assets.

For financial assets classified in Stage 3 (classification risk group "credit-impaired exposures") interest income is calculated by applying the effective interest rate on their amortised cost. When the financial asset recovers (improvements take place) and it is no longer classified as credit-impaired and there is observable available cash flow, the recognition of interest income is again done on a gross basis.

The Group holds financial assets (current accounts with other banks) with negative profitability. The interest accrued on these assets is presented in the consolidated statement of other comprehensive income (within profit or loss for the year) as interest costs and are additionally disclosed in *Note 4*.

2.9. Fee and commission income and expense

Bank service fee and commission income and non-bank service is recognised in the period of or at the time the service is rendered, according to the conditions for transfer of control over the service.

Fees and commissions on bank guarantees are recognised on a systematic basis over the period of the exposure so as to match the cost of providing the service. Fees on loan commitments/facilities, which are likely to be transformed into a granted loan, are deferred and recognised upon the loan granting and are included in the calculation of the effective interest rate.

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

2.10. Gains or losses on trading operations

The results from trading operations include: interest income on securities held for trading, including dividends thereon; gains or losses from operations with securities held for trading, gains or losses from operations in foreign currency, as well as net gain or loss from revaluation of foreign currency assets and liabilities.

2.11. Financial instruments

2.11.1. Financial assets

2.11.1.1. Recognition of financial assets

The Group usually recognises its financial assets in the consolidated statement of financial position on the "trade date", being the date on which it has committed to purchase the respective financial assets. This includes transactions performed under a regulated framework – purchases and sales of financial assets that presume a settlement and assets transfer to be performed in a generally accepted manner

established by law or relevant market convention. Loans and advances to customers are recognised when the funds are transferred to customer's account. Respectively, the Group recognises amounts due to customers when funds are received to the Group.

2.11.1.2. Initial measurement of financial assets

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

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

a) if the fair value has been determined by means of a valuation technique based on observable inputs about the market participants, the difference is recognised as early as the first date within current profit or loss; and

b) if the fair value has been determined by means of a valuation technique based on unobservable inputs, the difference is not recognised within current profit or loss until the data is observable and the financial instrument is written-off.

2.11.1.3. Classification and subsequent measurement of financial assets

The Group classifies and subsequently measures of all its financial assets in the following three categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss. The classification of financial assets upon their initial recognition depends on the characteristics of the contractual cash flows.

Business model for the management of financial assets

The business models on which the management and classification of the Group's financial assets are based are directly related to and compliant with the determined strategy and development plans and the objectives of the primary banking operations, usual transaction and risk-profile transactions. They have been determined on the level of groups of financial assets managed in the same way towards achieving a particular business objective. When the scope of one type of financial instruments comprises separate financial assets for which the specific approach and management features may differ, and so may the strategy for acquisition and purpose for holding, the Group may designate more than one business model for this type of instruments, by forming sub-portfolios with different classification and measurement. Depending on the strategy and risk profile, the Group has established the following business models for management of its financial assets:

1/ Business model whose purpose is to hold assets in order to collect contractual cash flows. The main characteristics of this model include:

- financial assets which are managed to collect contractual payments throughout the instrument's life term;
- the focus of monitoring and reporting to the management and responsible persons is on

the instrument's credit quality, the degree of credit risk and the contractual return of this group of assets. Additionally, in the context of this focus, the Group also monitors their fair value;

- the historical analysis or data do not identify (frequent and large) sales that contradict the business objectives;
- sales of financial assets related to limitation of credit risk, credit concentration, testing (demonstration) liquidity or extraordinary (including at a significant amount) resulting from stress liquidity situations, are excluded and it is assumed that they do not contradict the established business model.

2/ Business model whose purpose is both collecting contractual cash flows and sale of financial assets. The main characteristics of this model include:

- financial assets used to also manage current liquidity;
- their scope and type are in accordance with the objective of overall return management, maximising results in the process of ensuring liquidity, and maintaining the Group's necessary balance between cash inflows and outflows;
- historically monitored and more frequent and significant, in terms of volume, of assets in this group are permitted, in as far as they constitute a major factor to achieve the business model's objective.

3/ Business model whose purpose is to generate cash flows through asset sale. The main characteristics of this model include:

- financial assets regarding which the Group has intention and business rationale to currently monitor their fair value, which is the basis of the decision to carry our purchase and sale transactions;
- there is evidence of active purchase and sale activity;
- the asset's contractual cash flows do not constitute solely payments of principal and interest;
- the collection of contractual cash flows from such assets is only in addition to achieving the main objective – generating cash flows and good profitability levels from their disposal.

Characteristics and testing of contractual cash flows of financial assets

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

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

The process of establishing characteristics of contractual cash flows includes:

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

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

- one-off test, on 1 January 2018, upon enforcement of IFRS 9 – for financial assets existing at this date;
- upon introducing new standardised banking products at product documentation (card) level;
- upon occurrence of a new instrument and/or product in the case of specific rules or rules that deviate from the standard ones set in internal rules, price list, general terms and conditions and contracts.

2.11.1.3.1. Financial assets at amortised cost

The Group carries within this category: cash in current accounts and deposits with the Central Bank, due from banks, loans and advances to customers, the portfolio of debt securities held to maturity with priority, as well as other operating receivables.

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

The Group classifies and subsequently measures a financial assets within the category of *financial assets at amortised cost* if both of the following conditions are met: a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and b) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which are solely payment of principal and interest on the principal outstanding.

These financial assets are measured in the consolidated statement of financial position at amortised cost using the effective interest method, less the recognised accumulated impairment of expected credit losses (allowance). The interest income therefrom is measured and recognised based on the effective interest method (*Note 2.9.1*). It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the *interest income* item.

The loans and advances that initially originate in the Group are recognised upon the actual disbursement of cash or provision of other financial or non-financial asset to borrowers, and are initially measured at fair value, which is usually equal to the value of the cash and/or other assets provided.

The loans and advances received by the Group are recognised upon obtaining essentially all risks and rewards, and are initially measured at the amount of the consideration paid or the fair value of the transferred asset, if it differs therefrom.

2.11.1.3.2. Financial assets at fair value through other comprehensive income

The Group classifies in the category of *financial assets at fair value through other comprehensive income* debt and equity securities. Their fair value is determined by applying different valuation models permitted by IFRS 13: quoted market prices, adjusted market prices, or models based on discounted cash flows.

The Group measures and subsequently measures a debt financial asset within *financial assets at fair value through other comprehensive income*, when both of the following conditions have been satisfied: a) the financial asset is held and used within the business model, for the purpose of both collecting contractual cash flows and selling it; and b) the conditions of the financial asset contract give rise to cash flows on specific dates, which constitute solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group may make an irrevocable choice to classify certain equity instruments as *financial instruments at fair value through other comprehensive income* at initial recognition, only if they meet the equity definition under IAS 32 and are not held for trading. The classification is determined at the level of individual instruments.

Unrealised gains and losses from changes in the fair value of debt and equity securities classified within the group of financial assets at fair value through other comprehensive income are recognised directly within a separate component of equity in the consolidated statement of changes in equity

(*reserve for financial assets at fair value through other comprehensive income*) until the financial asset is sold or impaired. Then, with respect to: a) debt securities – the gains and losses included in prior periods in equity are recognised in the consolidated statement of other comprehensive income for the reporting period (within profit or loss for the year) within the *net income from trade transactions* item, and b) equity securities – the accumulated gains and losses are not recycles through current profit or loss, but are directly transferred to retained earnings.

Debt securities at fair value through other comprehensive income are subject to impairment of credit losses on a monthly basis. The impairment provision (allowance) for expected credit losses is presented in the consolidated statement of other comprehensive income within the *impairment of financial assets* item and as allowance against the reserve for financial assets at fair value through other comprehensive income, in the consolidated statement of changes in equity. Equity instruments are not subject to impairment.

Over the period of holding debt securities measured at fair value through other comprehensive income, the Group recognises interest income based on the effective interest method (*Note 2.9.1*).

Dividends from equity securities classified as financial instruments at fair value through other comprehensive income are recognised and carried to the consolidated statement of comprehensive income (within profit or loss for the year) within "other operating income, net", at the point when it is determined that the Group obtained a right over these dividends.

2.11.1.3.3. Financial assets at fair value through profit or loss

The Group classifies in the category of *financial assets at fair value through profit or loss* instruments held for trading, as well as financial assets initially measured at fair value through profit or loss, or financial assets for which there is obligatory measurement at fair value pursuant to IFRS 9. Financial assets are classified as held for trading, if they have been acquired for the purpose of short-term sale or repeated acquisition. Derivatives, including individual embedded derivates, are also classified as held for trading, unless they have been designated as effective hedging instruments.

The management initially measures a financial instruments at fair value through profit or loss if and only if this would eliminate or significantly decrease the accounting discrepancy that would arise from recognition of gains and losses from a different measurement basis for certain assets and liabilities for which a correlation exists between measurements. The identification is done at the level of individual instruments.

The Group does not have a practice of investing in finance assets in order to generate profit from market fluctuations and margins.

2.11.1.4. Reclassification of financial assets

The Group does not reclassify its financial assets following their initial recognition, except in extraordinary circumstances related to a change in the business model for their management. The reclassification of financial assets is applied prospectively, as from the date of change which

occurred, and:

a) upon reclassification of financial assets at amortised costs to financial assets at fair value through other comprehensive income, the fair value is determined at the reclassification date, and any gain or loss on the difference between the amortised cost and fair value is recognised within other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of reclassification.

b) upon reclassification of financial assets at amortised costs to financial assets at fair value through profit or loss, the fair value is determined at the reclassification date, and any gain or loss on the difference between the amortised cost and fair value is recognised within profit or loss.

c) upon reclassification of financial assets at fair value through other comprehensive income to financial assets at amortised cost, the fair value of the respective asset at the reclassification data is assumed to be its "established" amortised cost. The cumulative gain or loss accumulated in other comprehensive income, is written-off from equity (reserve for financial assets at fair value through other comprehensive income) and is adjusted against the fair value of the financial asset at the reclassification date. The financial asset is measured at the reclassification data as if it has always been measured at amortised cost, and the adjustment is reflected in other comprehensive income, but not in profit or loss. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of reclassification.

d) upon reclassification of financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss, the respective assets continue to be measured at fair value. The gain or loss accumulated in other comprehensive income is recycled from equity (reserve for financial assets at fair value through other comprehensive income) into profit or loss.

2.11.1.5. Repurchase agreements

The Group enters into securities agreements to resell / repurchase similar securities on a predetermined future date at an agreed-upon fixed price (repo-agreements). Securities purchased under agreements to resell (reverse repo) at a specified future date are not recognised in the consolidated statement of financial position. The paid amounts are carried as receivables from repo-agreements with customers and / or banks, as collateralised by the underlying security. The difference between the purchase price and the resale price is treated as interest and accrued over the period of the life of the agreement, using the effective interest rate method.

Securities sold under repurchase agreements (repo) continue to be recognised in the consolidated statement of financial position as assets at fair value through profit or loss or as assets available-for-sale. The proceeds from the sale of the securities are reported as liabilities under repo-deals. The difference between the sales price and the repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

2.11.1.6. Derecognition of financial assets

Financial assets are derecognised from the Group's consolidated statement of financial position when:

a) the contractual rights to cash flows from these assets have expired; or b) the contractual rights have been transferred or the Group holds them but has assumed an obligation to pay in full the cash flows received, without undue delay (so-called "pass-through" agreement). A transfer results in derecognition when: a) the Group has transferred substantially all risks and rewards from ownership of the asset; or b) it has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon. It is assumed that the Group has transferred control only if the recipient has the practical possibility to freely dispose of the asset and sell it to third unrelated parties.

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

2.11.1.6.1 Modification due to material change in terms and conditions

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

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

2.11.1.7. Impairment of financial assets

Expected credit losses approach

The expected credit losses approach is based on the concept of determining and recognising credit losses which are expected to occur over the instrument's lifetime (lifetime expected credit losses) unless there has been a significant increase in credit risk since initial recognition – in which cases 12-month expected credit losses are recognised. For this purpose, the Group has developed a set of criteria to identify increased credit risk. 12-month expected credit loss is the portion of the lifetime credit losses which would occur as a result of default related to the respective instrument, which may occur within 12 months from the date of the balance sheet. Both lifetime and 12-month expected credit losses are calculated on individual and collective basis, depending on the specifics of each portfolio of financial instruments.

For the purpose of applying the requirements for impairment of financial assets, the Group has adopted a *Policy for Assessment of Changes in Credit Quality and Determining Expected Credit Losses*, which is the framework of principles, criteria, rules and approaches to determine credit losses. The Group applies an individual and collective model to determine impairment, based on the characteristics of the respective type of financial instruments and its risk features, developed based on the *general approach* of IFRS 9. The analysis of changes in the credit quality of financial assets compared to initial recognition determines their risk qualification in three main stages, as well as subsequent impairment recognition:

➢ Stage 1 (performing/regular exposures) – financial instruments without indication for increase in credit risk compared to initial recognition. The Group recognises 12-month impairment of expected credit losses from financial assets classified in Stage 1. Interest income is recognised based on the effective interest method, on the gross carrying amount of the asset.

➢ Stage 2 (under-performing exposures) – financial instruments with a significant increase in credit risk, but without objective evidence of actual impairment/incurred losses (the exposure is not in default). The Group recognises lifetime impairment of expected credit losses from the instruments in Stage 2. Interest income is recognised based on the effective interest method, on the gross carrying amount of the asset.

➢ Stage 3 (credit-impaired exposures) – financial instruments which not only have a significant increase in credit risk, but also objective evidence of actual impairment ("default" exposures). The Group recognises lifetime impairment of credit losses from the instruments in Stage 3. Interest income is recognised based on the effective interest method, but on the net carrying amount of the instrument, i.e. less the allowance for impairment of credit losses.

➢ A purchased or created credit-impaired financial asset – it is measured at fair value at the date of initial recognition. The interest income is recognised on accordance with the credit loss-adjusted rate. The Group recognises additional impairment (reversal) of expected credit losses from these instruments, in as far as they originate due to subsequent change in judgement thereon.

Regarding financial assets for which the Group has no grounded expectations for full or partial recovery of the amount of outstanding balances, the gross carrying amount is reduced, and this is treated as partial asset derecognition.

The expected credit losses of a given financial asset is determined as the difference between contractual cash flows and all other cash flows the Group expects to receive, discounted by approximation to the initial interest rate. Expected cash flows also include cash flows from disposal of sovereign collateral or other credit enhancements, which constitute an integral part of the contractual conditions.

The recognition of the impairment for expected credit losses is done at two stages. When following the asset's initial recognition no significant increase in the credit risk has occurred, the allowance for impairment is based on the expected credit loss occurring as a result of default events probable over the next 12 months (12-month expected credit loss).

For exposures that have a significant increase in credit risk compared to initial recognition, the impairment provision is recognised for the credit loss expected over the remaining lifetime of the exposure, irrespective of the point of default (lifetime expected credit loss). Therefore, the assessment of credit risk and the identification of a significant change therein compared to initial recognition constitute a key point in determining and calculation impairment of credit losses. Thus, the change in the provision (allowance) for impairment of credit losses reflects not the overall level of credit loss, but the relative change as at the date of the financial statements, and the assessment is related with multiple assumptions and estimates.

When in subsequent periods the credit quality of the financial instrument improves do that there is no longer increased credit risk compared to initial recognition, the provision (allowance) for impairment is adjusted so that it again reflects 12-month expected credit losses.

The criteria of significant increase in credit risk and risk of default by types of financial assets adopted by the Group are disclosed in *Note 2.24.1.2.*

The main risk parameters in determining expected credit losses by type of financial instruments include:

➢Exposure at default (EAD) – estimate of the amount of exposure at the future point of default, by taking into consideration all future changes in the exposure after the balance sheet's date, payments of principal and interest, future drawdowns and interest accrued on payment default;

➢ Probability of default (PD) – estimate of the probability of a counterpart not meeting contractual clauses related to debt repayment over a certain time horizon;

➢Loss given default (LGD) – estimate of the loss from default at a certain point. It is measured as the difference between the contractual cash flows due and the cash flows the creditor would expect to receive, including through collateral disposal;

➢Liquidation value (LV) – the Group's best estimate of the recoverable amount of the collateral at the date of valuation, in view of the market conditions, in a scenario in which the Group immediately initiates a forced execution procedure (net cash flow from immediate sale at the date of valuation);

➢Discount factor – the factor applies to calculate the present value of expected cash flows from credit facilities. In determining the present value of expected cash flows, the Group uses the original effective interest rate. For exposures in its portfolio for which no information is available about the initial interest rate, the effective interest rate as at 31 December 2019 is applied.

➢Historical dependencies of model components and certain macroeconomic indicators to account for the impact of forecasts for future economic development on the loan portfolio quality.

In 2021 the Group maintained its expected credit losses model by applying a regression analysis to analyse and measure correlations between certain surveyed macroeconomic indicators (listed below) and the impact thereof on the credit quality of financial instruments for which expected credit losses are calculated. Based on these dependencies and on official forecasts of the European Commission, the Group models the future effect thereof on expected credit losses (PD).

Such macroeconomic forecast indicators are: consumer price index, unemployment rate, gross domestic product, house price index, average income per capita, etc.

The elements used to determine expected credit losses from financial instruments are summarised as follows:

- The expected 12-month credit loss (ECL) for regular/performing exposures (Stage 1) is calculated based on the following formula:
- $ECL = EAD * PD_{12m} * LGD$
- The expected lifetime credit loss (ECL) for under-performing exposures (Stage 2) is calculated based on the following formula:
- $ECL = EAD * PD_{Lifetime} * LGD$
- The expected lifetime credit loss (ECL) for credit-impaired exposures (Stage 3) is calculated based on the following formula:
- $ECL = EAD * PD_{Lifetime} - LV(Coll)$

The net effect of the change in the estimate of expected credit losses from financial instruments is presented in the consolidated statement of profit or loss and other comprehensive income (profit or loss for the year) within *net loss from impairment of financial assets*. Any reversal of impairment of credit losses is recognised against the allowance and the current profit or loss in the reversal period.

For financial assets at amortised cost, the accumulated allowance reduces the gross carrying amount of the instrument in the consolidated statement of financial position. For debt instruments at fair value through other comprehensive income, the expected credit loss is a portion of the negative change in the fair value resulting from increased credit risk. Since these assets are presented at fair value in the consolidated statement of financial position, the net change in fair value is presented within equity (reserve for financial assets at fair value through other comprehensive income) through other comprehensive income, including the impairment effect.

Upon subsequent derecognition of the instrument, the accumulated allowance is recognised within profit or loss for the period.

Valuation of collaterals

In order to significantly reduce its credit risk regarding financial assets, the Group requires from its clients collaterals. They are different forms – cash, real estate mortgage, and other collaterals.

In order to calculate expected credit losses, the fair value of collaterals on the respective financial instrument is determined upon initial measurement, and subsequently – on an annual basis. In the formula, fair value is additionally adjusted by means of a set of coefficients to reflect the risks of disposal and the time value of money. The methods and models to determine fair value are: the comparative approach, capitalisation of future cash flows approach and the updated production cost approach. In as far as possible, the Group uses market data to assess the financial assets held as

collateral. Other financial assets whose market value cannot be determined, are measured with the help of models. Non-financial collaterals such as real estate are recognised based on the valuation provided by independent appraisers. In the cases of real estate properties for retail and small business customers, the Bank applies annual indexation based on public NSA statistical information regarding the change in prices by cities and regions. The indexation of residential properties is only applied when the change in prices does not indicate an annual decrease greater than 10%.

The Group has retained its prior-year policy on acquisition of collaterals against debt. At the acquisition date, it determines if the asset will be used in its operations or it will be held for sale. Depending on the specific intentions, it is either classified within its property and other non-fixed tangible assets, or within investment property, respectively within other assets acquired from collaterals.

The valuation of collaterals, incl. assets acquired against debt, is usually subject to annual review by independent appraisers, and in the period of two such valuations – to mandatory internal review by Group appraisers.

2.11.2. Financial liabilities and equity instruments

The Group's financial liabilities include: amounts due to banks and clients under deposits, borrowings under loan agreements and other contracts, lease liabilities and other current liabilities.

The Group classifies its liabilities, debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Group determines the classification of its financial liabilities at the time of their origination. All financial liabilities held by the Group are classified as financial liabilities and are subsequently measured at amortised cost.

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

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

Interest expense is carried currently to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) systematically over the life of the instrument.

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

2.11.3. Netting of financial assets and financial liabilities

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

2.11.4.Financial guarantees and undrawn commitments

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

Financial guarantees are initially recognised (within *provisions*) at fair value, which is the amount of the fee (premium) received. The Group's liability under each financial guarantee is subsequently measured at the higher of the following: a) the amount initially recognised less the amortised portion thereof recognised in profit or loss, and b) the impairment of expected credit losses (under IFRS 9).

The net effect of the change in the estimate of expected credit losses from financial guarantees granted, letters of credit and undrawn commitments is presented in the consolidated statement of profit and loss and other comprehensive income (profit or loss for the year) within *net loss from impairment of financial assets*, and the allowance of expected credit losses is presented as a provision in the consolidated statement of financial position.

The fee collected for bank securities issued is amortised on a straight-line basis over the period of the guarantees and is presented in the consolidated statement of profit or loss and other comprehensive income within *revenue from fees and commissions.*

The undrawn loan facilities and letters of credit are commitments for which over a certain time period the Group commits to grant to its client a loan under conditions agreed in advance.

The nominal amount of financial guarantees, undrawn loan facilities (where the loan is agreed at market conditions) and letters of credit is not recognised and carried to the consolidated statement of financial position. This amount, together with the recognised losses, is disclosed in the notes to the consolidated financial statements (*Note 30*).

2.11.5. Derivative instruments

The Group has no derivative instruments at 31 December 2021 and as at 31 December 2020.

2.12. Leases

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

There is transfer of control over the asset's use when the Group in its capacity as customer receives simultaneously:

- The right to direct the use of a certain asset – to determine how and for what purpose the asset should be used during the period of use;
- The right to obtain essentially directly and indirectly all economic benefits from use of the asset over its period of use – by using, holding or sub-leasing the asset.

2.12.1.1 The Group as lessee

The Group applies the requirements of IFRS 16 for all leases in its capacity as lessor and for all leases in its capacity as lessee, with the exception for contracts for software license for the purpose of operations, leases with a lease term of 12 months or less and leases of low value assets, which are recognised directly as current expenses in the comprehensive statement of comprehensive income on a straight-line basis over the lease term.

The Group has not elected to apply the practical expedient of IFRS 16, which allows a lessee, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Initial recognition

The Group recognises right-of-use assets and lease liabilities in the statement of financial position at the date of inception of the lease (the date on which the underlying asset is available for use by the Group – lessee).

Right-of-use assets

Right-of-use assets are initially presented at acquisition cost, which includes the amount of the initial measurement of the lease liability, any initial direct costs, costs for dismantling and removing the underlying asset, restoring the site on which the asset is located or restoring the underlying asset, as well as any lease payments made at or before the commencement date, less any lease incentives

received.

Upon subsequent measurement of right-of-use assets, the Group applies the requirements of IAS 16, by using the acquisition price model less depreciation and impairment accrued. The Group depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the asset is transferred under the lease by the end of the lease term, the Group shall depreciate it to the end of the useful life.

Any adjustments to the lease liability also adjust the right-of-use asset, and if it is fully depreciated, they are stated as current expenses within current profit or loss.

Right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*, by applying an impairment determination and reporting policy analogous to the one for property, plant, and equipment. The recoverable amount of right-of-use assets is the higher of the fair value less disposal costs, or value in use. To determine assets' value in use, future cash flows are discounted to their present amount, by applying a pre-tax discount rate reflecting the market conditions and time value of money and the risks inherent to the respective asset. Impairment consolidated statement of comprehensive income as other administrative and operating expenses.

Right-of-use assets are presented within "property and equipment and right-of-use assets" in the consolidated statement of financial position, and depreciation thereof – within depreciation and amortization expenses in the consolidated statement of comprehensive income.

Lease liabilities

The Group recognises lease liabilities at the commencement date, measured at the present value of the lease payments that are not paid at this date. They include:

- fixed lease payments (including in-substance fixed payments), less any lease inceptives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of the purchase options, if the lessee is reasonably certain to exercise this option;
- payments of penalties for terminating the lease, of the lease term reflects the exercise of an option to terminate the lease;
- the amount expected to be payable by the Group to lessor under residual value guarantees.

Variable lease payments that do not depend on an index or a rate, but are dependent on performance or use of the underlying asset, are not included in the measurement of the lease liability and the right-of-use asset. They are recognised as current expenses in the period when the event or circumstance resulting in these payments arises and are stated within other administrative and operating expenses, within profit or loss for the year.

Lease payments are discounted using the interest rate implicit in the lease, of that rate can be readily

determined, or the Group's incremental borrowing rate, which it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments (instalments) contain a certain ratio of the finance cost (interest) and the respective portion of the lease liability (principal). Interest costs for the lease are presented in the statement of comprehensive income (within profit or loss for the year) for the lease period on a periodic basis, so as to achieve constant periodic rate of interest on the remaining balance of the lease liability, and are presented as "interest costs".

Lease liabilities are stated within the consolidated statement of financial position within "other liabilities".

The Group subsequently measures the lease liability by:

- increasing the carrying amount to reflect the interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications of the lease;
- residual value guarantees are reviewed and if necessary, adjusted, at the end of each reporting period.

The Group remeasures the lease liabilities (and makes corresponding adjustments to the related right-of-use assets) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged (original) discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

Short-term leases and leases of low-value assets

The Group has elected the exemption from recognition of right-of-use assets and lease liabilities under IFRS 16 for low-value leases, constituting ATM rental, which the Group considers to be at a low value when new and are independently used at the Group without dependence or close relation to other assets.

Payments related to short-term leases and leases of low-value assets are recognised directly as current

expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

2.12.1.2 The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease; all other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Operating lease

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The underlying asset which is subject to the lease shall remain and be stated within the Group's consolidated statement of financial position.

Finance lease

The Group recognises and presents the assets held under finance leases in its consolidated statement of financial position as lease receivables whose amount is equal to the net investment in the lease. Lease receivables are stated in the consolidated statement of financial position within Loans and advances to customers.

The Group recognises finance income (lease interest) over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Interest income is included in the consolidated statement of comprehensive income (within profit and loss for the year) as finance income based on the Effective Interest Method.

When the contract contains both lease and non-lease components, the Group applies IFRS 15 to allocate the total consideration between the separate components.

2.13. Property and equipment and right-of-use assets

2.13.1. Property and equipment

Group's property and equipment (tangible fixed assets) are presented in the consolidated financial statements at acquisition cost (cost) less the accumulated depreciation and any impairment losses in value.

Initial measurement

Upon their initial acquisition, property and equipment are valued at acquisition cost (cost), which

comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. Directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

The Group has set a value threshold of BGN 150, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Subsequent measurement

The approach chosen by the Group for subsequent measurement of property and equipment, is the cost model under IAS 16, i.e. acquisition cost (cost) less any accumulated depreciation and any accumulated impairment losses in value.

Depreciation methods

The Group applies the straight-line depreciation method for property and equipment. The useful life per group of assets has been determined considering: the physical wear, the characteristic features of the equipment, the intentions for future use and the expected obsolescence, and is as follows:

	years	%
▪ Buildings	65	1,5
▪ Machinery, computer hardware and equipment	6,7-7	15-50
▪ Furniture and fixtures	6,7	15
▪ Motor vehicles	4	25
▪ Leasehold improvements – for the term of the rental agreement		

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

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain components and significant parts or improvements and restructuring, are capitalised in the amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the amount of the assets and is recognised in the current expenses for the period of restructure.

Impairment of assets

The carrying amounts of property and equipment in the consolidated statement of financial position are reviewed for impairment when events or changes in circumstances indicate that they might permanently differ from their recoverable amount. If any such indications exist that the estimated

recoverable amount of an asset is lower than its carrying amount in the consolidated statement of financial position, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property and equipment is the higher of the fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *"other administrative and operating expenses"*.

Gains and losses on disposal (sale)

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

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

2.13.2. Right-of-use assets

Right-of-use assets are presented together with property and equipment in the consolidated statement of financial position, and the policy applied is disclosed in *Note 2.12.1.1.* The Group uses straight-line depreciation of right-of-use assets over the lease term.

2.14. Investment property

The Group treats as investment property real estate owned thereby representing buildings and parts of buildings rented out, land adjacent to the rented buildings, and such acquired and held for permanent investment purposes.

The Group acquires properties which have served as collateral on non-performing loans by classifying them as investment property, when its intention is to rent them out on a long-term basis or because of expected future increases in the value of the property due to its particular qualities and advantages.

Initial measurement

Investment property is initially measured at cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure – professional fees, broker commissions, property transfer taxes, etc. The initial measurement includes all permanently attached tangible fixed assets and other assets without which the investment property would not be suitable for

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its designation. The acquisition cost of investment properties acquired as collateral on non-performing loans is usually the price determined at the public sale or the bilaterally agreed price.

Subsequent measurement

Investment properties are presented in the consolidated statement of financial position at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

Any *subsequent costs* related to an investment property are stated in increase of its carrying amount when leading to an increase in the expected economic benefits compared to the initially determined ones. All other subsequent costs on property maintenance are recognised as current expenses when incurred.

Depreciation methods

The Group uses the *straight-line method for depreciation* of the buildings included in its group of investment property. The useful life of buildings, components of investment properties is assessed in the range of 25 to 65 years. Land is not depreciated.

Transfers to, or from, the group of 'investment property' is made only when there is a change in the pattern of use of the particular property.

Impairment of assets

The carrying amounts of property and equipment in the consolidated statement of financial position are reviewed for impairment when events or changes in circumstances indicate that they may differ permanently from their recoverable amounts. If any such indications exist that the estimated recoverable amount of an asset is lower than its carrying amount in the consolidated statement of financial position, this amount is adjusted to the recoverable amount of the asset. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other administrative and operating expenses'*.

Gains and losses on disposal (sale)

Investment properties are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the recipient.

Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds, determined pursuant to IFRS 15, and the carrying amount of the asset at the disposal date. They are stated net on the line item *'other operating income, net'* in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year).

2.15. Intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

Amortisation methods

The Group applies the straight-line amortisation method for the intangible assets with determined useful life by group of assets as follows:

	Years	%
▪ Software	5-10	10-20
▪ Licences	6,7	15

Impairment of assets

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then the impairment loss is included as an expense in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other administrative and operating expenses'*.

Gains and losses on disposal (sale)

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the recipient. The gains or losses arising from the disposal of an item of intangible assets are determined as the difference between the consideration received, determined pursuant to IFRS 15, and the carrying amount of the asset at the disposal date. They are recognised on a net basis in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other operating income, net'*.

2.16. Non-current assets held for sale

Non-financial assets are classified as held for sale if their carrying amount is expected to be recovered through sale, rather than through continued use in the Group's operations. Usually these assets have been initially accepted by the Group as collaterals and are subsequently acquired by the Group as a result of 'debt for ownership' exchange from borrowers that are not repaying their liabilities in accordance with the contractual terms and conditions of the loan.

Non-current assets classified in this group are available for immediate sale in their present condition. They are classified in this category only when the Group's management has a clear intent and a priority to sell them in the foreseeable future (within 1 year) and has started procedures to actively seek buyers.

Assets classified as held-for-sale are presented in the consolidated statement of financial position separately and are measured at the lower of their carrying amount (initially, acquisition cost) and their fair value less the estimated direct costs to sell. Any impairment recognised is presented on the line item *'other administrative and operating expenses'* in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year).

Assets in this classification group are not depreciated.

2.17. Assets acquired through collateral

Assets representing property and equipment, acquired against debt as full or partial repayment of a loan are initially measured at acquisition cost, including the attributable transaction costs.

Following initial recognition these assets are measured at the lower of their carrying amount and their net selling price.

Assets acquired through collateral are presented in the consolidated statement of financial position on the line item *'other assets' (Note 22)*. Gains and losses related to the realisation of these assets are presented in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other operating income, net'*.

2.18. Provisions

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

2.19. Pensions and other payables to personnel under the social security and labour legislation

The employment and social security relations with the Group's personnel are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

Short-term benefits

Short-term benefits in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the consolidated statement of profit and loss and other comprehensive income (within profit or loss for the year), unless a particular IFRS requires capitalisation thereof to the cost of a particular asset during the period when the service has been rendered and/or the requirements for receipt of the benefits have been met, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At each consolidated financial statements date, the Group assesses the expected accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement to accumulating leave. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long-term retirement benefits

Defined contribution plans

The major duty of the Group as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance. The rates of the social security and health insurance contributions are defined in the Social Security Code (SSC), and in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

The pension plans, applied by the Group in its capacity as employers, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security scheme at the Group companies. The contributions, payable by the Group companies under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of profit or loss and other comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans

In accordance with the Labour Code, the Group in its capacity as an employer in Bulgaria is obliged to pay an indemnity at the amount of the respective employee's gross remuneration for two months upon termination of employment relations due to retirement. If the employee has acquired within the company of the same Group ten years' service over the last twenty years, the indemnity amounts to the gross remuneration for six months. In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the consolidated statement of financial position, and respectively, the change in their value is presented in the consolidated statement of profit or loss and other comprehensive income whereby: a) current and past service costs, interest costs and the effects of curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'personnel

expenses'; and b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income on the line item *'remeasurement of defined benefit pension plans'*. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the end of each reporting period, the Group assigns certified actuaries who issue a report with their calculations about the long-term retirement benefit obligations to personnel. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in Bulgaria where the Group itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations in Bulgaria, the Group in its capacity as an employer is obliged to pay certain types of indemnities upon termination of the employment contracts prior to retirement.

The Group recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on a publicly announced plan, including for restructuring, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the consolidated statement of financial position at their present value.

2.20. Income taxes

The *current income taxes* of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2021 is 10% (2020: 10%).

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

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

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit /(loss) at the transaction date.

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

Deferred taxes, related to items directly credited or charged as other components of comprehensive income or as an equity item in the consolidated statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

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

As at 31 December 2021 the deferred income taxes of the Group are computed at a tax rate of 10%, which is also valid for 2022 (31 December 2020: 10%).

2.21. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows cash and cash equivalents comprise cash on hand, cash at current accounts with other banks, placements with other banks – payable at sight and/ or with original maturity of up to 3 months, as well as unrestricted balances with the Central Bank.

2.22. Share capital and reserves

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

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

The Bank and the joint-stock companies from the Group are obliged to set aside a ***Reserve Fund (statutory reserve)*** in accordance with the requirements of the Commercial Act on distribution of the profit *(Note 28)*.

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

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The revaluation reserve is transferred to the current profit and loss in the consolidated statement of profit or loss and other comprehensive income, when the financial assets are sold or in case of lasting and prolonged impairment. As from 1 January 2018, the revaluation reserve of equity instruments upon their derecognition is not recycled in the consolidated statement of profit or loss and other comprehensive income within the current result for the period.

Dividends on ordinary shares are recognised as a liability and decreased at the expense of accumulated losses when there is a decision of the General Meeting of Shareholders.

2.23. Fair value measurement

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

a) for the purpose of measurement and presentation at fair value in the consolidated financial statements:

✓ *financial assets and liabilities* – securities at fair value through other comprehensive income, pursuant to IFRS 9.

b) for the purpose of fair value disclosures in the consolidated financial statements:

✓ *financial assets* – measured at amortised cost pursuant to IFRS 9 securities at amortised cost; due from banks, loans and advances to customers, due to banks and due to clients.

✓ *non-financial assets* – investment properties; assets held for sale.

Moreover, the Group companies also determine the fair value of the collaterals obtained thereby.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Group must have an access.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

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

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum

the publicly observable information, and respectively, to minimize the use of unobservable information.

It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include direct and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows.

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

If the market for the respective financial instrument is not active the Group establishes its fair value using a particular valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flows analyses and option pricing models. The valuation technique chosen makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with the accepted economic methodologies for pricing of financial instruments. Inputs to the valuation techniques reasonably represent market expectations and measures for risk-return factors inherent in the financial instrument. The Group calibrates the valuation techniques and tests their validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Fair values reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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

All assets and liabilities that are measured and/or disclosed in the consolidated financial statements at fair value, are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group applies fair values determined at all three levels of the fair value hierarchy.

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group assesses at the date of preparation of each set of financial statements whether transfers between the fair value hierarchy levels are required for an asset or liability depending on the inputs available and used as at that date.

For the purposes of fair value disclosures, the Group aggregates the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level *(Note 2.23.2.1 and Note 2.23.2.2).*

2.24. Critical accounting judgments on applying the Group's accounting policies. Key estimates and assumptions of high uncertainty.

Upon preparation of the Group's consolidated financial statements, the management needs to make a number of judgements, estimates and assumptions that have a direct impact on the values of the reported revenue, expenses, assets and liabilities, respectively of indicators in the disclosures thereto, including of conditional liabilities. The uncertainties related to these assumptions and judgements may result in significant adjustments to the carrying amounts of the assets and liabilities concerned.

The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed as follows:

2.24.1. Expected credit losses

2.24.1.1. Determining expected credit losses from financial assets with low credit risk

Instruments with low credit risk are considered to be the instruments for which the risk of default is low, the counterpart's ability to fulfil contractual conditions is stable, and long-term adverse changes in economic conditions and unlikely to change the ability to repay debts. For due from banks and debt instruments measured at amortised cost or at fair value through other comprehensive income, the Group companies assume at the reporting date that the probability of default is unlikely, and therefore determine 12-month credit losses for these instruments. If in subsequent reporting periods the criteria for low credit risk are no longer met, the Group companies analyse the change in the credit risk compared to initial recognition in order to determine the need of lifetime credit losses. Designating instruments as low credit risk ones requires judgement. Upon making this judgement, the Group companies use all the reasonable, grounded and relevant information accessible without making unnecessary costs or efforts.

2.24.1.2. Determining expected credit losses by types of financial assets

Determining expected credit losses on financial assets is an area that requires significant assumptions regarding future economic conditions and the behaviour of counterparts, clients and debtors (for instance, the probability of counterparts not performing their obligations, and the resultant losses). In order to apply these assumptions, the Group's management makes a number of important judgements, such as:

- Determining criteria for identification and assessment of significant increase in credit risk;
- Selection of appropriate models and assumptions to measure expected credit losses;
- Forming groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses;
- Establishing and assessing the interrelation between historical default rates and the behaviour of certain macro indicators in order to reflect the effects of forecasts thereon in the future calculation of expected credit losses.

The Group has developed an overall Policy for assessment of changes in credit quality and determining expected credit losses from financial instruments, including models and specific techniques, assumptions and relations between the values used in the formulas, pursuant to IFRS 9. It classifies its risk assets in three risk stages depending on changes in the credit risk following the initial recognition of the asset, respectively determines 12-month credit losses if there is no change in the credit quality (Stage 1) and lifetime credit losses (Stages 2 and 3) if there is a significant increase in the credit risk. Upon determining how significantly the credit risk has increased compared to the initial recognition of the asset, the Group uses all the reasonable and grounded information accessible without making unnecessary costs or efforts. The specific observable indicators are disclosed in *Note № 2.24.1.2.1. to Note 2.24.1.2.6.*

The loss given default is an estimate of the damages the Group would suffer upon default and is based on the difference between the contractual cash flows and the cash flows it actually expects to receive, including from collaterals and other loan facilities. The significant judgement which is made upon determining the time and amount of expected cash flows by periods, including upon determining the amount of collateral and the factors that impact the amount of cash flows. The management forms its judgements based on historical experience of losses from assets with inherent credit risk, and the types of circumstances resulting in impairment, similar to those in the current portfolio, in order to determine future cash flows. Additionally, upon determining the amount of expected credit losses, the Group also uses forecast information about expected future changes in certain macroeconomic conditions and indicators, and assumptions for regression links of how changes in these indicators would impact the probability of default.

The Group's calculations of expected credit losses are the result of complex models comprising a set of basic assumptions for the selection of the respective input variables and their interrelation. The elements of the models of expected credit losses which require significant assumptions and judgements

are:

➢Criteria to assess if there is a significant increase in credit risk, and their specific application, especially based on qualitative characteristics;

➢Segregation of separate financial instruments into separate portfolios for the purpose of collective impairment;

➢Developing the model of expected credit losses, including selection and application of specific formulas and data;

➢Establishing specific links and calculating average indicators for probability of default for the separate internal risk groups (portfolios) of exposures or individual exposures;

➢Determining the regression links between certain macroeconomic scenarios and the respective indicators, such as GDP, unemployment, Harmonised Index of Consumer Prices (HICP), House Price Index and income per capita and their impact on PD, LGD and EAD, as well as on changes in the amount of collaterals;

➢Selection of forecast macroeconomic indicators to be applied in the formulas to calculate expected credit losses;

2.24.1.2.1.Modelling and risk parameters upon determining expected credit losses related to amounts due from banks

The Group applies the general approach established by IFRS 9 for determining expected credit losses related to amounts due from banks. A rating model has been adopted. Expected credit losses are determined on an individual level (at the level of separate financial instrument-counterpart). The change in the credit risk assessment of the financial instrument is measured by means of a set of criteria.

The Group usually uses the publicly available information on the ratings of bank counterparts given by internationally recognised rating agencies such as Moody's, Standard & Poor's and Fitch. In 2021 the Group improved its model in the part for financial instruments without a credit rating from Moody's, Fitch and Standard & Poor's. For them, the credit rating of another recognised organisation is considered – ABKO (BCRA for Bulgarian banks, etc.). This is done in accordance with the requirements of COMMISSION IMPLEMENTING REGULATION (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council. In prior years, financial instruments without such credit rating were assessed based on the stage of credit quality of exposures according to the respective central government of the jurisdiction where the institution was incorporated. Starting from 2021, when there is no ABKO credit rating, credit quality is determined, as follows: first of the parent (if there is one), and in the other cases, the expert assessment of the competent risk unit is applied based on individual analysis and review of the external credit rating of

institutions from the same jurisdiction, operating in the same economic sector with similar financial and risk indicators and a similar business model. For financial instrument whose credit rating cannot be determined, PD is used for an SG category based on public information of Moody's external credit rating agency. The financial instruments with "investment-grade" external credit rating of the counterpart are assumed to have low credit risk, respectively, 12-month expected credit losses are calculated for them.

The criteria adopted by the Group for occurrence of significant increase in credit risk and risk of default compared to initial recognition of the financial instrument include: a) *automatic criteria*: days past due, difficult communication (exchange) resulting to probable default, insolvency of the counterpart; and b) *additional criteria* (only activated in combination with the automatic criteria): any decrease in the official external credit rating of the counterpart compared to the initial rating given by the respective international rating agencies.

The Group uses public information to determine the main risk parameters – probability of default (PD) and loss given default (LGD), based on the External Credit Rating Agency Moody's (Annual Default Study: Corporate Default and Recovery Rates и Sovereign Default and Recovery Rates). For financial instruments classified at Stage 3, LGD is determined depending on the presence of collateral and the expected cash flows agreed with the counterpart in an out-of-court settlement, by considering and weighing different scenarios.

The expected 12-month credit loss (ECL) for performing (regular) exposures under amounts due from banks (Stage 1) is calculated based on the following formula:

$$ECL = EAD*PD*LGD$$

The expected lifetime credit losses (ECL) for under-performing exposures (Stage 2) and credit-impaired exposures (Stage 3) is calculated based on the following formula:

$$ECL = EAD*PD_{Lifetime}*LGD$$

For 2021, the net loss stated from change in the estimate of expected credit losses from amounts due from banks is BGN 23 thousand (2020: profit of BGN 314 thousand) (*Note 7*).

2.24.1.2.2. Modelling and risk parameters upon determining expected credit losses related to loans and advances to customers

The Group applies the general approach established by IFRS 9 for determining expected credit losses related to loans and advances to customers based on internal policies, rules, models and calculation techniques. A monthly review and analysis is performed of all loans to assess the risk exposures, by analysing any new events, circumstances and facts.

Expected credit losses are determined on an individual (exposure and/or connected group of exposures) and collective level (sub-portfolios). Upon performing the calculations and analysis, consideration is made of the presence or absence of objective indicators for significant increase (decrease) in credit risk and risk of default. Such indicators are those events which occur following the initial recognition

of the exposure and which impact expected future cash flows from the exposure. The Group currently monitors mainly the following indicators to assess change in the credit risk, by using internal and external information, namely: days past due, restructuring measures, analysis of the borrower's financial indicators, relations with the Group, debts to other banks, presence of distraints, reputation risk, etc. In 2021, the Group did not change its set of criteria to assess change in credit risk due to the COVID-19 pandemic, but rather focused on enhancing the efficiency of risk management and early indication of changes in the behaviour and performance by clients, while the loans under moratorium were identified for more specific current monitoring. The Group monitors the performance of clients irrespective of their business sector and without a predefined weight on the risk assessment of the sectors most severely affected by the COVID-19 crisis. In 2021, the Group make more detailed its review of the qualitative criteria for credit risk, including by monitoring trends of aggravation of financial indicators in the companies' interim financial statements.

The criteria adopted by the Group to assess the occurrence of a significant increase in the credit risk and risk of default compared to the risk level upon initial recognition of the financial instrument are related to the product's specifics, respectively the characteristics of the portfolio, upon using accessible, grounded and reasonable information. The criteria adopted by the Group are grouped into two groups: a) *automatic criteria*: days past due, restructuring measures and financial indicators (where applicable) and b) *additional criteria:* commenced forced execution by other counterparts of the borrower or by the state; insolvency or liquidation proceedings initiated; significant change in main indicators and coefficients for financial analysis; delay in the borrower's repayments to other institutions by over 90 days; default of obligations to meet certain financial indicators according to the initial approval of the disbursed loan. The Group has not changed its set of criteria for increased credit risk and has not added the COVID-19 criterium, i.e. the fact that a debtor operates in a sector which has been directly and significantly affected by the pandemic or belongs to a group employed in such sectors, or the fact that a debtor has made use of the moratorium conditions.

Determining expected credit losses from risk exposures is done on a collective base (at sub-portfolio level sharing common risk characteristics) for loans classified in Stage 1 and Stage 2. In the main criteria in the segmentation of sub-portfolios for the purpose of collective impairment include: comparability of product and/or risk parameters; internal client segmentation determined depending on the amount of the funding requested and the annual sales revenue generated; repayment method and type of security; total exposure amount by client.

The credit exposures classified in Stage 3 are assessed on an individual basis.

The main risk parameters in the application of the model to determine expected credit losses include:

➢ Exposure at default (EAD) – estimate of the amount of exposure at the future point of default, by taking into consideration and accounting for expected changes in the exposure after the balance sheet's date, payments of principal and interest, drawdowns and interest accrued on payment default;

➢ Discount factor – in determining the present value of expected cash flows, the Group uses the original effective interest rate. For exposures in its portfolio for which no information is available about the initial interest rate, the effective interest rate as at 31 December 2021 is applied.

➢ Probability of default (PD):

Determining 12-month PD

To determine 12-month PD for collectively assessed exposures in Stage 1 for each separate sub-portfolio, the Group maintains historic information about migration coefficients for credit exposures from Stage 1 and Stage 2 to Stage 3. The amount of 12-month PD is determined on a sub-portfolio basis according to the rate of aggravation and is calculated as a moving average for a period covering not less than 7 years.

Determining lifetime PD for a loan

To determine lifetime PD for collectively assessed exposures in Stage 2 for each separate loan sub-portfolio, the Group performs linear extrapolation of 12-month PD for the average remaining maturity of the respective sub-portfolio.

For overdrafts and credit cards, the Group determined lifetime PD based on analysis and previous experience of the average remaining lifetime of loans in these sub-portfolios. For overdrafts and credit cards, the Group has assumed that this lifetime is 1,080 days.

For exposures in Stage 3, the lifetime PD is assumed to be 100%.

➢ Loss given default (LGD)

The LGD parameters for collectively impaired credit exposures in Stage 1 and Stage 2 is determined based on historical information including all loans which have at least once initial default date. The analysis surveys the amount of amounts accumulated and not collected over a period of 5 years, as from the first day of default of the loan transaction, excluding the periods in which the loan was performing. The parameter is calculated as a ratio between the net present value of cash inflows in loans in default as from the date of initial default. Cash inflows include repayment of principals, interest, charges, realisation of collaterals and execution costs. Cash inflows are discounted with the effective interest of each loan transaction as at the date of default. The LGD parameter is determined separately for each sub-portfolio.

The LGD parameter for credit exposures at Stage 3 is determined on an individual level, by considering the effect of the collateral received and the expected cash flows agreed with the borrower in an out-of-court settlement, where applicable. To determine the LGD value, the Group determines the realisable amount of the collateral, assuming as such its liquidation value, by considering and weighing different scenarios.

➢ Macroeconomic forecast indicators

To reflect the effect of current and forecast economic conditions upon determining expected credit losses, the Group performs additional adjustment of the historically calculated PD indicators (12-month PD and lifetime PD) for the effect and impact of certain macro indicators for a three-year period, for which a regression link has been established.

The main macroeconomic indicators included in the model for impairment of loans to clients are as

follows:

- Harmonised Index of Consumer Prices;
- Unemployment rate;
- GDP.

The expected 12-month credit loss (ECL) for performing (regular) exposures under loans and advances to customers (Stage 1) is calculated based on the following formula:

$$ECL = EAD * PD_{12m} * LGD$$

The expected lifetime credit losses (ECL) for under-performing exposures under loans and advances to customers (Stage 2) is calculated based on the following formula:

$$ECL = EAD * PD_{Lifetime} * LGD$$

The expected lifetime credit losses (ECL) from loans and advances to customers – for credit-impaired exposures, is calculated based on the following formula:

$$ECL = EAD * PD_{Lifetime} - LV(Coll)$$

As at 31 December 2021 and as at 31 December 2020 the Group has no purchased exposures which were purchased originally credit (POCI) and are non-performing.

For 2021, the net loss stated from the change in the estimate of expected credit losses from loans and advances to customers is BGN 1,787 thousand (2020: BGN 3,928 thousand – net loss) (*Note 7).*

2.24.1.2.3. Modelling and risk parameters upon determining expected credit losses related to debt securities at amortised cost

The Group applies the general approach established by IFRS 9 for determining expected credit losses related to debt securities measured at amortised cost. A rating model has been adopted. Expected credit losses are determined on an individual level (at the level of separate financial instrument-counterpart). The change in the credit risk assessment of the financial instrument is measured by means of a set of criteria adopted by the Group.

The Group usually uses the publicly available information on the ratings of bank counterparts given by internationally recognised rating agencies such as Moody's, Standard & Poor's and Fitch. In 2021 the Group improved its model in the part for financial instruments without a credit rating from Moody's, Fitch and Standard & Poor's. For them, the credit rating of another recognised organisation is considered – ABKO (BCRA for Bulgarian banks, etc.). This is done in accordance with the requirements of COMMISSION IMPLEMENTING REGULATION (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council. In prior years, financial instruments without such credit rating were assessed based on the stage of credit quality of exposures according to the respective central government of the jurisdiction where the institution was incorporated. Starting from 2021, when there is no ABKO credit rating, credit quality is determined,

as follows: first of the parent (if there is one), and in the other cases, the expert assessment of the competent risk unit is applied based on individual analysis and review of the external credit rating of institutions from the same jurisdiction, operating in the same economic sector with similar financial and risk indicators and a similar business model. For financial instrument whose credit rating cannot be determined, PD is used for an SG category based on public information of Moody's external credit rating agency.

When financial instruments have an "investment-grade" external credit rating of the issuer, they are assumed to have low credit risk, respectively, 12-month expected credit losses are calculated for them. For those with lower credit rating, additional analyses are performed related to the issuer, the characteristics of the financial instrument, the process of trade in the financial instrument and other monitoring indicators.

The criteria adopted by the Group for occurrence of significant increase in credit risk and risk of default compared to initial recognition of the financial instrument include: a) *automatic criteria*: days past due, difficult communication (exchange) resulting to probable default and/or proposal for new or restructured debt or new package of securities to reduce the initial liability; insolvency of the issuer; change in the payment terms imposed by the sovereign and resulting in a decrease in the financial liability; and b) *additional criteria* (only activated in combination with the automatic criteria): any decrease in the official external credit rating of the counterpart compared to the initial rating of the issuer given by the respective international rating agencies.

The Group uses public information to determine the main risk parameters – probability of default (PD) and loss given default (LGD), based on the External Credit Rating Agency Moody's (Annual Default Study: Corporate Default and Recovery Rates и Sovereign Default and Recovery Rates). The Recovery Rates for debt financial instruments reflect the degree to which the principal and interest of a debt instrument in default can be recovered. The recovery rates make it possible to forecast the loss given default, calculated as minus 1 recovery rate. For financial instruments classified at Stage 3, LGD is determined depending on the presence of collateral and the expected cash flows agreed with the counterpart in an out-of-court settlement, by considering and weighing different scenarios.

The expected 12-month credit loss (ECL) for performing (regular) exposures – debt securities (Stage 1) is calculated based on the following formula:

$$ECL = PD * LGD * EAD$$

The expected lifetime credit losses (ECL) for under-performing exposures debt securities (Stage 2) and credit-impaired exposures – debt securities (Stage 3) is calculated based on the following formula:

$$ECL = EAD * PD\mathit{Lifetime} * LGD$$

The model is based on a transaction matrix of ratings and macroeconomic time series. The ratings are established based on a macroeconomic profile, financial profile and qualitative indicators. The macroeconomic time series include indicators such as unemployment rate and spread to risk free yield. The model has been validated by means of back testing to calculate the accuracy coefficient, model stability, etc.

In 2021, the net loss on change in the estimate of expected credit losses from debt securities at amortised cost is BGN 116 thousand (2020: a net loss of BGN 17 thousand) (*Note 7*).

2.24.1.2.4. Modelling and risk parameters upon determining expected credit losses related to debt securities at fair value through other comprehensive income

The approach, modelling and risk parameters upon determining expected credit losses are analogous to those disclosed in Note *2.24.1.2.3*.

For 2021, the net loss stated from the change in the estimate of expected credit losses from debt securities at fair value through other comprehensive income is BGN 53 thousand (2020: BGN 94 thousand). (*Note 7*).

2.24.1.2.5. Modelling and risk parameters upon determining expected credit losses related to other financial assets

The Group applies the general approach to determine expected credit losses from other financial assets.

For 2021, the net loss stated from the change in the estimate of expected credit losses from other financial assets is BGN 37 thousand (2020: BGN 41 thousand) (*Note 7*).

2.24.1.2.6. Modelling and risk parameters upon determining expected credit losses related to financial guarantees granted, letters of credit and undrawn commitments

The Group applies the general approach to determine expected credit losses from financial guarantees granted, letters of credit and undrawn commitments. Upon determining expected credit losses related to undrawn commitments, a credit conversion factor is used, calculated based on historical information covering a ten-year period.

The Group performs a monthly review of the guarantees and letters of credit issued, analysing any new events, circumstances and facts following their issue date.

The Group has adopted an LGD equal to zero, based on a historical five-year analysis to observe insignificance of the amounts of guarantees and letters of credit claimed and paid.

In 2021 and 2020, no effect has been stated of the change in the estimate of expected credit losses from financial guarantees.

2.24.2. Fair value measurement

2.24.2.1. Measurement of the fair value of financial instruments

a) Financial instruments measured at fair value in the consolidated financial statements

Securities held by the Group and measured at fair value through other comprehensive income representing: a) debt securities is fixed or determinable payments and fixed maturity (corporate and government securities); b) corporate shares or interests in the equity of other entities (minority interests) are measured and presented at fair value in the consolidated statement of financial position

(Level 1). The measurement policy adopted by the Group estimates the average price based on the 'ask' and 'bid' quotes on the last working day of the reporting period (year), published in an international information system for financial instruments, eliminating the highest and the lowest quotes (extreme values).

b) Financial instruments not measured at fair value in the consolidated financial statements

The Group classifies financial instruments measured at amortised cost in the consolidated financial statements, for which fair value disclosures are required, in the following categories: *cash and balances with the Central Bank; due from banks; loans and advances to customers; securities at amortised cost; other financial assets; due to banks and customers, and other financial liabilities.*

The Group determines the fair value of these groups of financial assets and liabilities using the following techniques and assumptions:

Cash and balances with the Central Bank

This item includes cash on hand and balances on current accounts with BNB, including the minimum statutory reserves.

The fair value of *cash on hand* coincides with their carrying and nominal amounts. The Group classifies this item's fair value as Level 1 in the fair value hierarchy.

The fair value of *balances on current accounts with BNB*, including the *minimum statutory reserves* is close or coincides with their carrying (amortised) amount. The Group classifies these items as Level 2 in the fair value hierarchy.

Due from banks

Amounts due from banks include interbanking deposits and nostro accounts.

The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides or is close to their carrying (amortised) amount.

The fair value of floating or fixed rate items and original maturity *over* 3 months is determined using the discounted cash flows method applying average current interest rates quoted on the money market for instruments with similar risk and maturity.

The Group classifies amounts *due from banks* at Level 2 of the fair value hierarchy.

Loans and advances to customers

Loans and advances to customers are presented net, less the accumulated impairment The definition of the fair value of *loans and advances to customers* is based on valuation models, such as discounted

cash flows techniques and it is classified by the Group at Level 3 of the fair value hierarchy.

The inputs to the valuation techniques include the estimated cash flows over the life of the loan and average interest rates for the respective term and currency published by BNB. For loans classified as loss the Group recognises the discounted carrying amount of the loan as their fair value.

Securities measured at amortised cost

The fair value of *securities measured at amortised cost*, representing debt securities with fixed or determinable payments and fixed maturities (government securities – bonds and corporate bonds) is based on average market quotes in an active market and it is classified at Level 1 in the fair value hierarchy. It is determined by the Group as the average of the 'ask' and 'bid' quotes on the last working day of the reporting period (year), published in an international information system for financial instruments, eliminating the highest and the lowest quotes (extreme values).

Other financial assets

The other financial assets include mainly receivables under a lease agreement and payments under card transactions.

The fair value of these items coincides with or is close to their carrying (amortised) amount as far as they are of short-term nature.

The Group classifies *other financial assets* at Level 3 of the fair value hierarchy.

Due to banks

The amounts due to banks include placements (deposits) and borrowings in the form of loans.

The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides with or is close to their carrying (amortised) amount.

The fair value of floating or fixed rate items and original maturity *over* 3 months is based on the discounted cash flows using average interest rates quoted in the money market for instruments having similar risk, currency and maturity.

The Group classifies the fair value of these assets at Level 2 of the fair value hierarchy.

Due to customers

The amounts due to customers include funds attracted from individuals, legal entities and municipalities in the form of term deposits and current accounts.

The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides with or is close to their carrying (amortised) amount. The fair value of floating or fixed rate items with

original maturity *over* 3 months is calculated using the discounted cash flows technique applying average interest rates for the respective term and currency published by BNB.

The Group classifies the fair value of these assets at Level 2 of the fair value hierarchy.

Other financial liabilities

The other financial assets include mainly transfers for execution, guarantees under assignment agreements and letters of credit and estimate accruals.

The fair value of these items coincided with or is close to their carrying (amortised) amount as far as they are of short-term nature.

The Group classifies *other financial liabilities* at Level 3 of the fair value hierarchy.

The table below presents the carrying amounts and fair values of the Group's financial instruments, including their fair value hierarchy levels.

As at 31 December 2021					Fair value			
Note		Financial instruments at amortised cost	Financial instruments at FVOCI	Total	Level 1	Level 2	Level 3	Total
		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial assets measured at fair value								
Securities at fair value through other comprehensive income	15	-	105.104	**105,104**	105.104	-	-	**105.104**
Financial assets not measured at fair value								
Cash and balances with the Central Bank	12	304.635	-	**304,635**	20.530	284.105	-	**304,635**
Due from banks	13	57.675	-	**57,675**	-	57.675	-	**57,675**
Loans and advances to customers	14	780.329	-	**780,329**	-	-	782.953	**782,953**
Securities at amortised cost	16	67.035	-	**67,035**	67.365	-	-	**67,365**
Other financial assets	22	2.354	-	**2,354**	-	-	2.354	**2,354**
Total		**1,212,028**	**105,104**	**1,317,132**	**192,999**	**341,780**	**785,307**	**1,320,086**
Financial liabilities not measured at fair value								
Due to banks	23	7.488	-	**7,488**	-	7.488	-	**7,488**
Due to customers	24	1.220.113	-	**1,220,113**	-	1.220.243	-	**1,220,243**
Other financial liabilities*	27	8.320	-	**8,320**	-	-	4.402*	**4,402***
Total		**1,235,921**	**-**	**1,235,921**	**-**	**1,227,731**	**4,402**	**1,232,133**

As at 31.12.2020					Fair value			
Note		Financial instruments at amortised cost	Financial instruments at FVOCI	Total	Level 1	Level 2	Level 3	Total
		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial assets measured at fair value								
Securities at fair value through other comprehensive income	15	-	111.847	**111,847**	111.847	-	-	**111,847**
Financial assets not measured at fair value								
Cash and balances with the Central Bank	12	212.659	-	**212,659**	20.492	192.167	-	**212,659**
Due from banks	13	20.416	-	**20,416**	-	20.416	-	**20,416**
Loans and advances to customers	14	649.660	-	**649,660**	-	-	653.731	**653,731**
Securities at amortised cost	16	83.668	-	**83,668**	85.223	-	-	**85,223**
Other financial assets	22	681	-	**681**	-	-	681	**681**
Total		**967,084**	**111,847**	**1,078,931**	**217,562**	**212,583**	**654,412**	**1,084,557**
Financial liabilities not measured at fair value								
Due to banks	23	10.695	-	**10,695**	-	10.695	-	**10,695**
Due to customers	24	994.421	-	**994,421**	-	995.359	-	**995,359**
Other financial liabilities*	27	7.633	-	**7,633**	-	-	2.842*	**2,842***
Total		**1,012,749**	**-**	**1,012,749**	**-**	**1,006,054**	**2,842**	**1,008,896**

* The fair value of other financial liabilities does not include financial lease liabilities under IFRS 16.

2.24.2.2. Measurement of the fair value of non-financial instruments

a) Fair value of assets held for sale

The Group determines the fair value of assets held for sale based on the estimated selling price of the respective assets for which there is high level of certainty that they will be realised in the short-term (up to 1 year). Assets held for sale are designated at Level 3 in the fair value hierarchy.

b) Fair value of investment property

The fair value of investment property is calculated with the assistance of external, independent licensed valuators. It is designated at Level 3 based on the inputs to the valuation technique used. The fair value determined is the sum of the weighted average values derived as a result of the application of different valuation methods. The following valuation techniques and methods have been used: market approach, income approach and cost approach. The significant unobservable inputs in determining the fair values of investment properties include: costs to manage the property, determined as a percentage of the gross annual income from the property; rate of return for the revenue generated by the property; adjusting coefficients in relation to market benchmark transactions.

The table below present the carrying amounts and fair values of the Group's non-financial assets, designated at Level 3 of the fair value hierarchy:

Non-financial assets	Note	Carrying amount	Fair value	Carrying amount	Fair value
			Level 3		Level 3
		31.12.2021 BGN '000	31.12.2021 BGN '000	31.12.2020 BGN '000	31.12.2020 BGN '000
Investment property	17	18,688	22,274	19,874	24,108
Assets held for sale	20	78	183	139	243
Total	-	18,766	22,457	20,013	24,351

2.24.3. Actuarial calculations

Actuary-type calculations based on assumptions related to mortality, personnel turnover rate, future salary levels and discount factor, which the management has accepted as reasonable and adequate to the Group, have been used to determine the present value of long-term retirement benefit obligations to personnel *(Note 27)*.

2.24.4. Leases

2.24.4.1. Determining whether a contract contains a lease or lease components

Upon identification and classification of a lease or a lease component of a contract, the Group determined whether the contract contains an identifiable asset and whether it transfers the right of control over this asset for the contract term. The Group has identified the contracts for rent of office premises as containing lease components. The Group obtains economic benefits from the use of the premises and determined the manner, time, place and degree of use of the offices.

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

The Group determines the lease term as the non-cancellable period of the lease, together with both: a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Upon determining the term of leases, the Group's management determines whether it is reasonably certain that it would exercise the extension/termination option, considering all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, such as significant enhancement to the underlying asset, significant adaptation and customisation of the underlying asset, costs related to termination of the lease and costs for the lease, relocation and identification of another asset, the importance of the underlying asset for the Group's operations, etc.). Extension options (or the periods after the termination option) are only included in the lease term if it reasonably certain they will be extended (or will not be terminated). The Group reassesses the assessment of options upon the occurrence of a significance event or a significant change in circumstances that is within the Group's discretion and may impact the assessment.

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

The termination options are included in the term lease when the Group is reasonably certain it will not exercise these options.

2.24.4.3. Interpretation of what constitutes a penalty when determining lease terms

The Group accounts for several leases (cancellable) which do not have a specific lease term, and the term continues until any of the parties – lessee or lessor, terminates them. Some of the leases contain a termination notice period – for instance, not more than three months; respectively, the contract may not require any of the parties to pay amounts upon termination, as well as contracts with an option for multiple re-negotiation – which include an initial period and an unlimited number of re-negotiations after the initial period, unless terminated by either of the parties. With respect to these two types of contracts, the Group applies a wider interpretation of "penalty", based on reasonably substantiated economic incentive or factors of deterring nature or acting as a sanction (for instance: significant costs to find an alternative underlying asset, significant relocation costs, significance of the underlying asset for the Group's operation, etc.) For these two types of contracts, the Group's aim is that the lease term corresponds to its realistic judgement on the period of use of the underlying asset.

2.24.4.4. Determining the incremental interest rate of leases in which the Group is a lessee

In the cases when the Group is a lessee and cannot readily determine the interest rate to discount lease liabilities, it uses the incremental borrowing rate it would have to pay to borrow over a similar term,

and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of- use asset in a similar economic environment.

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

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

The Group has performed a review and has determined that no indicators for impairment exist as at 31 December 2021.

2.25. Custodial services

The Group, through the parent (the Bank) performs safekeeping on clients' behalf in its capacity as investment intermediary. Such assets are not recognised in the consolidated statement of financial position, since the Bank does not have control thereon.

3. RISK MANAGEMENT POLICY DISCLOSURES

In the ordinary course of its business activities, the Group is exposed to a variety of financial risks the most important of which are credit risk, market risk (including interest rate and currency risk) and liquidity risk. The general risk management is focused on the difficulty to forecast financial markets and to minimise the potential adverse effects that might affect the financial performance and position of the Group. Financial risks are currently identified, measured and monitored through various control mechanisms introduced in order to establish adequate prices for the bank services and types of products and funds borrowed thereby, as well as to assess adequately the market circumstances of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentration. The Group manages its business transactions according to the type of risk involved and on the basis of the different categories of trading instruments held.

Risk management structure

The main units which are directly responsible for risk management in the Group are located in the Bank (the Parent) and include:

Supervisory Board – performs overall supervision of risk management as well as the functions of a Risk Committee;

Management Board – responsible for the overall risk management approach and for approving risk management strategies and principles;

Assets and Liability Management Committee – analyses the current position of the Bank's assets and liabilities, monitors the risks related to the Bank's liquidity management, foreign currency risk, and the financial instruments market and proposes specific measures in case of variance from the set limits;

Credit Committee and Committee on Determining Expected Credit Losses – current analysis of credit transactions from the perspective of credit risk management;

Risk Events Assessment Committee – takes decisions for the ultimate registration of occurred events, makes assessment of the losses, analyses registered data;

Executive Directors – exercise operating control over all banking transactions with a view to comply and maintain currently the set limits for the particular types of risks;

The Central Bank exercises additional supervision on the risk management in the Bank by requesting periodic reports and subsequent control on the observance of the regulatory set maximum exposure levels to particular types of risks.

Measurement and management of major risks

The management of the parent (the Bank) has approved various internal rules and methodologies for risk measurement based on statistical models and/or on empirical observations, analyses and judgements based on historical experience of the trends and relations between different factors and conditions. The subsidiaries apply the respective Group policies and methodologies approved by the management of the parent.

Control over and management of the risks is structured mainly on the basis of limits set by type of operation. These limits reflect the Bank's strategy and its market position, as well as the level of the specific risk that the Bank defines as being acceptance for its operations.

Reports on the specific types of risks are prepared periodically for the purposes of subsequent analysis and possible adjustment of already set limits by individual types of transactions and deals.

In 2020, the Group, through the parent (the Bank) established a specialised Committee on reactions on COVID-19-related matters. The aim and function of the specialised Committee was to monitor the epidemic situation and develop proposals for actions related to minimising the risk of the pandemic's adverse impact on the Group companies.

The Group, through the parent (the Bank) also developed and introduced a "Procedure for announcing measures in relation to the epidemic situation", including protocols for actions in case of identifying a COVID-19 contaminated employee at a structural unit in relation to operational risk management.

3.1. Credit risk

Credit risk is the risk that the customers / counterparties will fail to pay to the Bank any amounts due in full and in due time.

The management of the specific credit risk is performed by the Committee on Determining Expected Credit Losses of the Bank and is supervised by the Management Board. The credit risk management function ensures that appropriate policies are established and the compliance of these policies with the related current monitoring procedures and controls for each type of credit exposure. At the subsidiary

D Leasing EAD this function is performed by the Impairment Committee and is supervised by the Board of Directors of the company, and at the subsidiaries D Imoti EOOD, D Park EOOD and D Broker EOOD, the General Managers are responsible for credit risk management.

Due from banks

The parent (the Bank) manages the credit risk regarding bank counterparts by adopting an investment benchmark framework setting limits for exposures thereto. The limits are formed by means of a complex assessment based on: 1) official external credit rating by the following international rating agencies: Moody`s, Standard & Poor`s, Fitch, or an equivalent creditworthiness rating (given by or approved by the External Credit Rating Agency pursuant to Art. 135 of Regulation 575/2013); 2) periodic financial analysis of the bank's condition based on audited financial statements; 3) results of stress tests carried out by regulators, asset quality test; 4) other public information.

The coronavirus pandemic did not have a negative impact on due from banks in 2021. The Group did not have difficulties in its communication (exchange) with counterparts, nor was there default of contractual agreements, issuers' insolvency or payment delay or default.

Loans to clients

Exposure to credit risk portfolio is managed through regular analysis of the borrower's ability to meet their principal and interest repayment obligations and through the mechanisms of establishing appropriate lending limits. Credit risk is reduced in part also by requesting and obtaining different types of collateral.

The monitoring process and review of the quality of the loan portfolio is defined in the periodic (quarterly) monitoring guidelines of the parent (Bank). Such monitoring is aimed at establishing whether there are changes in the business and status of business customers and the extent to which the requirements set upon the approval of the transaction are complied with. The review of the quality of the credit portfolio is performed on a monthly basis.

In relation to the COVID 19 pandemic continuing in 2021, the Group's management has performed and continues to perform a number of activities to limit the potential future negative impact, and has put in place an operational plan for work in the situation of a pandemic, and maintains active remote communication with borrowers. The actions are focused on performing a reliable assessment of the probability of default, respectively – distinction between cases/indications related to long-term financial problems of the borrowers and those resulting from the pandemic and leading to temporary liquidity difficulties.

According to changes in credit quality, loan exposures are classified at three stages, as disclosed in *Note 2.11.1.7.*

Policy and process of determining losses from impairment of loans to clients

The references herein below show where in these consolidated financial statements there are disclosures about the policies and process established by the parent (the Bank) to measure and impair

risk exposures related to loans to clients according to IFRS 9 Financial Instruments:

• Explanation of the Group's system for internal assessment of risk exposures – individual and collective impairment approach (*Note 2.11.1.3.1* and *Note 2.11.1.7)*;

• How the Group determines, calculates and monitors a significant increase in credit risk and risk of default for individually and collectively assessed exposures (*Note 2.11.1.7* and *Note 2.24.1.2.2)*;

• Details about the calculation of expected credit losses at each stage of impairment *(Note 2.11.1.7* and *Note 2.24.1.2.2).*

Definition of default and recovery

The Group assumes that a default has occurred when:

1/ There is little probability that the debtor will repay its debt in full, unless the Bank undertakes at least one of the following actions:

- forced realisation of the collateral;
- non-recognition of interest income;
- making specific credit adjustment resulting from identified significant deterioration of credit quality occurring after the Book took on exposure to the debtor;
- sale of the loan payable with a significant economic loss in relation to the loan;
- agreement for forced restructuring of the loan payable which may result in a decrease in the amount of the payable, by means of significant remittal or deferral of the payment of principal, interest, or, where applicable, fees;
- initiating a procedure to declare the debtor insolvent/bankrupt or a similar procedure related to the debtor's loan payable;
- the debtor has requested or has been declared insolvent or has sought other similar protection, and this would result in a delay in the repayment or in a default of the loan payable to the Bank or to any of its subsidiaries.

2/ The debtor has delayed payment of principal, interest or fees for over 90 days.

An exposure is no longer classified as "default" if each of the following conditions is met:

- the Group considers there are no longer prerequisites for extending the default status for an exposure that was previously non-performing, when at least 3 months have passed from the point at which the default conditions were no longer met;
- the Group considers the debtor's behaviour over the monitoring period;
- the Group considers the debtor's financial position over the monitoring period;
- after the expiry of the monitoring period, an assessment should be carried out, and if the Group still considers it is very unlikely that the debtor repays in full, without selling a collateral, the exposures should continue to be classified as default until the Group considers that the improvement in the credit quality is actual and permanent;

- the conditions should also be met with respect to new exposures to the debtor, in particular when prior default exposures to the same debtor were sold or written-off.

Exposure at default

Exposure at default is the gross carrying amount of the financial instrument which is the object of impairment calculation. The Group determined the probability of default over the instrument's lifetime. In order to calculate EAD for a loan at Stage 1, the Group assesses the probability of default over the next 12 months. For financial assets at Stages 2 and 3, the Group assesses the probability of default over the instruments' lifetimes. Based on the Group's model, the calculated PD are applied for each of the stages.

Loss given default

Loss given default (LGD) is the ratio of loss from the exposure due to the counterpart's default, to the amount of exposure at default. In order to determine the LGD parameter, the Group calculates the potential loss which would occur is an exposure is in default and the only source of collection is realisation of the collaterals. The loss is measured as the difference between the exposure at default (EAD) and the realisable value of the collateral and is presented as a percentage of EAD. The LGD parameter is determined individually for each exposure at Stage 3 of the loan portfolio. Regarding Stage 1 and Stage 2, the Group applies LGD on a collective base according to the standardised framework to assess LGD. LGD values are reviews at least once per year by the Bank's specialised credit risk department.

Significant increase in credit risk

At each reporting date the Group assesses if the credit risk has significantly increased following initial recognition, respectively it determines the change in risk resulting from default by comparing its level at the date of the financial statements to the risk level upon the initial recognition of the credit exposure.

Additionally, the Group currently performs regular monitoring and assessment of the credit risk level for all financial instruments in the scope of impairment under IFRS 9 using the following *obligatory criteria*: a) delays by over 30 days; b) restructuring measures applied; c) deterioration on key financial criteria for the Group, and *additional criteria*: a) indebtedness by over 90 days at other institutions; b) distraints, and other monitoring criteria in a report.

Grouping financial assets assessed on a collective base

The Group companies group financial assets assessed on a collective base by means of segmentation into sub-portfolios with common risk characteristics. The main parameters which are considered in the judgement to form "uniform" portfolios with common risk characteristics include: a) comparability of product and/or risk parameters; b) internal client segmentation based on the amount of funding requested and the annual sales revenue generated; c) repayment method and type of security; and d) amount of the total exposure by client.

As at 31 December 2021, the Group, mainly through the parent (the Bank) has divided its exposures into 17 sub-portfolios sharing similar risk characteristics based on pre-defined criteria. Currently, on a monthly basis, the Group monitors and analyses the criteria set which determine belonging to the respective sub-portfolio of existing or newly arising credit exposures.

Categorisation of credit exposures – renegotiated and restructured exposures

A renegotiated exposure for the Group is an instrument with respect to which the Group has made changes in the initial conditions of the debtor which do not lead to a significant change in the loan's cash flows and do not provide greater benefit to the debtor, and the loan is not treated as restructured pursuant to Implementing Regulation 1278/2015 – articles 163-183. The exposure is not identified as underperforming and there are no grounds to consider that the Group will not be able to collect the principal and interest. There are no circumstances demonstrating aggravation of the debtor's financial condition that would result in an impossibility to pay their debt to the Bank. The management monitors renegotiated loans on a continuous basis in order to ensure that all criteria have been met and that it is probable that future payments would not fall past due. The loans continue to be subject to individual or collective impairment. After the renegotiation of the terms and conditions any impairment is calculated using the original effective interest rate as calculated before the changes in the terms and conditions. Following renegotiation the loans are classified in the classification risk group to which they were allocated before the renegotiation.

A restructured exposure for the Group is a contract with respect to which restructuring measures have been applied. A restructuring measure is a facility provided by the Group to a debtor that faces or is likely to face difficulties in meeting their financial obligations. The facility may incur a loss for the Group and constitutes one of the following actions:

- change in the conditions of the debt payable that would not have been made if the debtor did not have difficulties in meeting their financial obligations;
- full or partial debt re-financing that would not have been made if the debtor did not have difficulties in meeting their financial obligations.

At least the following cases are considered to be measures for restructuring of exposures:

- the new contractual conditions are more favourable for the debtor than the previous ones, when the debtor encounters or may encounter difficulties in meeting their financial obligations;
- the new contractual conditions are more favourable for the debtor than the contractual conditions the Bank offered to debtors with a similar risk profile at the point when the debtor encounters or may encounter difficulties in meeting their financial obligations;
- under the initial contractual conditions the exposure was classified as non-performing (default) before the change in the contractual conditions or would have been classified as non-performing (default) if the contractual conditions were not changed;
- the measure results in full or partial waiver of the debt;
- the Group permits the execution of contractual clauses allowing the debtor to change

contractual conditions, and the exposure was classified as non-performing (default) before the execution of these clauses or would have been classified as non-performing (default) if the clauses had not been executed;

- at the point of granting the loan or approximately at this point the debtor made principal or interest payments under another debt to a Group company that would have been classified as a non-performing (default) exposure if the payments had not been made;
- the change in the contractual conditions includes repayments made by selling a collateral, when this change is a facility.

Restructured loans are subject to individual or collective impairment. The original effective interest rate on the loan is used for the purpose of calculation of the individual impairment.

The classification as restructured exposure is discontinued when the following conditions are met:

- the restructured exposure is considered to be performing, including when re-classified from "non-performing", after the analysis of the debtor's financial position shows that it no longer meets the conditions to be classified as non-performing;
- the minimum 2-year trial period has expired from the date on which it was considered that the restructured exposure was performing;
- within at least half of the trial period, regular payments have been made of substantial amounts, on average to repay principal or interest;
- none of the debtor's exposures is past due for more than 30 days at the end of the trial period.

Internal process of assessment and classification of credit exposures

According to the internal assessment process and pursuant to Regulation (EU) 575/2013 of the European Parliament and the Council of EU dated 26 June 2013, the parent company (the Bank) divides its client portfolio into performing loans (those for which no default has been identified) and non-performing loans (those for which a default has been identified). The performing exposures of the parent company (the Bank) are those exposures which meet the following criteria:

- The debtor has no past due payables to the parent company (the Bank), or if there are past due principal, interest or fee (which constitutes interest income), the period is not more than 90 days;
- The parent company (the Bank) believes that it is probable that the debtor may not repay in full its loan payables without subsequent collateral disposal.

The non-performing exposures of the parent company (the Bank) are those exposures which meet the following criteria:

- The parent company (the Bank) believes that it is unlikely that the debtor repays the payables in full unless additional actions are taken thereby;
- The debtor has principal, interest or fee past due by over 90 days.

Debt and equity securities

To manage the risk of exposures to debt and equity securities, D Commerce Bank AD uses the ratings of external credit agencies such as Standard&Poor's, Moody's, Fitch. The active management of risk from investments in securities is performed by introducing an investment framework – Benchmark. It constitutes a system of limits and investment restrictions of security portfolios and investments in bank counterparts over a respective time period. The benchmark is an optimal solution to an optimisation problem given the investment limits and the choice made. The benchmark reflects the long-term investment strategy regarding the combination between market and credit risk that the management is willing to undertake in order to achieve the Bank's investment objectives.

Financial guarantees, letters of credit and undrawn loans

The primary purpose of instruments in the form of guarantees and letters of credit is to ensure that funds are available to the customer as required. Guarantees and letters of credit which represent irrevocable commitments that the Group will make payments in the events that a customer cannot meets its obligations to a third party, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertaking by the Group on behalf of a customer, authorise a third party to draw drafts on the Bank up to a stipulated amount by observing specific terms and conditions. They are secured by a definite quantity of goods and therefore carry less risk than a direct borrowing.

The undrawn portions of authorised credit agreements in the form of loans, guarantees or letters of credit represent commitments of the Group. With respect to credit risk the Group is potentially exposed to loss in an amount equal to the total undrawn commitments. However, the likely amount of the loss is less than the total unused commitments since most of these types of commitments require the customer to maintain specific credit standards. The Group monitors on a current basis the utilisation of the loan as longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk

The exposure to credit risk attributable to financial assets recognised in the consolidated statement of financial position is as follows:

Financial assets	**31.12.2021**	**31.12.2020**
	BGN '000	**BGN '000**
Cash and balances with the Central Bank	304,635	212,659
Due from banks	57,675	20,416
Loans and advances to customers	780,329	649,660
Securities at fair value through other comprehensive income	105,104	111,847
Securities at amortised cost	67,035	83,668
Other financial assets	2,354	681
Total financial assets	**1,317,132**	**1,078,931**

The exposure to credit risk attributable to off-balance sheet contingent commitments is as follows:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Bank guarantees and letters of credit	23,505	26,155
Undrawn amount of authorised loans	116,450	60,364
	139,955	**86,519**
	1,457,087	**1,165,450**

Maximum credit exposure

At 31 December the maximum exposure to credit risk, the coverage of the maximum credit exposure with the collateral accepted by the Group, measured at fair value and the net exposure to credit risk by type of financial assets are presented below:

31.12.2021	**Maximum exposure to credit risk**	**Coverage of the maximum credit exposure with the collateral accepted by the Group measured at fair value**				**Net exposure to credit risk**
		Cash	*Real estate*	*Other acceptable collateral*	*Total acceptable collateral*	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and balances with the Central Bank	304,635	-	-	-	-	304,635
Due from banks	57,675	-	-	-	-	57,675
Loans and advances to customers	780,329	10,588	530,765	5,963	547,316	233,013
Securities at fair value through other comprehensive income	105,104	-	-	-	-	105,104
Securities at amortised cost	67,035	-	-	-	-	67,035
Other financial liabilities	2,354	-	-	-	-	2,354
Total	**1,317,132**	**10,588**	**530,765**	**5,963**	**547,316**	**769,816**

31.12.2020	**Maximum exposure to credit risk**	**Coverage of the maximum credit exposure with the collateral accepted by the Group measured at fair value**				**Net exposure to credit risk**
		Cash	*Real estate*	*Other acceptable collateral*	*Total acceptable collateral*	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and balances with the Central Bank	212,659	-	-	-	-	212,659
Due from banks	20,416	-	-	-	-	20,416
Loans and advances to customers	649,660	31,087	437,878	2,313	471,278	178,382
Securities at fair value through other comprehensive income	111,847	-	-	-	-	111,847
Securities at amortised cost	83,668	-	-	-	-	83,668
Other financial liabilities	681	-	-	-	-	681
Total	**1,078,931**	**31,087**	**437,878**	**2,313**	**471,278**	**607,653**

Due from banks

The table below presents amounts due from banks as at 31 December 2021 and 31 December 2020 based on Moody's ratings.

	31.12.2021 BGN'000	31.12.2020 BGN'000
Aa1 to A3	24,784	14,290
Baa1 to Ba3	32,192	-
Without rating	699	6,126
	57,675	**20,416**

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, dated 26 June 2013, exposures to bank institutions for which a credit assessment by a nominated External Credit Assessment Institution (ECAI) is not available shall be assigned the credit quality of the respective central government of the jurisdiction – in this case being Republic of Bulgaria with a credit rating Baa2.

Loans and advances to customers

The table below provides information on the carrying amount of loans and advances granted, the coverage of the maximum loan exposure by the collateral accepted by the Group measured at fair value and the net exposure to credit risk as at 31 December allocated to the internal risk groups of the Group:

31.12.2021	**Carrying amount**	**Category under IFRS 9 on 31 December 2021**			**Coverage of the maximum credit exposure with the collateral accepted by the Bank measured at fair value**				**Net exposure to credit risk**
		Stage 1	**Stage 2**	**Stage 3**	***Cash***	***Real estate***	***Other acceptable collateral***	***Total acceptable collateral***	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Standard exposures	756,587	637,653	118,934	-	10,463	507,494	5,659	523,616	232,971
Non-performing exposures	23,742	-	345	23,397	125	23,271	304	23,700	42
	780,329	**637,653**	**119,279**	**23,397**	**10,588**	**530,765**	**5,963**	**547,316**	**233,013**
including:									
Exposures to companies	*620,710*	*480,374*	*117,585*	*22,751*	*9,748*	*411,741*	*5,963*	*427,452*	*193,258*
Exposures to individuals	*159,619*	*157,279*	*1,694*	*646*	*840*	*119,024*	*-*	*119,864*	*39,755*

31.12.2020	Carrying amount	Category under IFRS 9 on 31 December 2020			Coverage of the maximum credit exposure with the collateral accepted by the Bank measured at fair value				Net exposure to credit risk
		Stage 1	**Stage 2**	**Stage 3**	***Cash***	***Real estate***	***Other acceptable collateral***	***Total acceptable collateral***	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Standard exposures	617,738	508,508	109,230	-	30,795	407,900	1,400	440,095	177,643
Non-performing exposures	31,922	-	1,558	30,364	292	29,978	913	31,183	739
	649,660	**508,508**	**110,788**	**30,364**	**31,087**	**437,878**	**2,313**	**471,278**	**178,382**
including:									
Exposures to companies	*529,454*	*392,960*	*107,036*	*29,458*	*29,458*	*348,906*	*2,313*	*380,677*	*148,777*
Exposures to individuals	*120,206*	*115,548*	*3,752*	*906*	*1,629*	*88,972*	-	*90,601*	*29,605*

Collateral

The Group accepts as collateral various types of real estate such as residential, commercial and administrative, hotels and other estate, and in some cases production buildings, vacant land or agricultural land. The value of the mortgaged property in most cases fully covers the loan amount. The accepted collaterals are initially measured at their current fair value, which is determined by independent, certified appraisers in accordance with a list approved by the parent's (Bank's) management, or by the Bank's internal appraisers. In the course of periodic reviews of the loan status the accepted collateral is revalued following the same procedure. In the cases of real estate properties for retail and small business customers, the Bank applies annual indexation based on public NSA statistical information regarding the change in prices by cities and regions. The indexation of residential properties is only applied when the change in prices does not indicate an annual decrease greater than 10%.

Other collateral includes pledges over movable property, surety and promissory notes. The Group requires 100% coverage when the collateral is surety or promissory note, while pledges over movable property are accepted as a supplement to the main collateral.

The table below presents the fair value of all ***types of collateral*** held by the Group as at 31 December 2021 and 31 December 2020:

	Loans and advances to customers	
	31.12.2021	31.12.2020
	BGN '000	BGN '000
Against loans provisioned individually and on a portfolio basis:		
Mortgages of real estate	638,673	947,146
Cash deposits	8,571	1,568
Other collateral	5,239,402	3,202,315
	5,886,646	**4,151,029**
Against past due but unprovisioned loans:		
Mortgages of real estate	14,446	29,293
Cash deposits	2	8
Other collateral	105,563	69,383
	120,011	98,684
Against neither past due, nor provisioned loans:		
Mortgages of real estate	34,650	36,938
Cash deposits	7,817	41,136
Other collateral	430,009	227,904
	472,476	**305,978**

Credit exposures to companies

The credit exposures to companies are subject to collective or individual assessment of credit risk and impairment testing. The creditworthiness of a company tends to be the most relevant indicator of credit quality of a loan exposure to it. However, collateral provides additional security and the Group requires from its customers to provide it. The Group accepts collaterals in the form of first ranking mortgage of real estate, rights over all of their assets, as well as other guarantees and titles.

The Group periodically analyses the collateral provided in terms of possible changes in their value due to alteration in the market conditions, regulatory framework or because of subsequent disposal arrangements of the borrower with respect to the collateral. If these valuation changes lead to breach in the requirements as to the sufficiency of the collateral, the Group requires extra collateral security in a certain period of time.

The Group considers all individual cases and assesses the risks related to the options for renegotiation of the original terms and conditions of concluded agreements upon request by the counterparty. These terms and conditions are usually related to: extension of the terms for utilisation of loans because of non-compliance with the schedules of the construction works or the investment project, increase / decrease in the authorised loan amount, interest rates, especially with regard to loans with floating interest rate or the repayment schedules in view of the amounts of specific repayment instalments and individual maturities, and in certain cases – changes in the accepted collateral.

Credit exposures to individuals

Residential mortgage lending

The table below presents credit exposures from mortgage loans to customers – individuals – by range of the loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount does not include any impairment allowances. The valuation of the collateral excludes future costs to acquire and sell the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at the origination of the loan, updated based on assessment of residential property changes.

	31.12.2021 BGN '000	31.12.2020 BGN '000
Loan-to-value (LTV) ratio		
Less than 50%	14,649	10,534
Over 50% to 70%	33,710	20,405
Over 70% to 90%	50,242	34,235
Over 90% to 100%	2,193	3,824
Over 100%	597	455
Total	**101,391**	**69,453**

Internal risk groups of loans and advances to customers

The tables below presents information about the gross and carrying amount of loans and advances, expected credit loss and amortised cost following impairment as at 31 December allocated by internal risk group of the Group companies and impairment stages:

31.12.2021	**Stage 1 on a collective basis** BGN'000	**Stage 2 on a collective basis** BGN'000	**Stage 3 on an individual basis** BGN'000	**Total** BGN'000
Standard exposures	644,173	123,100	-	767,273
Non-performing	-	388	34,131	34,519
Expected credit loss	*(6,520)*	*(4,209)*	*(10,734)*	*(21,463)*
Amortised cost following impairment	**637,653**	**119,279**	**23,397**	**780,329**

31.12.2020	**Stage 1 on a collective basis** BGN'000	**Stage 2 on a collective basis** BGN'000	**Stage 3 on an individual basis** BGN'000	**Total** BGN'000
Standard exposures	513,107	112,229	-	625,336
Non-performing	-	1,704	59,881	61,585
Expected credit loss	*(4,599)*	*(3,145)*	*(29,517)*	*(37,261)*
Amortised cost following impairment	**508,508**	**110,788**	**30,364**	**649,660**

The table below presents information on the gross carrying amount of loans and advances, the impairment accrued and the amortised value following impairment as at 31 December, allocated by internal risk group and period past due:

31.12.2021	Performing and non-provisioned BGN '000	Individually provisioned BGN '000	Portfolio provisioned BGN '000	Past due but unprovisioned BGN '000	Total BGN '000
Serviced exposures	3,429	-	763,201	643	767,273
Unserviced exposures	7,308	17,470	388	9,353	34,519
Expected credit losses	-	*(10,734)*	*(10,729)*	-	*(21,463)*
Carrying amount	**10,737**	**6,736**	**752,860**	**9,996**	**780,329**

31.12.2020	Performing and non-provisioned BGN '000	Individually provisioned BGN '000	Portfolio provisioned BGN '000	Past due but unprovisioned BGN '000	Total BGN '000
Serviced exposures	30,102	-	595,234	-	625,336
Unserviced exposures	9,697	39,598	1,704	10,586	61,585
Expected credit losses	-	*(29,516)*	*(7,745)*	-	*(37,261)*
Carrying amount	**39,799**	**10,082**	**589,193**	**10,586**	**649,660**

The carrying amount of *past due but not provisioned loans and advances to customers* as at 31 December, by number of days past due, is as follows:

Days past due	**31.12.2021** BGN '000	**31.12.2020** BGN '000
up to 30 days	4,477	-
30-60 days	1,097	3,534
60-90 days	-	1,164
90-180 days	163	278
over 180 days	4,259	5,610
Carrying amount	**9,996**	**10,586**

The table below presents an analysis of the carrying amount of loans and advances to customers with applied restructuring measures:

31.12.2021	**Stage 1** **BGN '000**	**Stage 2** **BGN'000**	**Stage 3** **BGN '000**	**Total** **BGN '000**
Restructured financial assets	2,925	3,275	14,557	20,757
incl. restructured in 2020	-	*308*	*5,701*	*6,009*

31.12.2020	Stage 1	Stage 2	Stage 3	Total
	BGN '000	BGN'000	BGN '000	BGN '000
Restructured financial assets	-	9,486	19,547	29,033
incl. restructured in 2020	-	*9,447*	*11,441*	*20,888*

Debt and equity securities

Debt and equity securities measured at fair value through other comprehensive income

The table below presents the carrying amounts of debt and equity securities measured at fair value through other comprehensive income, grouped by rating assigned by Moody's as at 31 December 2021 and 31 December 2020:

	fair value 31.12.2021 BGN'000	fair value 31.12.2020 BGN'000
Aa1 to A3	-	11,811
Baa1 to Ba3	94,723	87,370
Lower than Ba3	10,167	12,534
Without rating	214	132
	105,104	**111,847**

Debt securities measured at amortised cost

The debt securities measured at amortised cost, at the amount of BGN 65,039 thousand with rating Baa1 (31 December 2020: BGN 71,720 thousand with rating Baa2) and BGN 1,996 thousand with rating B2 (31 December 2020: BGN 11,948 thousand with rating B1), determined against the rating of the respective security published by Moody's rating agency.

Credit risk - concentration

Due from banks

The Group, mostly through the parent company (the Bank) currently monitors the risk of concentration to individual counterparties based on approved limits. They are defined as follows:

- ✓ Total limit to bank-counterparty – determined on the basis of the official rating of the bank assigned by internationally recognised credit rating agencies. It includes limits of the following types of transactions: deposit limit, forex limit, trade / portfolio limit;
- ✓ Internal rating of the countries and bank-counterparties – determined on the basis of Methodology for Defining the Internal Credit Rating of Countries and Bank-counterparties developed by the Bank through assessment of their financial position;

The determination and control on meeting and compliance with limits to banks for part of the overall

risk management system of D Commerce Bank AD. Concentration is monitored by means of:

✓ Determining the level of potential risk of forming permissible risk exposure of unsecured amounts due to counterpart banks;

✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts due to each counterpart bank depending on its creditworthiness;

✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts – foreign bonds issued by foreign banks, financial institutions and foreign corporations with whom the Bank does (not) maintain a correspondence model;

✓ Determining limits to fix the amount of forming permissible risk exposure by types of financial instruments;

✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts – sovereign bonds granted against collateral (repo transactions) of banks registered in Bulgaria with whom the Bank does (not) maintain a correspondence model;

The risk concentration of amounts due from banks is presented in the table below:

	31.12.2021 BGN '000	%	31.12.2020 BGN '000	%
Due from Bulgarian banks	44,383	77%	5,963	29%
Due from foreign banks	13,319	23%	14,457	71%
Total before impairment	**57,702**	100%	**20,420**	100%
Impairment of credit losses	(27)		(4)	
Total	**57,675**		**20,416**	

Loans and advances to customers

The management of the parent company (the Bank) currently monitors the credit risk of concentration of loans and advances to customers by economic sectors, and by counterparts based on approved limits. They are determined as follows:

✓ Limit for maximum exposures to a single person or economically related parties – determined with respect to credit exposures to customers – non-financial institutions within the meaning of Art. 395 of Regulation (EU) 575/2013;

✓ Limit by lending target industry and the respective main activity of borrowers – determined based on analysis and findings regarding the specific sectors that D Commerce Bank AD finances in accordance with its strategy (condition, perspectives, yield, development trends in the short- and long-term) and the level of classified loans for the respective target industry and the respective main activity of the borrower;

✓ Limits on the term –determined based on analysis and findings regarding statistical data presented by BNB on the distribution of loans by maturity, maturity structure of liabilities and the expectations of D Commerce Bank AD regarding the development of its deposit business and classified exposures;

- ✓ Limits by amount – determined based on analysis and findings regarding statistical data presented by BNB on the distribution of loans by amount, strategy of D Commerce Bank AD for the development of its market position and the level of classified exposures;
- ✓ Limits by currency – determined based on statistical data presented by BNB on the distribution of loans by currency, structure of liabilities by currency and the level of classified loans by currency.

The regulatory limits and the internal bank limits for maximum exposures to a single person and economically related parties, including to banks-counterparties, are assessed and analysed periodically and are reported to the Bank's Management Board.

Credit risk concentration by lending target industry is presented in the table below:

	31.12.2021	%	**31.12.2020**	%
	BGN '000		**BGN '000**	
Individuals and households	163,796	20%	125,261	18%
Trade and services	123,770	15%	130,000	19%
Construction - buildings	90,208	11%	97,794	14%
Agricultural production and trade	81,697	10%	72,097	11%
Production	79,766	10%	109,204	16%
Trade in fuel / energy carriers	70,924	9%	14,354	2%
Construction – roads, facilities, networks	49,823	6%	11,735	2%
State and local government	39,588	5%	35,862	5%
Pharmaceuticals, health care	30,192	4%	2,188	0%
Insurance/ Leasing/Finance	29,301	4%	36,330	5%
Tourism	27,679	4%	25,739	4%
Transport and communication	11,001	1%	10,812	2%
RES – photovoltaic power plants	40	0%	899	0%
Scrap trade	26	0%	214	0%
Other	3,981	1%	14,432	2%
Total before impairment	**801,792**	100%	**686,921**	100%
Impairment of credit losses	(21,463)		(37,261)	
Total	**780,329**		**649,660**	

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

Credit risk concentration by primary business of the customers is presented in the table below:

	31.12.2021	%	**31.12.2020**	%
	BGN '000		**BGN '000**	
Individuals and households	162,249	21%	124,755	18%
Trade	98,679	12%	110,540	16%
Construction	87,300	11%	68,967	10%
Public	72,872	9%	36,365	5%
Real estate/leasing	59,128	7%	51,392	7%
Agriculture	57,744	7%	55,182	8%
Light industry	43,236	5%	50,527	7%
Transport	41,547	5%	12,165	2%
Energy	35,202	4%	52,657	8%
Tourism	33,863	4%	25,484	4%
Insurance/finance	19,212	3%	23,828	3%
Publishing	18,508	2%	3,578	1%
Waste/wastewater	16,237	2%	11,822	2%
Pharmaceuticals/healthcare	14,428	2%	9,526	1%
Services	13,440	2%	17,229	3%
Heavy industry	13,275	2%	14,788	2%
Transport vehicles	4,418	1%	1,414	0%
Wood/paper/packaging	976	0%	1,583	0%
Computer technologies	586	0%	590	0%
Culture/entertainment	154	0%	206	0%
Other	8,738	1%	14,323	2%
	801,792	100%	**686,921**	100%
Allowance for credit losses	(21,463)		(37,261)	
Total	**780,329**		**649,660**	

The table below presents information on Group's concentration in large credit exposures as at 31 December:

	31.12.2021		31.12.2020	
	BGN'000	**% of capital**	**BGN'000**	**% of capital**
The largest total credit exposure *	36,276	26,10%	57,089	42,84%
Total amount of the five largest credit exposures *	148,024	106,51%	139,200	104,47%
Total amount of all credit exposures * - over 10% of capital	305,460	219,78%	182,543	136,99%

* Including related customers – at gross carrying amount and off-balance sheet commitments

A big exposure is any exposure equal to or exceeding 10% of the Bank's capital, determined in accordance with Regulation 575/2013.

Debt and equity securities

In order to minimise the concentration in security portfolios, the parent company (the Bank) has adopted limits determined based on the credit risk, type, amount and issuer of the financial instruments.

The types of securities that the parent company (the Bank) uses include:

✓ Debt instruments of central state government (debt instruments issued by national central banks);

✓ Debt instruments of local and regional government bodies (debt instruments of government agencies and supranational institutions);

✓ Debt instruments of credit institutions;

✓ Debt instruments of other issuers;

✓ Corporate shares;

For each of these types, the parent company (the Bank) has adopted limits on their maximum exposure.

The concentration of the debt and equity securities held by the Group based on the type of issuer is presented in the table below:

	31.12.2021 BGN '000	%	31.12.2020 BGN '000	%
Issued by the government of the Republic of Bulgaria	**126,951**	**74%**	**114,230**	**58%**
Issued by foreign governments and governmental agencies	**32,516**	**19%**	**47,314**	**24%**
Republic of Romania	13,235		15,434	
Republic of Turkey	12,163		24,482	
Republic of Croatia	7,118		7,398	
Issued by credit institutions	**1,911**	**1%**	**22,370**	**12%**
UK	1,911		7,747	
Poland	-		11,811	
Hungary	-		2,812	
Other - Bulgaria	**10,761**	**6%**	**11,601**	**6%**
Total	**172,139**	**100%**	**195,515**	**100%**

A summary analysis of credit risk exposures by type of financial asset and off-balance sheet commitment, industry segment, geographic principle and stage of impairment of credit risk is presented in the table below:

31.12.2021	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Portfolios						
Securities measured at fair value through other comprehensive income	105,104	-	-	-	-	**105,104**
Securities measured at amortised cost	67,035	-	-	-	-	**67,035**
Loans and advances to customers	57,675	-	-	-	-	**57,675**
Loans and advances to customers	-	637,653	-	119,279	23,397	**780,329**
					Balance-sheet exposure	*1,010,143*
Undrawn commitments under loan agreements	-	104,374	-	12,063	13	**116,450**
Guarantees and letters of credit	-	16,242	-	7,138	125	**23,505**
					Off-balance exposure	*139,955*
Industry segment						
Government	159,467	34,210	-	4,230	-	**197,907**
Citizens and households	-	159,456	-	2,015	663	**162,134**
Production	-	107,924	-	45,740	4,342	**158,006**
Construction	-	116,184	-	2,910	12,535	**131,629**
Trade	-	96,395	-	31,665	2,525	**130,585**
Finance	70,347	16,642	-	-	-	**86,989**
Services	-	51,422	-	19,883	993	**72,298**
Fuels	-	55,420	-	12,836	2,339	**70,595**
					Total	*1,010,143*
Region						
Europe	215,740	637,527	-	119,279	23,397	**995,943**
Asia	12,863	126	-	-	-	**12,989**
America	1,211	-	-	-	-	**1,211**
					Total	*1,010,143*

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

31.12.2020	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Portfolios						
Securities measured at fair value through other comprehensive income	111,847	-	-	-	-	**111,847**
Securities measured at amortised cost	83,668	-	-	-	-	**83,668**
Loans and advances to customers	20,416	-	-	-	-	**20,416**
Loans and advances to customers	-	508,508	-	110,788	30,364	**649,660**
				Balance-sheet exposure		*865,591*
Undrawn commitments under loan agreements	-	52,070	-	5,968	2,326	**60,364**
Guarantees and letters of credit	-	22,693	-	3,337	125	**26,155**
				Off-balance exposure		*86,519*
Industry segment						
Trade	-	137,566	-	59,932	7,694	**205,192**
Government	161,543	29,258	-	5,557	10	**196,368**
Citizens and households	-	116,707	-	4,449	908	**122,064**
Production	-	100,163	-	2,563	1,062	**103,788**
Construction	-	63,275	-	11,887	16,248	**91,410**
Finance	54,388	23,753	-	-	-	**78,150**
Services	-	25,411	-	25,784	2,082	**53,277**
Fuels	-	12,375	-	607	2,360	**15,342**
					Total	*865,591*
Region						
Europe	188,563	508,496	-	110,776	30,364	**838,199**
Asia	24,647	12	-	12	-	**24,671**
America	2,721	-	-	-	-	**2,721**
					Total	*865,591*

3.2. Market risk

Market risk is the risk of adverse movements in the level of interest rates, foreign currency exchange rates and the prices of equity instruments. These movements may affect the Group's profitability.

The Group, mainly through the parent (the Bank) manages the portfolios of financial instruments owned thereby considering the changing market conditions. The market risk exposure is managed in accordance with the risk limits as determined by the parent's (Bank's) management through purchase and sale of financial instruments or by opening of hedging positions.

3.2.1 Interest rate risk

Banking activity within the parent leads to continuous maintenance of positions sensitive to the movement of market interest rates, which impacts its financial position and cash flow dynamics. Interest rate risk is the possibility of a potential change in the net interest income or the net interest rate margin and the market value of equity due to changes in the total market interest rate levels.

Interest rates on assets and liabilities denominated in Bulgarian Levs are usually based on the movements of the basic interest rate determined by BNB. Interest rates on assets and liabilities denominated in Euro are based on the quotations of the European Central Bank.

In case of floating rate assets and liabilities, the parent (the Bank) is exposed to the risk of changes in the basic interest points, which serve for the definition of interest rates, being the difference between the characteristics of floating rate indices, such as the basic interest rate, the six-month LIBOR or different types of interest. The risk management policy is aimed at optimising the net interest income and achieving market interest rate levels consistent with the Bank's strategy.

Risk management procedures are related to the current maintenance of a reasonable interest margin between the applicable interest rates for borrowings and to active bank transactions and are applied in the context of the Bank's sensitivity to interest rate fluctuations.

The Group, mainly through the parent (Bank) monitors continuously interest rate movements in foreign currencies, the mismatch in interest rate levels and in the maturity structure of its assets and liabilities. It also monitors price changes and the yields of traded government securities. Interest rate risk is actively monitored by the Analyses, Risk Management and Liquidity Departments in order to ensure compliance with the market risk limits. Assets and Liabilities Management Committee monitors currently interest rate risk to which the Bank is exposed and takes decisions as to changes in the interest rates.

The following table summarises the Group's interest rate risk. It includes information on the carrying amount of Group's financial assets and liabilities based on the contractual interest rates and their maturity structure and sensitivity to changes in the interest rates by period.

Interest sensitivity analysis

	Financial assets and liabilities						
31 December 2021	**Carrying amount BGN '000**	**Up to 3 months BGN '000**	**3 – 6 months BGN '000**	**6 – 12 months BGN '000**	**1 – 5 years BGN '000**	**Over 5 years BGN '000**	**Interest-free BGN '000**
Cash and balances with the Central Bank	304,635	304,635	-	-	-	-	-
Due from banks	57,675	57,675	-	-	-	-	-
Loans and advances to customers	780,329	721,340	20,207	33,923	2,700	2,159	-
Securities at fair value through other comprehensive income	105,104	662	9,497	96	37,686	56,949	214
Securities at amortised cost	67,035	16,210	59	7,165	37,250	6,351	-
Other financial assets	2,354	-	-	-	-	-	2,354
Total assets	**1,317,132**	**1,100,522**	**29,763**	**41,184**	**77,636**	**65,459**	**2,568**
Due to banks	(7,488)	(7,488)	-	-	-	-	-
Due to customers	(1,220,113)	(957,834)	(81,055)	(124,613)	(56,611)	-	-
Other financial liabilities	(8,320)	(5)	-	(180)	(2,460)	(1,268)	(4,407)
Total liabilities	**(1,235,921)**	**(965,327)**	**(81,055)**	**(124,793)**	**(59,071)**	**(1,268)**	**(4,407)**
Change	**81,211**	**135,195**	**(51,292)**	**(83,609)**	**18,565**	**64,191**	**(1,839)**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

Financial assets and liabilities

31 December 2020	Carrying amount BGN '000	Up to 3 months BGN '000	3 – 6 months BGN '000	6 – 12 months BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Interest-free BGN '000
Cash and balances with the Central Bank	212,659	212,659	-	-	-	-	-
Due from banks	20,416	20,416	-	-	-	-	-
Loans and advances to customers	649,660	605,632	15,576	23,952	2,055	2,445	-
Securities at fair value through other comprehensive income	111,847	7,755	1,974	17,665	46,239	38,082	132
Securities at amortised cost	83,668	-	-	16,385	60,724	6,559	-
Other financial assets	681	-	-	-	-	-	681
Total assets	**1,078,931**	**846,462**	**17,550**	**58,002**	**109,018**	**47,086**	**813**
Due to banks	(10,695)	(10,695)	-	-	-	-	-
Due to customers	(994,421)	(736,664)	(71,609)	(124,987)	(61,161)	-	-
Other financial liabilities	(7,633)	(371)	(367)	(704)	(2,772)	(577)	(2,842)
Total liabilities	**(1,012,749)**	**(747,730)**	**(71,976)**	**(125,691)**	**(63,933)**	**(577)**	**(2,842)**
Change	**66,182**	**98,732**	**(54,426)**	**(67,689)**	**45,085**	**46,509**	**(2,029)**

Sensitivity of the financial result to changes in interest rates

The table below demonstrates the Group's sensitivity to possible changes in interest rates by 0.10 points and 0.20 points calculated on the basis of an average monthly structure of interest rate sensitive assets and liabilities maintained by the Group and under the assumption that the effects of all other variables are ignored. The effect is measured and presented as impact on the post-tax consolidated financial result and on the equity.

Interest-sensitive assets and liabilities currency	Increase / (decrease) in interest rate	Impact on post-tax financial result	Impact on equity
		2021	2021
		BGN '000	BGN '000
BGN	10 bp/(10 bp)	378/(378)	378/(378)
Other currency	10 bp/(10 bp)	228/(228)	228/(228)
BGN	20 bp/(20 bp)	754/754)	754/(754)
Other currency	20 bp/(20 bp)	454/(454)	454/(454)

Interest-sensitive assets and liabilities currency	Increase / (decrease) in interest rate	Impact on post-tax financial result	Impact on equity
		2020	2020
		BGN '000	BGN '000
BGN	10 bp/(10 bp)	261/(261)	228/(228)
Other currency	10 bp/(10 bp)	252/(252)	252/(252)
BGN	20 bp/(20 bp)	524/524)	526/(526)
Other currency	20 bp/(20 bp)	505/(505)	505/(505)

3.2.2. Currency and price risk

Foreign currency risk

Currency risk is the risk of impact of fluctuations in the prevailing foreign currency exchange rates on the Group's financial position and cash flows as a result of open foreign currency positions. The net exposure in each currency is constantly monitored by the parent's (Bank's) management and the Financial Markets and Investments Directorate, as well as the members of the Assets and Liabilities Management Committee.

The Group is exposed to currency risk when performing transactions in financial instruments denominated in foreign currency. After the introduction of the Currency Board in the Republic of Bulgaria the Bulgarian Lev is pegged to the Euro, due to which there is no open currency risk related to the Euro and only movements of the exchange rate of the Bulgarian Lev to currencies outside the Eurozone affect the figures in the consolidated financial statements.

Foreign currency risk is the risk of adverse impact of fluctuations in the prevailing foreign currency exchange rates on the Group's financial position and cash flows. The Group's policy is to keep the major portion of its assets and liabilities denominated in Euro or Bulgarian levs. In addition, the Group does not perform significant operations and does not hold open positions in currencies other than the Euro.

Financial Markets and Investments Directorate at the Parent manages the Bank's assets and liabilities within the determined limits in order to achieve the set objectives and indicators for return on investments. The amount of the open currency position of the Bank by currency is monitored on a daily basis and the necessary measures are undertaken to minimise the potential losses for the Bank due to changes in the exchange rates. Analyses show that the Bank is exposed to minimum currency risk because it maintains limited daily open exposures of the different types of currencies other than the Euro, which has a fixed exchange rate to the Bulgarian Lev.

The table below summarises the Group's exposure to foreign currency risk. It includes financial instruments and contingent liabilities and commitments of the Group at carrying amount, categorised by currency.

31 December 2021	**In USD**	**In EUR**	**In BGN**	**In other currencies**	**Total**
Cash and balances with the Central Bank	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Due from banks	1,155	65,180	237,908	392	**304,635**
Loans and advances to customers	33,825	11,033	9,648	3,169	**57,675**
Securities at fair value through other comprehensive income	2,477	307,986	469,866	-	**780,329**
Securities at amortised cost	-	104,924	180	-	**105,104**
Other financial assets	-	32,731	34,304	-	**67,035**
Total financial assets	536	1,194	624	-	**2,354**
Cash and balances with the Central Bank	**37,993**	**523,048**	**752,530**	**3,561**	**1,317,132**
Financial liabilities					
Due to banks	-	508	6,980	-	**7,488**
Due to customers	37,751	346,376	833,145	2,841	**1,220,113**
Other financial liabilities	208	402	7,709	1	**8,320**
Total financial liabilities	**37,959**	**347,286**	**847,834**	**2,842**	**1,235,921**
Net balance sheet currency position	**34**	**175,762**	**(95,304)**	**719**	**81,211**
Off-balance sheet currency position	**(31)**	**754**	**-**	**(722)**	**1**
Open foreign currency position	**3**	**-**	**-**	**(3)**	**-**
Contingent liabilities and commitments	**214**	**27,040**	**112,701**	**-**	**139,955**

31 December 2020	In USD	In EUR	In BGN	In other currency	Total
Financial assets	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and balances with the Central Bank	937	38,844	172,357	521	**212,659**
Due from banks	1,099	11,891	4,964	2,462	**20,416**
Loans and advances to customers	2,399	263,261	384,000	-	**649,660**
Securities at fair value through other comprehensive income	-	111,749	98	-	**111,847**
Securities at amortised cost	-	43,029	40,639	-	**83,668**
Other financial assets	495	40	146	-	**681**
Total financial assets	**4,930**	**468,814**	**602,204**	**2,983**	**1,078,931**
Financial liabilities					
Due to banks	-	1,720	8,975	-	**10,695**
Due to customers	23,435	336,507	631,483	2,996	**994,421**
Other financial liabilities	617	4,307	2,704	5	**7,633**
Total financial liabilities	**24,052**	**342,534**	**643,162**	**3,001**	**1,012,749**
Net balance sheet currency position	**(19,122)**	**126,280**	**(40,958)**	**(18)**	**66,182**
Off-balance sheet currency position	**19,126**	**-**	**-**	**-**	**19,126**
Open foreign currency position	**4**	**-**	**-**	**(18)**	**(14)**
Contingent liabilities and commitments	**102**	**31,437**	**54,980**	**-**	**86,519**

With respect to monetary assets and liabilities denominated in a foreign currency, which are not hedged, the Group maintains an acceptable net exposure by purchasing and selling foreign currency at spot rates, where appropriate.

Foreign currency sensitivity analysis

Foreign currency sensitivity is determined from the fluctuations in the exchange rates of the currencies in which the Group maintains open positions. As at the date of the financial statements this is mainly the US Dollar. The analysis of the Group's sensitivity to the fluctuations in the exchange rates is based on the condition and structure of the foreign currency assets and liabilities and the open foreign currency position as at 31 December. The effect of foreign currency sensitivity in case of 10 % increase/decrease in the current exchange rates of the Bulgarian Lev to the US Dollar and the other foreign currency exposures based on the structure of the foreign currency assets and liabilities as at 31 December and under the assumption that the influence of the other variables is ignored, is measured and presented as impact on the Group's post-tax financial result and on the equity.

The influence of the US dollar and the other currencies on the (post-tax) consolidated profit of the Group in case of 10% increase in their exchange rates to the Bulgarian Lev is insignificant.

The management of the parent (the Bank) is of the opinion that the above analysis of the foreign currency sensitivity based on the balance sheet structure of the foreign currency assets and liabilities also reflects the foreign currency sensitivity of the Group during the year.

Securities price risk

Price risk is one of the market risks which is related to the decrease in the value of the investment as a result of adverse changes in the market prices. The main factors that influence prices are macroeconomic factors reflecting the overall position of the issuer, the political situation, the specifics of the industry sector, the expectations of the local and international markets and the market participants based both on actual information and often on subjective circumstances. The sharp decline in security prices would be unfavourable in several respects, such as occurrence of financial losses and potential deterioration of liquidity, loss of market positions. The Group, mainly through the parent (the Bank) manages this type of risk, mainly through the parent, by including in its portfolio different types of securities and only securities of prime issuers, of medium and high credit quality. The formal financial instrument liquidity criteria are studied upon each decision to purchase financial instruments, as well as periodically thereafter, in accordance with the internal rules of the parent (the Bank).

3.3. Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its obligations as they fall due as a result of customer deposit withdrawals, cash requirements resulting from contractual commitments or other cash outflows. Such outflows would deplete cash resources available to the Group for customer lending, trading activities and investments. In extreme circumstances the lack of liquidity may result in reductions in the financial statements of financial positions and sales of assets, or potentially in the Group's inability to fulfil its lending commitments. The risk that the Group is unable to meet its obligations is inherent mainly for all banking operations and can be affected by a range of institution-specific or market-wide events, including, but not limited to credit events, systemic shocks and natural disasters.

The Group's liquidity management process is carried out mainly by the parent (the Bank) under the supervision by the Financial Markets and Investments Department and includes:

- Day-to-day funding through control over the future cash flows in order to meet the resource requirements. This includes replenishment of funds as they mature or are borrowed by customers.
- Control over the liquidity ratios of the statement of financial position against internal or regulatory requirements; and
- Management of the concentration and profile of the Group's debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week or month, as these are key periods for liquidity management. The starting points for those projections is an analysis of the contractual maturity of financial liabilities and the expected collection

date of financial assets.

The Group develops appropriate policies which ensure:

- sufficient liquid assets to meet liabilities as they arise;
- a prudent proportion of medium-term assets funded by medium-term liabilities; and
- liquidity control on a daily basis.

The Management Board of the parent (the Bank) designates the Assets and Liabilities Management Committee (ALMC) as the body responsible for the liquidity management, as well as management of the market, interest rate and currency risk.

ALMC is a permanent collective body responsible for the management of assets and liabilities, as well as the development and use of a system for managing the liquidity of D Commerce Bank AD. As the body for liquidity management it is competent to draw action plans in case of unforeseen outflows of funds due to unexpected events or unfavourable circumstances, taking into account the possible impact of alternative scenarios for the Group or the market as a whole, as well as combination thereof. The ALMC analyses all reports on liquidity, stress tests and scenarios in a liquidity crisis in accordance with the requirements of the banking legislation and the Liquidity Management Rules. The Committee monitors the reports for the currency structure of assets and liabilities, the reports for open positions and risk structure of the securities portfolio.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitments because the Group does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of such commitments does not necessarily represent future cash requirements as many of these commitments will expire or will be terminated without being funded.

Financial Market and Investments Directorate controls unmatched medium-term assets, the level and type of undrawn lending commitments, the use of overdraft facilities and the impact of off-balance sheet liabilities such as guarantees and standby letters of credit.

The sources for funding are monitored regularly in order to maintain a wide diversification by currency, geographic location, providers, products and term.

The table below presents the percentage values of the long-term liquidity ratio:

	2021	**2020**
	%	**%**
At 31 December	361,04%	295,09%
Average value for the period	543,77%	314,59%
Highest value for the period	642,22%	475,11%
Lowest value for the period	361,04%	203,36%

The table below presents the maturity structure of the consolidated financial assets and liabilities of

the Group at carrying amounts and the Group's off-balance sheet commitments:

31 December 2021	Carrying amount BGN '000	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000
Cash and balances with the Central Bank	304,635	304,635	-	-	-	-
Due from banks	57,675	57,675	-	-	-	-
Loans and advances to customers	780,329	11,159	46,201	186,857	329,276	206,836
Securities at fair value through other comprehensive income	105,104	214	-	7,118	40,137	57,635
Securities at amortised cost	67,035	-	15,881	7,258	37,427	6,469
Other financial assets	2,354	-	2,354	-	-	-
Total assets	**1,317,132**	**373,683**	**64,436**	**201,233**	**406,840**	**270,940**
Due to banks	7,488	34	99	2,397	4,958	-
Due to customers	1,220,113	901,314	56,557	206,291	48,224	7,727
Other financial liabilities	8,320	118	4,633	931	2,242	396
Total liabilities	**1,235,921**	**901,466**	**61,289**	**209,619**	**55,424**	**8,123**
Undrawn loan commitments and contingent commitments	**139,955**	**45,878**	**6,609**	**53,339**	**34,107**	**22**

31 December 2020	Carrying amount BGN '000	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000
Cash and balances with the Central Bank	212,659	212,659	-	-	-	-
Due from banks	20,416	20,416	-	-	-	-
Loans and advances to customers	649,660	12,839	60,312	136,173	283,654	156,682
Securities at fair value through other comprehensive income	111,847	132	7,755	17,665	48,213	38,082
Securities at amortised cost	83,668	-	-	16,385	60,724	6,559
Other financial assets	681	-	681	-	-	-
Total assets	**1,078,931**	**246,046**	**68,748**	**170,223**	**392,591**	**201,323**
Due to banks	10,695	54	118	2,783	7,740	-
Due to customers	994,421	650,332	85,463	195,824	61,738	1,064
Other financial liabilities	7,632	124	3,089	1,070	2,772	577
Total liabilities	**1,012,748**	**650,510**	**88,670**	**199,677**	**72,250**	**1,641**
Undrawn loan commitments and contingent commitments	**86,519**	**57,771**	**13,003**	**9,698**	**6,025**	**22**

The consolidated financial assets and liabilities and the off-balance sheet commitments of the Group

by remaining term to maturity determined against the contractual maturity as at the date of the consolidated statement of financial position are presented below. The table is prepared on the basis of undiscounted cash flows and the earliest date on which a payable becomes due for payment. The amounts include principal and interest for balance sheet items, and the undrawn loan commitments and contingent commitments are presented at the off-balance sheet amount of the commitment.

31 December 2021	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Total BGN '000
Cash and balances with the Central Bank	304,635	-	-	-	-	304,635
Due from banks	57,868	-	-	-	-	57,868
Loans and advances to customers	33,963	43,846	211,210	362,721	237,229	888,969
Securities at fair value through other comprehensive income	214	191	7,894	46,200	59,448	113,947
Securities at amortised cost	13	15,990	7,654	38,677	6,623	68,957
Other financial assets	-	2,354	-	-	-	2,354
Total assets	**396,693**	**62,381**	**226,758**	**447,598**	**303,300**	**1,436,730**
Due to banks	47	114	2,503	5,300	-	7,964
Due to customers	912,683	59,241	201,729	46,600	-	1,220,253
Other financial liabilities	121	4,639	952	2,288	400	8,400
Total liabilities	**912,851**	**63,994**	**205,184**	**54,188**	**400**	**1,236,617**
Undrawn loan commitments and contingent commitments	**45,878**	**6,609**	**53,339**	**34,107**	**22**	**139,955**

31 December 2020	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Total BGN '000
Cash and balances with the Central Bank	212,659	-	-	-	-	212,659
Due from banks	20,421	-	-	-	-	20,421
Loans and advances to customers	56,283	60,169	159,841	300,933	190,445	767,671
Securities at fair value through other comprehensive income	132	7,898	18,626	54,596	39,939	121,191
Securities at amortised cost	29	109	17,306	63,040	6,867	87,351
Other financial assets	-	681	-	-	-	681
Total assets	**289,524**	**68,857**	**195,773**	**418,569**	**237,251**	**1,209,974**
Due to banks	67	130	2,890	8,224	-	11,311
Due to customers	681,851	58,389	188,739	66,415	-	995,394
Other financial liabilities	128	3,102	1,101	2,838	588	7,757
Total liabilities	**682,046**	**61,621**	**192,731**	**77,477**	**588**	**1,014,463**
Undrawn loan commitments and contingent commitments	**57,771**	**13,003**	**9,698**	**6,025**	**22**	**86,519**

3.4. Custody of assets

The parent (the Bank) is registered as an investment intermediary and carried out transactions on

clients' behalf in accordance with Ordinance 38 of the Financial Supervision Commission (FSC). The Bank has an approved policy with respect to trusted transactions on clients' behalf, developed in accordance with the requirements of Art. 28-31 of Ordinance 38 of the FSC.

The Bank maintains accountability and conditions on holding financial instruments and cash in a way that allows it at any time to differentiate a client's assets held from the assets of all other clients and from the Bank's own assets. The parent in its capacity as investment intermediary takes due care in:

- the selection of a depositary institutions for the safekeeping of its clients' financial instruments and determining of conditions in its contract therewith;
- the performance of periodic review and assessment of the depositary institutions and the conditions of its contract therewith in relation to the safekeeping of clients' financial instruments, at least once per year.

3.5. Capital management

Package CRD IV (Directive 2013/36/EU and Regulation (EU) No 575/2013) became effective in 2014. It includes requirements for calculation and reporting of capital requirements and financial information. The scope, frequency and timeliness for presentation of this information to the regulatory body are introduced by Regulation (EU) No 680/2014 of 16 April 2014. As a result, regulatory capital requirements of D Commerce Bank AD are based on the provisions of the Package CRD IV, Reporting requirements under Regulation (EU) No. 680/2014 – Equity and capital requirements – COREP.

Regulatory capital

For regulatory purposes the equity of the Bank consists of the following elements:

- Tier 1 capital (the whole amount is classified as Common equity Tier 1 capital), which consists of issued capital, share premium and general reserves reduced by the following deductions – goodwill, intangible assets and other regulatory adjustments related to items that are included in balance sheet capital or assets of the Bank but are treated differently for capital adequacy regulation.
- Tier 2 capital: includes revaluation reserves from real estate used for banking activity reduced by regulatory adjustments related to items that are included in the balance sheet capital or assets of the Bank, but are treated differently for capital adequacy regulation.

The Bank calculates the total capital adequacy ratio as a percentage of equity (regulatory) capital and risk-weighted assets. Risk-weighted assets represent the amount of risk-weighted assets for credit, market and operational risk. Tier 1 capital adequacy is the ratio between Tier 1 capital and risk-weighted assets. The total capital adequacy ratio cannot be less than 14,5% (minimum percentage of total capital adequacy – 8%, safety capital buffer - 2,5%, system risk buffer - 3%, countercyclical capital buffer applicable for credit risk exposures in the Republic of Bulgaria - 0,5%, additional capital requirements under the supervisory review and assessment process – 0.5%).

Capital items

Equity (capital base)	**Basel III 31.12.2021 BGN '000**	**Basel III 31.12.2020 BGN '000**
Common equity Tier 1 capital		
Equity instruments paid-in	90,064	90,064
Reserves	51,847	44,316
Accumulated other comprehensive income	16	2,632
Decreases in Common equity Tier 1 capital:		
Intangible assets	(3,561)	(2,972)
Other transitional adjustments to Common equity Tier 1 capital	(308)	(791)
Common equity Tier 1 capital instruments of financial companies where the institution has significant investments	-	-
Excess of the amount deducted from the additional Tier 1 capital items over the additional Tier 1 capital	-	-
Total	**138,958**	**133,249**
Tier 2 capital	**-**	**-**
Equity	**138,958**	**133,249**

Risk-weighted assets	**31.12.2021 BGN '000**	**31.12.2020 BGN '000**
Risk-weighted balance sheet exposure	646,365	548,284
Risk-weighted off-balance sheet exposure	46,745	27,542
Total risk-weighted assets for credit risk	**693,110**	**575,826**
Total exposures to position, currency and commodity risk	-	-
Total risk exposures to operational risk	**65,425**	**65,338**
Total risk exposures	**758,535**	**640,714**

Capital ratios	**31.12.2021**	**31.12.2020**
Total capital ratio	18,32%	20,80%
Tier I capital ratio	18,32%	20,80%

The policy of the Group for management and capital allocation is determined by the parent's (Bank's) Management Board. The allocation of capital among the various operations and activities is aimed at optimising the profitability of allocated capital. The process is carried out under the supervision of the Asset and Liabilities Management Committee as a review of the levels of commitment of the Group for credit, market and operational risk.

4. NET INTEREST INCOME

Net interest income includes:

	2021 BGN '000	2020 BGN '000
Interest income		
Loans and advances to customers	27,611	26,752
Securities at amortised cost	1,289	1,569
Securities at fair value through other comprehensive income	1,143	1,111
Deposits with banks	51	108
Other liabilities	20	-
	30,114	**29,540**
Interest expense		
Deposits from customers	(1,736)	(2,389)
Deposits in other banks*	(475)	(228)
Current accounts at other banks*	(352)	(185)
Interest on leases	(42)	(49)
	(2,605)	**(2,851)**
Net interest income	**27,509**	**26,689**

**The amounts constitute interest charged on amounts available in accounts with BNB and/or other bank correspondents.*

5. NET FEE AND COMMISSION INCOME

***Net fee and commission income* includes:**	2021 BGN '000	2020 BGN '000
Fee and commission income		
Cash operations and money transfers	3,826	3,319
Communication fees	2,857	2,643
Customers' accounts fees	2,266	1,897
Fees and commissions on loans	541	514
Bank guarantees and letters of credit	246	278
Other	350	131
	10,086	**8,782**
Fee and commission expense		
Electronic debit card fees	(1,210)	(958)
Nostro accounts in other banks	(209)	(168)
Cash clearance	(8)	(28)
Securities transactions	(64)	(64)
Other	-	(45)
	(1,491)	**(1,263)**
Net fee and commission income	**8,595**	**7,519**

6. NET TRADING INCOME

Net trading income includes:

	2021 BGN '000	2020 BGN '000
Net gain on foreign currency assets and liabilities	2,732	98
Net gain on foreign currency transactions	2,865	1,618
Net gain on transactions with securities	159	(20)
Net dividend income	-	(10)
	5,756	**1,686**

7. NET GAIN OR LOSS ON IMPAIRMENT OF FINANCIAL ASSETS

The net loss of impairment of financial assets includes:

	2021 BGN '000	2020 BGN '000
Impairment of loans and advances granted	*6,979*	*7,275*
Reversed impairment of loans and advances granted	*(5,192)*	*(3,347)*
Net loss on impairment of expected credit losses on loans and advances granted	**1,787**	**3,928**
Net loss/ (gain) on impairment of expected credit losses on nostro accounts and interbank deposits	23	(314)
Net (gain)/loss on impairment of expected credit losses on securities at fair value through other comprehensive income	(53)	94
Net (gain)/loss on impairment of expected credit losses on securities at amortised cost	(116)	17
Net loss on impairment of expected credit losses on other financial assets	37	41
	1,678	**3,766**

The net loss on impairment of credit losses from loans and advances to customers is as follows:

	2021 BGN '000	2020 BGN '000
Impairment of expected credit losses from loans on an individual basis (specific), net	(1,244)	734
Impairment of expected credit losses from loans related by common credit risk on a portfolio basis (collective), net	3,031	3,194
	1,787	**3,928**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

8.OTHER OPERATING INCOME, NET

The Group's other operating income includes:

	2021 BGN '000	2020 BGN '000
Rental income from investment property	183	181
Revenue from sales on non-financial services	282	298
Proceeds from sales of investment property	*1,423*	*106*
Carrying amount of the investment property sold	*(1,196)*	*(84)*
Gain on sales of investment property	227	22
Proceeds from sales of other assets	*3,069*	*1,890*
Carrying amount of other assets sold	*(1,291)*	*(778)*
Gain on sales of other assets	1,778	1,112
Proceeds from sales of property and equipment	-	-
Carrying amount of property and equipment sold	-	-
Gain on sales of property and equipment	-	-
Proceeds from sale of assets held for sale	*112*	*284*
Carrying amount of assets held for sale	*(60)*	*(259)*
Gain on sale of assets held for sale	52	25
Other operating income	738	247
	3,260	**1,885**

9. ADMINISTRATIVE OPERATING EXPENSES

Administrative operating expenses include:

	2021 BGN '000	2020 BGN '000
Personnel expenses	12,955	12,606
Depreciation and amortisation expense	3,568	3,438
Other administrative and operating expenses	10,430	9,527
	26,953	**25,571**

Personnel expenses include:

	2021 BGN '000	2020 BGN '000
Current wages and salaries	10,855	10,443
Social security/health insurance contributions	1,739	1,842
Accruals for long-term retirement benefit obligations *(Note 27)*	57	56
Accruals for unused paid leaves	304	265
Total	**12,955**	**12,606**

Other administrative and operating expenses include:	2021	2020
	BGN '000	BGN '000
Communications and IT services	2,280	2,211
Other taxes and charges	2,031	1,547
Annual contribution to the Bulgarian Deposit Insurance Fund	1,306	1,280
Security and cash collection services	1,017	1,087
Materials	825	775
Consulting, audit and legal services	516	387
Maintenance of office, office equipment, vehicles	477	534
Net loss on impairment of non-financial assets	432	-
Advertising and representation events	325	264
Rentals	193	173
Insurance	126	143
Membership fees	49	47
Business trips	26	20
Banks restructuring fund	-	29
Litigation provisions	(45)	189
Other expenses	872	841
Total	**10,430**	**9,527**

The Bulgarian Deposit Insurance Fund determines the due premium contribution of each bank by taking into accounts its risk profile and the amount of the guaranteed deposits with the bank for the previous year, calculated as the average amount of the guaranteed deposits at the end of each quarter. The premium contributions may be annual, extraordinary, annual premium contributions at reduced amount.

The accrued expenses on statutory joint audit of the consolidated financial statements of the parent (the Bank) for the year amount to BGN 11 thousand (2020: BGN 5 thousand).

10. INCOME TAX EXPENSE

The main components of the income tax expense for the periods ended 31 December are:

	2021 BGN'000	2020 BGN'000
Consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)		
Taxable result for the year under tax returns	18,544	8,293
Current income tax expense for the year – 10% (2020: 10 %)	(1,868)	(830)
Deferred income taxes related to:		
Origination and reversal of temporary differences	210	(26)
Total income tax expense carried to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)	**(1,658)**	**(856)**
Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	16,489	8,643
Income tax – 10% (2020: 10%)	(1,649)	(865)
From unrecognised amounts as per tax returns related to:		
increases	(30)	(11)
decreases	21	20
Total income tax expense carried to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)	**(1,658)**	**(856)**

The tax effects related to other components of comprehensive income are as follows:

	2021 BGN'000			2020 BGN'000		
	Pre-tax amount	Tax effects recognised in equity	Amount net of tax	Pre-tax amount	Tax effects recognised in equity	Amount net of tax
Items that will not be reclassified to profit or loss						
Remeasurement of liabilities under defined benefit pension plans	(2)	-	(2)	(21)	-	(21)
Items that may be reclassified to profit or loss						
Net change in the fair value of financial assets at fair value through other comprehensive income	(1,661)	-	(1,661)	863	-	863
Net change in the provisions for expected credit losses from debt securities at fair value through other comprehensive income	(53)	-	(53)	95	-	95
Total other comprehensive income for the year	**(1,716)**	**-**	**(1,716)**	**937**	**-**	**937**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

11. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:	*31.12.2021 BGN '000*	*31.12.2020 BGN '000*
Net change in the fair value of financial assets at fair value through other comprehensive income		
Gains/(Losses) incurred during the year	*(1,661)*	*863*
	(1,661)	863
Net change in the allowance for expected credit losses from debt securities at fair value through other comprehensive income	(53)	95
Remeasurement of liabilities under defined benefit pension plans *(Note 27)*	(2)	(21)
	(1,716)	937
Income tax relating to items of other comprehensive income	-	-
Total comprehensive income for the year	**(1,716)**	**937**

12. CASH AND BALANCES WITH THE CENTRAL BANK

Cash and balances with the Central Bank include:

	31.12.2021 BGN '000	**31.12.2020 BGN '000**
Cash on hand *(Note 29)*	20,530	20,492
Balances with the Central Bank *(Note 29)*, including:	284,105	192,167
Current account	*180,027*	*110,223*
Minimum required reserve in BGN	*104,078*	*81,944*
	304,635	**212,659**

The Bulgarian National Bank may accrue interest in BGN on the minimum required reserve and the excessive reserves at an amount set by the BNB Management Board. The interest on excessive reserves may be a negative figure unless the excessive reserves have been required as a result of a supervisory measure.

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

13. DUE FROM BANKS

The gross carrying amount, the allowance for credit losses and the amortised cost of amounts due from banks, by types, as at 31 December, are as follows:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Term deposits	34,372	152
Current accounts and demand deposits	23,330	20,268
Local banks	*10,691*	*5,963*
Foreign banks	*12,639*	*14,305*
Allowance for credit losses	*(27)*	*(4)*
	57,675	**20,416**

As at 31 December 2021 and 31 December 2020, due from banks are classified in Stage 1. Expected credit losses have been calculated on an individual basis (*Note 7*).

The movement in the allowance for *expected credit losses* from amounts due from banks is as follows:

	2021 BGN'000	2020 BGN'000
Balance at 1 January	(4)	(318)
Increase in the impairment of expected credit losses recognised within profit or loss for the year	(117)	(165)
Decrease (reversal) of the impairment of expected credit losses recognised within profit or loss for the year	94	479
Balance at 31 December	(27)	(4)

14. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December, the carrying amount of loans and advances to customers includes:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Loans	779,647	662,161
Receivables under finance leases	22,145	24,760
	801,792	686,921
Allowance for credit losses	*(21,463)*	*(37,261)*
	780,329	**649,660**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

The table below presents the amortised cost of loans granted and finance lease receivables by customer type:

Customer type	**31.12.2021 BGN '000**	**31.12.2020 BGN '000**
Enterprises	**633,543**	**556,943**
Individuals		
- consumer loans	60,425	54,164
- home loans	101,391	69,654
Total individuals	**161,816**	**123,818**
Agricultural producers	**6,433**	**6,160**
	801,792	**686,921**

The movements in the allowance for credit losses from loans and advances to customers and finance lease receivables are as follows:

	Stage 1 (collective impairment) BGN '000	**Stage 2 (collective impairment) BGN '000**	**Stage 3 (individual impairment) BGN '000**	**2021 BGN '000**	**2020 BGN '000**
Balance at 1 January	**(4,599)**	**(3,145)**	**(29,517)**	**(37,261)**	**(37,086)**
Impairment accrued	(4,364)	(1,704)	(911)	(6,979)	(7,274)
Reversed impairment	2,443	640	2,109	5,192	3,346
Written-off	-	-	17,585	17,585	3,753
Balance at 31 December	**(6,520)**	**(4,209)**	**(10,734)**	**(21,463)**	**(37,261)**

As at 31 December the balance of the allowance for credit losses from loans and advances to customers and finance lease receivables includes:

	31.12.2021 BGN '000	**31.12.2020 BGN '000**
Credit losses on an individual basis (specific)	10,734	29,515
Credit losses on a portfolio basis (collective)	10,729	7,746
	21,463	**37,261**

Leases

The *net investment in finance leases* is the difference between the gross investment in the finance lease, less the unearned finance income and the accrued impairment. It is as follows:

Net investment in finance leases	**31.12.2021 BGN '000**	**31.12.2020 BGN '000**
Gross investment in finance leases	27,506	30,063
Unearned finance income	(5,361)	(5,303)
Net minimum lease payments	**22,145**	**24,760**
Impairment of credit losses	(517)	(391)
Net investment in finance leases	**21,628**	**24,369**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

The structure of *net investment in finance leases* is as follows:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Net investment in finance leases		
Maturity of up to 1 year	3	5,188
Maturity of 1 to 5 years	13,777	10,444
Maturity of more than 5 year	7,848	8,737
	21,628	**24,369**

The concentration of the Group in the ten largest groups of exposures to customers is as follows:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Total gross carrying amount of the ten largest exposures to customers*	249,899	186,858
Percentage of the amount of gross loans and off-balance sheet commitments (*Note 3.1*)	26,53%	24,16%

* Including related customers, balance sheet and off-balance sheet commitments

15 SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The securities at fair value through other comprehensive income as at 31 December 2021, presented by original maturity, are as follows:

	Nominal amount	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2021 BGN '000	**31.12.2021 BGN '000**	**31.12.2021 BGN '000**	**31.12.2021 BGN '000**	**31.12.2021 BGN '000**
Government bonds – Republic of Bulgaria					
Medium-term bonds denominated in EUR	3,912	4,277	*2.95%*	*0.79%*	*September 2024*
Long-term bonds denominated in EUR	52,690	57,635	*0.375% - 3.00%*	*0.21% - 0.79%*	*March 2027 - September 2030*
	56,602	**61,912**			
Government bonds – Republic of Turkey					
Medium-term bonds denominated in EUR	**9,779**	**10,167**	*4.125%*	*3.62%*	*April 2023*
Government bonds – Romania					
Medium-term bonds denominated in EUR	**12,713**	**13,235**	*1% - 2.875%*	*0.15% - 0.23%*	*December 2023 - October 2024*
Government bonds – Croatia					
Short-term bonds denominated in EUR	**6,845**	**7, 118**	*3.875%*	*0.26%*	*May 2022*
Corporate bonds					
Shares denominated in EUR	*20*	*180*	-	-	-
Shares denominated in EUR	-	*34*	-	-	-
	20	**214**			
Corporate bonds					
Medium-term bonds denominated in EUR	*1,663*	*1,911*	*6.00 %*	*4.69%*	*April 2023*
Long-term bonds denominated in EUR	*9,779*	*10,547*	*3.50%*	*3.07%*	*June 2025*
	11,442	**12,458**			
Total	**97,401**	**105,104**			

	Nominal amount	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Government bonds – Republic of Bulgaria					
Long-term bonds denominated in EUR	**37,044**	**42,510**	*0.375% - 3.00%*	*0.21% - 0.79%*	*September 2024 - September 2030*
Government bonds – Republic of Turkey					
Short-term bonds denominated in EUR	1,956	2,020	*4.35%*	*2.43%*	*November 2021*
Medium-term bonds denominated in EUR	9,779	10,514	*4.125%*	*3.62%*	*April 2023*
	11,735	**12,534**			
Government bonds – Romania					
Short-term bonds denominated in EUR	1,956	1,981	*1.25%*	*0.12%*	*February 2021*
Medium-term bonds denominated in EUR	6,845	6,965	*1.00%*	*0.23%*	*December 2023*
Long-term bonds denominated in EUR	5,868	6,487	*2.875%*	*0.15%*	*October 2024*
	14,669	**15,433**			
Government bonds – Croatia					
Medium-term bonds denominated in EUR	**6,845**	**7,398**	*3.875%*	*0.26%*	*May 2022*
Corporate bonds					
Short-term shares denominated in EUR	21,221	21,419	*0% - 4.875%*	*0.32% - 4.57%*	*March 2021 - December 2021*
Medium-term bonds denominated in EUR	1,662	1,974	*6.00 %*	*4.69%*	*April 2023*
Long-term bonds denominated in EUR	9,779	10,447	*3.50%*	*3,48%*	*June 2025*
Corporate bonds	**32,662**	**33,840**			
TOTAL DEBT SECURITIES	**102,955**	**111,715**			
Equity instruments at fair value through other comprehensive income					
Shares denominated in BGN	**20**	**98**			
Shares denominated in EUR	**-**	**34**			
TOTAL EQUITY SECURITIES	**20**	**132**			
Total	**102,975**	**111,847**			

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

	31.12.2021 BGN'000	31.12.2020 BGN'000
Balance at 1 January	**111,847**	**48,155**
Increase (additions)	23,945	78,067
Decreases (disposals and/or maturity)	(28,080)	(15,751)
Net impact of revaluation to fair value	(1,454)	863
Change in interest accrued	(1,154)	513
Balance at 31 December	**105,104**	**111,847**

As at 31 December 2021 and 31 December 2020 the debt securities at fair value through other comprehensive income are classified in Stage 1. Expected credit losses have been determined on an individual basis (*Note 7*).

The movement in the allowance for credit losses from debt securities at fair value through other comprehensive income is as follows:

	2021 BGN'000	2020 BGN'000
Balance at 1 January	**(227)**	**(132)**
Increase in the impairment of credit losses from debt instruments, recognised within other comprehensive income	(17)	(150)
Decrease (reversal) of the impairment of credit losses from debt instruments, recognised within other comprehensive income	70	55
Balance at 31 December	**(174)**	**(227)**

As at 31 December 2021, the Group has blocked securities pledged as collateral of budget accounts, with carrying amount BGN 34,404 thousand (31 December 2020: BGN 9,024 thousand).

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

16. SECURITIES AT AMORTISED COST

As at 31 December 2021, the carrying amount of debt securities at amortised cost includes:

	Nominal amount	Gross carrying amount	Expected credit loss	Amortised cost	Fair value	Interest rate (coupon)	Effective interest rate	maturity
	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2021
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Government bonds								
Government bonds – Republic of Bulgaria – in BGN	34,185	34,328	-	34,328	34,546	*0.01% -5.00%*	*0.15%-4.47%*	*July 2022-January 2025*
Government bonds – Republic of Bulgaria – in EUR	29,337	30,711	-	30,711	30,844	*2.00 % - 2.95 %*	*0.75 % - 2.18%*	*March 2022-March 2027*
Government bonds – Republic of Turkey – in EUR	1,956	2,019	(23)	1,996	1,975	*4.125 %*	*3.91%*	*April 2023*
	65,478	**67,058**	**(23)**	**67,035**	**67,365**			

	Nominal amount	Gross carrying amount	Expected credit loss	Amortised cost	Fair value	Interest rate (coupon)
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Government bonds						
Government bonds – Republic of Bulgaria – in BGN	40,485	40,778	-	40,778	41,371	*0.01% -5.00%*
Government bonds – Republic of Bulgaria – in EUR	29,338	30,942	-	30,942	31,765	*2.00 % - 2.95 %*
Government bonds – Republic of Turkey – in EUR	11,735	12,087	(139)	11,948	12,087	*4.125 - 4.35%*
	81,558	**83,807**	**(139)**	**83,668**	**85,223**	

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

The movement in the gross carrying amount of securities at amortised cost is as follows:

	2021	2020
	BGN'000	BGN'000
Balance at 1 January	83,688	56,577
Acquired in the year	-	41,860
Matured in the year	(16,545)	(15,515)
Change in the impairment of credit losses	116	(18)
Change in current interest	(204)	764
Balance at 31 December	67,035	83,668

The movement in the allowance for credit losses on debt securities at amortised cost is as follows:

	2021 BGN'000	2020 BGN'000
Balance at 1 January 2021	**(139)**	**(122)**
Increase in the impairment of credit losses on debt securities at amortised cost	(3)	(26)
Decrease (reversal) in the impairment of credit losses on debt securities at amortised cost	119	9
Balance at 31 December 2021	**(23)**	**(139)**

As at 31 December 2021, investment stated at amortised cost at a total amount of BGN 65,039 thousand (31 December 2020: BGN 63,190 thousand) are blocked as collateral of budget funds.

17. INVESTMENT PROPERTY

	2021 BGN '000	2020 BGN '000
Book value		
Balance at 1 January	**22,031**	**20,519**
Additions	190	146
Assets in progress	110	1,468
Disposals	(1,566)	(102)
Balance at 31 December	**20,765**	**22,031**
Depreciation and impairment loss		
Balance at 1 January	**2,157**	**1,888**
Depreciation charge for the year	292	287
Disposals	(238)	(15)
Impairment	(134)	(3)
Balance at 31 December	**2,077**	**2,157**
Carrying amount at 1 January	**19,874**	**18,631**
Carrying amount at 31 December	**18,688**	**19,874**

As at 31 December 2021, the fair value of investment property is BGN 22,274 thousand (2020: BGN 24,108 thousand) *(Note 2.23.2.2).*

18. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land and building		Information equipment		Furniture and fixtures		Other		Assets in progress		Right-of-use assets		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	BGN '000	BGN '000	BGN '000	BGN'000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN'000
Book value														
Balance at 1 January	42,426	42,183	5,357	5,212	3,330	3,309	4,052	4,036	327	1,165	6,614	6,487	62,106	62,392
Additions	111	112	437	99	43	39	489	9	1,412	226	620	150	3,112	635
Disposals	-	-	(684)	(1)	(261)	(16)	(568)	-	-	(2)	(1,158)	(23)	(2,671)	(42)
Transfer	1	131	51	47	42	(2)	-	7	(753)	(1,062)	-	-	(659)	(879)
Balance at 31 December	42,538	42,426	5,161	5,357	3,154	3,330	3,973	4,052	986	327	6,076	6,614	61,888	62,106
Depreciation and impairment loss														
Balance at 1 January	2,987	2,355	4,646	4,285	3,048	2,948	3,890	3,814	5	-	1,850	1,583	16,426	14,985
Depreciation charge for the year	636	632	330	361	89	102	130	91	-	5	1,496	1,507	2,681	2,698
Disposals	-	-	(684)	-	(260)	(2)	(564)	(15)	-	-	(1,161)	(1,240)	(2,669)	(1,257)
Balance at 31 December	3,623	2,987	4,292	4,646	2,877	3,048	3,456	3,890	5	5	2,185	1,850	16,438	16,426
Carrying amount													-	-
													-	-
Carrying amount at 31 December	38,915	39,439	869	711	277	282	517	162	981	322	3,891	4,764	45,450	45,680
Carrying amount at 1 January	39,439	39,828	711	927	282	361	162	222	322	1,165	4,764	4,904	45,680	47,407

As at 31 December 2021, the Group's tangible fixed assets included: land amounting to BGN 2,460 thousand (31 December 2020: BGN 2,457 thousand) and buildings of carrying amount BGN 36,458 thousand (31 December 2020: BGN 36,983 thousand).

As at 31 December 2021, the property, plant and equipment include assets at book value BGN 9,283 thousand (31 December 2020: BGN 9,913 thousand), which have been fully depreciated but still in use in the Group's operations.

As at 31 December 2021, right-of-use assets are related to leases of office premises.

19. INTANGIBLE ASSETS

	Software and advances for software purchase	
	2021	2020
	BGN '000	BGN '000
Book value		
Balance at 1 January	**4,956**	**2,760**
Additions	1,184	2,196
Disposals	-	-
Balance at 31 December	**6,140**	**4,956**
Amortisation and impairment loss		
Balance at 1 January	**1,984**	**1,531**
Amortisation charge for the year	595	453
Disposals	-	-
Balance at 31 December	**2,579**	**1,984**
Carrying amount at 1 January	**2,972**	**1,229**
Carrying amount at 31 December	**3,561**	**2,972**

20. ASSETS HELD FOR SALE

The assets held for sale available as at 31 December 2021, including residential property at the amount of BGN 78 thousand (31 December 2020: BGN 139 thousand) have been acquired by the Group in 2020 in return for repayment of underperforming loans of its borrowers. These assets are not used, nor are there plans to use them in the Group's operations. The management of the parent (the Bank) is actively seeking buyers thereof in order to dispose of them until December 2022.

The movement in the assets held for sale over the two periods is as follows:

	2021	2020
	BGN '000	BGN '000
At 1 January	**139**	**146**
Additions	-	295
Disposals	(61)	(302)
At 31 December	**78**	**139**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

21. CURRENT TAX RECEIVABLES

Current tax receivables include:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Value added tax	78	169
Corporate tax	-	78
Total	**78**	**247**

22. OTHER ASSETS

Other assets include:	31.12.2021 BGN '000	31.12.2020 BGN '000
Assets acquired through collateral	*9,727*	*10,317*
Allowance for impairment	*(754)*	*(358)*
	8,973	9,959
Guarantee deposits with suppliers	840	579
Prepayments	943	734
Other assets	1,667	267
Total	**12,423**	**11,539**

Including:	31.12.2021 BGN '000	31.12.2020 BGN '000
Non-financial assets	10,069	10,858
Financial assets	2,354	681
Total	**12,423**	**11,539**

23. DUE TO BANKS

Due to banks represent funds attracted from banks and related mainly to credit lines with a carrying amount as at 31 December 2021: BGN 7,488 thousand (31 December 2020: BGN 10,695 thousand). Receivables under loans granted to Group clients under a BDB programme have been pledged in favour of BDB.

The contractual conditions of amounts *due to banks* are as follows:

	Amount	Currency	Maturity	31.12.2021 BGN '000	31.12.2020 BGN '000
Bulgarian Development Bank AD	15,000	BGN '000	31.05.2025	6,980	8,975
Bulgarian Development Bank AD	1,500	EUR`000	20.05.2023	508	1,720
Total				**7,488**	**10,695**

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2021.

Change in liabilities from financing activities

The table below presents the reconciliation between the opening and closing balances in the consolidated statement of financial position for the liabilities from financing activities for the year ended 31 December 2021:

	1 January 2021	*Interest paid*	*Principal paid*	*Principal received*	*Accruals under the effective interest method*	*Other non-cash changes*	*31 December 2021*
Due to banks	10,695	(117)	(3,204)	-	114	-	**7,488**
Lease liabilities	4,792	-	(1,528)	-	45	609	**3,918**
Total liabilities from operations	**15,487**	**(117)**	**(4,732)**	-	**159**	**609**	**11,406**

24. DUE TO CUSTOMERS

	31.12.2021 BGN '000	**31.12.2020 BGN '000**
Individuals		
- term deposits	325,230	305,447
- saving accounts	96,288	88,240
- demand deposits	121,034	87,367
	542,552	**481,054**
Private entities and other financial institutions		
- term deposits	55,396	65,820
- demand deposits	622,165	447,547
	677,561	**513,367**
	1,220,113	**994,421**

As at 31 December 2021, 2% of the total amounts due to customers (31 December 2020: 2%) represent funds of the sole owner – shareholder and parties related thereto.

Deposits from customers include customer deposits restricted by the Group: as collateral for loans and issued bank guarantees at the amount of BGN 16 388 thousand (31 December 2020: BGN 42 712 thousand), as well as accounts subject to special terms and conditions: accumulation accounts at the amount of BGN 440 thousand (31 December 2020: BGN 416 thousand).

25. CURRENT TAX LIABILITIES

Current tax liabilities include:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Corporate income tax	34	34
Withholding tax	29	25
Final income tax	17	23
One-off taxes on expenses	15	18
Personal income tax	5	3
	100	**103**

The following tax audits and inspections have been carried out in relation to the Group companies by the issue date of these consolidated financial statements:

D Commerce Bank AD:

- under VAT audit – until 31 December 2009; inspection – for the period from 1 September 2019 until 31 November 2019;
- full-scope tax audit – until 31 December 2009;
- National Social Security Institute – until 31January 2015.

D Leasing EAD

- VAT audit and inspection – until 31 December 2018.

No tax audits and inspections have been carried out with respect to the subsidiaries *D Insurance Broker EOOD, D Imoti EOOD and D Park EOOD.*

A tax audit shall be performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms the ultimate tax payable of the taxable person, unless in the cases explicitly provided for in the legislation.

26. DEFERRED TAXES

Deferred income taxes as at 31 December are related to the following items of the consolidated statement of financial position:

	temporary difference	*tax*	*temporary difference*	*tax*
	31.12.2021	***31.12.2021***	***31.12.2020***	***31.12.2020***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, equipment and investment property	(3,237)	(324)	(6,398)	(640)
Total deferred tax liabilities	**(3,237)**	**(324)**	**(6,398)**	**(640)**
Accruals for unused leaves of personnel and bonuses	498	50	367	37
Long-term retirement benefit obligations	548	55	498	49
Tax loss	250	25	323	33
Other assets (collaterals acquired)	664	66	358	36
Litigation provisions	189	19	189	19
Securities at fair value through other comprehensive income	871	87	2,532	253
Right-of-use assets	21	2	18	2
Total deferred tax assets	**3,041**	**304**	**4,285**	**429**
Deferred income tax liabilities, net	**(196)**	**(20)**	**(2,113)**	**(211)**

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

The change in the balance of deferred taxes for 2021 was as follows:

Deferred tax (liabilities)/ assets	***01.01.2021***	***Recognised in the current profit and loss***	***31.12.2021***
	BGN '000	**BGN '000**	**BGN '000**
Property, equipment and investment property	(641)	316	(324)
Accruals for paid leaves of personnel and bonuses	37	28	50
Long-term retirement benefit obligations	50	5	55
Tax loss	33	1	25
Other assets (acquired collaterals)	36	30	66
Court provisions	19	-	19
Securities at fair value through other comprehensive income	253	(166)	87
Right-of-use assets	2	-	2
Total	**(211)**	**214**	**(20)**

Deferred tax (liabilities)/ assets	*01.01.2020*	*Recognised in the current profit and loss*	*31.12.2020*
	BGN '000	BGN '000	BGN '000
Property, equipment and investment property	(520)	(121)	(641)
Accruals for paid leaves of personnel and bonuses	47	(10)	37
Long-term retirement benefit obligations	47	3	50
Tax loss	28	5	33
Other assets (acquired collaterals)	36	-	36
Court provisions	-	19	19
Securities at fair value through other comprehensive income	167	86	253
Right-of-use assets	3	(1)	2
Total	**(192)**	**(19)**	**(211)**

27. OTHER LIABILITIES

Other liabilities include:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Lease liabilities	3,918	4,792
Other liabilities	1,732	1,430
Long-term retirement benefit obligations	540	498
Current liabilities to personnel and social security	470	328
Transfers in progress	447	1,285
Advances from the sale of assets acquired from collaterals	481	150
Prepaid credit account management fees	29	31
Guarantees on cession agreements and letters of credit	1,847	-
	9,464	**8,514**

Including:	31.12.2021 BGN '000	31.12.2020 BGN '000
Financial liabilities	8,320	7,633
Non-financial liabilities	1,144	881
	9,464	**8,514**

Current liabilities to personnel include accruals for unused leaves and the social security contributions thereon.

The *long-term retirement benefit obligations* to personnel include the present value of Bank's liability, at the date of the consolidated statement of financial position, to pay indemnities to its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for the same employer during the last 10 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan. *(Note 2.20).*

For the purpose of establishing the amount of the liability as at 31 December 2021, the Bank has assigned actuarial valuation by using the services of a certified actuary.

The movements in the present value of retirement benefit obligations to personnel are as follows:

	2021 BGN '000	2020 BGN '000
Present value of the obligation at 1 January	**498**	**467**
Interest cost	3	3
Current service cost	54	53
Payments made in the year	(17)	(46)
Remeasurement gains or losses for the year	2	21
Present value of the obligation at 31 December	**540**	**498**

The amounts accrued in the consolidated statement of profit or loss and other comprehensive income as long-term retirement benefits of personnel are as follows:

	2021 BGN '000	2020 BGN '000
Current service cost	54	53
Interest cost	3	3
Components of defined benefit plan costs recognised in profit or loss *(Note 9)*	**57**	**56**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial losses arising from changes in financial assumptions	5	17
Actuarial (gains) arising from changes in demographic assumptions	(1	(23)
Actuarial (gains)/losses arising from experience adjustments	(2)	27
Components of defined benefit plans cost recognised in other comprehensive income *(Note 11)*	**2**	**21**
Total	**59**	**77**

The following actuarial assumptions were used in calculating the value of the liabilities as at 31 December 2021:

- mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2018 – 2020 (31 December 2020: 2017 – 2019);
- staff turnover rate – applied probability of leave prior to retirement of 5.00% per year (2020: 5.00%).
- discount factor – the rate applied is based on the effective annual interest rate 0.5% (31 December 2020: 0.60%). It is grounded on the market yield on the long-term government securities (of 10-year maturity). Considering that the average term to pensioning is longer than 11 years, the discount rate has been established through extrapolation;
- the assumption for the future level of the salaries is based on the information provided by Group's management and amounts to 2% annual growth for 2021 for the first three years and 1% for the remaining period (2020: 2%).

28. CAPITAL AND RESERVES

Share capital

As at 31 December 2021, the registered share capital of D Commerce Bank AD amounts to BGN 90,064 thousand (31 December 2020: BGN 90,064 thousand), distributed in 90,064 (2020: 90,064) ordinary registered dematerialised voting shares with a par value of BGN 1,000 each.

The share capital structure is as follows:

Shareholder	Shares held as at 31.12.2021	Percentage	Shares held as at 31.12.2020	Percentage
Fuat Guven	50,000	55.52%	50,000	55.52%
Fortera EAD	40,064	44.48%	40,064	44.48%
Total	**90,064**	**100%**	**90,064**	**100%**

Reserves

Group's *reserves* are summarised in the table below:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Statutory reserves (Reserve Fund)	51,853	44,324
Reserve of financial assets at fair value through other comprehensive income	910	2,624
Total	**52,763**	**46,948**

Statutory reserves (Reserve Fund)

The Credit Institutions Act does not prescribe specific rules for the setting aside of *statutory reserves (Reserve Fund)*. The Bank sets aside such reserve under the requirements of the general provisions of the Commercial Act, namely: at least one tenth of the post-tax profit, funds paid above the nominal amount on issuance of capital, the sum of the additional payments made against privileges granted on the acquired shares, other sources specified in the Articles of Association or designated by resolution of the General Assembly until the Reserve Fund reaches up to 1/10 of the share capital determined by the Articles of Association. In addition, under the Credit Institutions Act banks are not allowed to pay dividends before reaching the minimum reserves required by law or by the Articles of Association, or in case the distribution of dividends will result in violation of the regulatory capital adequacy ratios.

The Bank may use the funds from the *statutory reserve (Reserve Fund)* to cover current or prior period losses, but cannot use it for distribution of dividends without permission by BNB.

As at 31 December 2021, the *statutory reserves (Reserve Fund)* of the Group amount to BGN 51,853 thousand (31 December 2020: BGN 44,324 thousand) whereas the minimum amount required under the Commercial Act is reached.

The movements in the *statutory reserves (Reserve Fund)* are as follows:

	2021 BGN '000	2020 BGN '000
Balance at 1 January	**44,324**	**36,427**
Distribution of profit	7,529	7,897
Balance at 31 December	**51,853**	**44,324**

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

As at 31 December 2021, it amounts to BGN 910 thousand (31 December 2020: BGN 2,624 thousand).

The movements in the *reserve of financial assets at fair value through other comprehensive income* is as follows:	2021 BGN '000	2020 BGN '000
Balance at 1 January	**2,624**	**1,666**
(Losses)/Gains on remeasurement to fair value for the year	(1,661)	863
Net change in the impairment of expected credit losses from financial assets at fair value through other comprehensive income	(53)	95
Balance at 31 December	**910**	**2,624**

Retained earnings amount to BGN 15,044 thousand as at 31 December 2021 (31 December 2020: BGN 7,745 thousand).

The movements of *retained earnings* are as follows:

	2021 BGN '000	2020 BGN '000
Balance at 1 January	**7,745**	**8,077**
Net profit for the year	14,831	7,586
Distribution of profit to reserves	(7,529)	(7,897)
Actuarial losses from remeasurement	(2)	(21)
Balance at 31 December	**15,045**	**7,745**

29. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows cash and cash equivalents comprise the following balances with original maturity up to 3 months:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Cash on hand *(Note 12)*	20,530	20,492
Current accounts with the Central Bank *(Note 12)*	180,027	110,223
Minimum obligatory reserve (*Note 12*)	104,078	81,944
Amounts due from banks with original maturity of up to 90 days *(Note 13)*	57,675	20,416
Cash and cash equivalents in the consolidated statement of cash flows	**362,310**	**233,075**

30. CONTINGENT LIABILITIES AND COMMITMENTS

Financial guarantees and letters of credit

The Group provides financial guarantees and letters of credit to guarantee the performance of its customers to third parties. These arrangements have fixed limits and are generally valid for a period of up to one year.

The amounts of concluded agreements for undertaken commitments and contingent liabilities are presented in the table below:

	31.12.2021 BGN '000	31.12.2020 BGN '000
Contingent liabilities		
Bank guarantees and letters of credit		
- in BGN	21,416	16,948
- in foreign currency	2,089	9,207
	23,505	**26,155**
Irrevocable commitments		
Undrawn amount of authorised loans		
- in BGN	91,285	38,032
- in foreign currency	25,165	22,332
	116,450	**60,364**
	139,955	**86,519**

As at 31 December 2021 and 31 December 2020, the amount of credit losses related to guarantees granted, letters of credit and irrevocable commitments in insignificant in its amount; therefore, it has not been carried to these consolidated financial statements.

Nature of instruments and credit risk

These commitments of contingent nature are bearers of off-balance sheet credit risk as only arrangement fees and provisions for potential losses are recognised in the statement of financial position until the commitments expire or are fulfilled. The amounts reflected in the table below with respect to guarantees represent the maximum accounting loss that would be recognised as at the date of the financial statements if the counterparties fail to discharge their contractual liabilities in full. Many of the contingent liabilities will expire without being paid fully or partially. Therefore, the amounts do not represent expected future cash flows. Collaterals held for the issuance of bank guarantees and letters of credit are 100% and represent mainly deposits restricted with the Group, mortgage of real estate, bank guarantees issued by other banks and promissory notes.

When conditions for enforcement of an issued guarantee occur the Group assesses the possibilities for recourse to the counterparty and potential realisation of the collaterals provided.

Court proceedings

As at 31 December 2021, respectively as at 31 December 2020, there were no material legal claims against Group companies that might have a significant impact on the Group and/or its financial position.

31. ACQUISITION OF A SUBSIDIARY

On 15 November 2021 the Group incorporated a new subsidiary, D Park EOOD, by means of a cash and non-cash contribution. The company is 100 % owned by D Commerce bank AD, and has management address at Sofia, 8, General Totleben Boulevard.

The registered share capital as at 31 December 2021 amounts to BGN 6,899 thousand (BGN 6,849 thousand – non-cash contribution – contribution in kind of an investment property, and BGN 50 thousand – cash contribution), distributed in 68,993 shares with nominal value BGN 100 each.

The company's principal activities as registered in the Trade Register and the Register of Non-Profit Business Entities are: building an industrial zone, creation and registration of an industrial park pursuant to the Industrial Parks Act; operation, management and development of the industrial park; sale of properties in the industrial zone to investors; attracting and incentivizing investments in high-tech production; transactions in real estate; operation and management of real estate; acquisition, management, valuation and sale of assets and/or management thereof; consulting and advertising services in the field of real estate; business representation and intermediation and any other activities permitted by the law.

32. RELATED PARTY TRANSACTIONS

The Group's related party and type of relation are as follows:

Related parties	***Type of relation***
Mr. Fiat Guven	Main shareholder
Fortera AD	Shareholder with significant influence
Emelda Deri Konfeksiyon Turizm Insaat Sanayi Ve Dis Ticaret	Company under common control through main shareholder
Limited Shirketiriest AD	Company under common control through main shareholder
Elkabel AD	Company under common control through main shareholder
Aidatour AD	Company under common control through main shareholder
Shipka Fuat Guven – Turkey	Company under common control through main shareholder
Shipka Fuat Guven OOD	Company under common control through main shareholder
Emelda EOOD	Company under common control through main shareholder
Stil-93 OOD	Company under common control through main shareholder
Eleforce OOD	Company under common control through main shareholder
Gama Invest AD	Company under common control through main shareholder
Kardzhali – Tabac AD	Company under common control through main shareholder
Svilengrad – Gas AD	Company under common control through main shareholder
Shipka – Oil EOOD	Company under common control through main shareholder

Vasilevi Bros OOD	Company under common control through main shareholder
Shipka – Fuat – Guven – Varna OOD	Company under common control through main shareholder
Borisov and Borisov law firm	Key management personnel

The natural persons who are part of the key management personnel are disclosed in Note 1.2.

(a) Outstanding balances with related parties

Account type	Relation type	31.12.2021 BGN '000	31.12.2020 BGN '000
Deposits, current and escrow accounts	Entity under a common control through a main shareholder	21,643	22,293
Deposits and current accounts	Shareholder	1,942	45
Deposits and current accounts	Key management personnel	1,262	960
		24,847	23,298
Loans granted	Entity under a common control through a main shareholder	3,381	3,380
Loans granted	Key management personnel	382	403
Loans granted	Shareholder	1	-
		3,764	3,783
Issued guarantees and letters of credit	Entity under a common control through a main shareholder	480	656
		480	656

(b) Related party transactions

Income / expense	Relation type	2021 BGN '000	2020 BGN '000
Interest income	Entity under a common control through a main shareholder	117	124
Interest income	Key management personnel	9	10
		126	134
Commissions income	Entity under a common control through a main shareholder	38	30
Commissions income	Key management personnel	1	1
		39	31
Interest expense	Entity under a common control through a main shareholder	43	43
Interest expense	Shareholder	-	2
Interest expense	Key management personnel	2	3
		45	48

(c) Remuneration of key management personnel

	2021	2020
	BGN '000	BGN '000
Remuneration of key management personnel	2,097	1,872

The members of the key personnel are disclosed in *Note 1*.

32. EVENTS AFTER THE DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The military conflict between Russia and Ukraine that commenced on 24 February 2022, which is continuing at the date of these financial statements, resulted in disruptions on the leading financial markets in the world, and the problems in supply chains caused by COVID-19 are expected to further aggravate as a result of this conflict. The Russian Federation is being imposed a growing number of economic sanctions by the European Union, USA and other countries. Therefore, there are forecasts for a significant increase in the prices of oil, gas, electricity and other raw materials, as well as high inflation on a global scale. The development and outcome of the conflict cannot be envisaged at this stage, since it is still at an early stage, with multiple uncertainties, and it is very hard to forecast its long-term effects on the global economic and social development.

According to the management, the main risk for the Group is related to the impact of changes in the economic environment on the performance and business results of clients in subsequent periods. The management of the parent considers this to be a non-adjusting event after the reporting date, respectively, this management report does not include adjustments to the amounts of assets, if any would have been necessary, as a result of the significant increase in credit risk. At this stage of development of the situation and in view of the dynamic thereof it is impossible to reliably assess the potential effects and consequences of the conflict on the Group's operations, assets, and economic development. The management of the parent has taken appropriate measures to limit potential impact on the Group's operations. As at 31 December 2021, the gross carrying amount of receivables from clients from Russia and Ukraine amounts to BGN 24 thousand or 0.07% of the loan portfolio. The exposures are only to the natural persons sector. All loans are performing.

On 15 March 2022 the Bank informed BNB that it is ready to commence the process of supervisory

dialogue in relation to the capital plans and the planned distribution of dividend at the amount of BGN 15,000,000 from the reserves accumulated for years 2019 and 2020.

Other than disclosed above, no other events have occurred after 31 December 2021 that necessitate additional adjustments and/or disclosures in the consolidated management report of the Group for the year ended 31 December 2021.