



D Commerce Bank AD

**Consolidated management report
and corporate governance statement**

CONSOLIDATED MANAGEMENT REPORT

AND

CORPORATE GOVERNANCE STATEMENT

OF

D COMMERCE BANK GROUP

for 2021



June 2022

I. Group profile

D Commerce Bank Group (the Group) comprises the parent (D Commerce Bank AD) and its subsidiaries. Information regarding the Group companies is presented below:

The parent

D Commerce Bank AD is a joint-stock company, holding a general banking license to perform banking operations in the country and transactions abroad.

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.

Subsidiaries

D Insurance Broker EOOD

In 2013 D Commerce Bank AD acquired 100% of the shares of Visa Consult EOOD, a sole owner limited liability company. The name of the company was changed to D Insurance Broker EOOD and its seat – to Sofia, Krasno Selo Region, 8, Gen. Totleben Blvd. The company's principal activities include: insurance brokerage, intermediation by assignment for the conclusion and performance of insurance and/or reinsurance contracts and the related consultancy services.

D Imoti EOOD

The company was established by D Commerce Bank AD in October 2013. Its seat and address of management is in Sofia, Krasno Selo Region, 8, Gen. Totleben Blvd. The company's principal activities include purchase-and-sale of real estate, design, furnishing, construction of real estate for sale, rental. As at 31 December 2021 the share capital of the company amounts to BGN 10.4 million.

D Leasing EAD

D Leasing EAD was established in 2014 and was registered as a financial institution with a full license from BNB. D Leasing EAD was incorporated as a joint-stock company and the sole owner of its capital is D Commerce Bank AD. As at 31 December 2021 the share capital of the company amounts to BGN 2.2 million.

D Park EOOD

D Park EOOD was incorporated in 2021. D Park EOOD was incorporated as sole owner limited liability with sole owner of the capital D Commerce Bank AD. As at 31 December 2021, the share capital of the company is BGN 6.9 million.

1. Group ownership and management

As at 31 December 2021, the capital of the Bank is held by Mr. Fuat Guven, who holds directly 55,52% of the capital and through Fortera EAD, UIC 175194303 – 44,48%.

D Commerce Bank AD has a two-tier management system which implies a Management Board and a Supervisory Board. The Supervisory Board (SB) appoints the members of the Management Board (MB), approves the empowerment of the executive members – Executive Directors and determines the remuneration of the MB members.

As at 31 December 2021 the persons charged with the overall management of the Bank as members of the Supervisory Board include:

- Fuat Guven – Chairperson of the SB;
- Bahattin Gurbuz – Member of the SB;
- Valeri Borisov Borisov – Member of the SB.

As at 31 December 2021 the Management Board of the Bank comprises the following members:

- Anna Ivanova Asparuhova - Chairperson of the MB and Chief Executive Officer;
- Martin Emilov Ganchev - Member of the MB and Chief Executive Officer;
- Plamen Ivanov Dermendzhiev - Member of the MB;
- Valentina Dimitrova Borisova – Member of the MB;
- Zahari Dimitrov Alipiev – Member of the MB.

2. Changes in the management and the registration of the parent in 2021

During the period 1 January 2021 – 31 December 2021 there were no changes in the management and the registration of the Bank.

3. Information regarding the individuals managing and representing the parent company

As at 31 December 2021 the Bank has two Executive Directors and five members of the Management Board:

- Ms. Anna Ivanova Asparuhova – Chairperson of the Management Board and Chief Executive Director;
- Mr. Martin Emilov Ganchev – Member of the Management Board and Executive Director;
- Mr. Plamen Ivanov Dermendzhiev – Member of the Management Board;
- Ms. Valentina Dimitrova Borisova – Member of the Management Board;
- Mr. Zahari Dimitrov Alipiev – Member of the Management Board.

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 and Members of the MB hold no interest in the Bank's share capital.

4. Changes in the management and the registration of the subsidiaries in 2021

The information about changes in the management and the registration of the subsidiaries in the period from 1 January 2021 to 31 December 2021 is presented below:

4.1. D Insurance Broker EOOD

In the period from 1 January 2021 to 31 December 2021 there were no changes to the management and registration of the company.

4.2. D Imoti EOOD

In the period from 1 January 2021 to 31 December 2021 there were no changes to the management and registration of the company.

4.3. D Leasing EAD

In the period from 1 January 2021 to 31 December 2021 there were no changes to the management and registration of the company.

4.4. D Park EOOD

In the period from 1 January 2021 to 31 December 2021, a new Bank subsidiary was registered – D Park EOOD, UIC 206722972, seat and management address: Sofia, Krasno Selo Area, 8, General Totleben Boulevard, represented jointly by the General Managers Ivaylo Georgiev Ivanov and Yavor Nikolov Terziev. The company's capital amounts to BGN 6,899,300, constituting a cash and non-cash contribution, and has been deposited in full. The company's principal activities 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. The company has been registered for an indefinite period.

5. Information regarding the individuals managing and representing the subsidiaries

As at 31 December 2021, the persons managing and representing the subsidiaries are as follows:

5.1. D Insurance Broker EOOD – Lyubomir Svetoslavov Ivanov – Manager;

5.2. D Imoti EOOD – Yavor Nikolov Terziev and Ivaylo Georgiev Ivanov – General Managers, always representing the company jointly;

5.3. D Leasing EAD – Ivaylo Georgiev Ivanov, Zorka Yordanova Samokovliyska, Petya Radeva Valeva – Members of the Board of Directors; the company is always represented by each two of the three Board Members;

5.4. D Park EOOD – Ivaylo Georgiev Ivanov and Yavor Nikolov Terziev – General Managers, representing the company always jointly.

6. Information in compliance with Art. 39, item 5 and item 6 of the Accountancy Act and Art. 187, e) and Art. 247 of the Commercial Act

6.1 Under Art. 39, item 5 and item 6 of CA - not applicable;

6.2 Under Art. 187, e) of CA - not applicable;

6.3. Under Art. 247, Para 2 of CA:

- item 1 - The total remuneration received in 2021 by the Members of the MB and the SB of the Bank amounted to BGN 2,097 thousand.
- item 2 - No deals of this nature were performed in 2021;

- item 3 - There are no restrictions on the rights of the Boards' members to hold shares and bonds of the company (the Bank);
- item 4 - To the best of our knowledge the participation of the Members of the SB and the MB of the Bank as unlimited partners, holding more than 25% of the capital of other entities, and their participation in the management of other companies or cooperatives as procurators, general managers or board members is as follows:

Valeri Borisov Borisov - Member of the SB (in the period 1 January 2021 - 31 December 2021):

1. Elkabel AD, UIC 102008573 - Member of the Supervisory Board;
2. Borisov & Borisov Law Firm, BULSTAT 175640079 - Manager;
3. Interus OOD, UIC 831644428 - partner with a share exceeding 25%;

Fuat Guven - Member of the Supervisory Board, elected Chairperson of the Supervisory Board (in the period 1 January 2021 - 31 December 2021):

1. Fortera AD, UIC 175194303, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital, Chairperson of the Board of Directors and Executive Director;
2. Gama Invest AD, UIC 831283821, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital, Chairperson of the Board of Directors and Executive Director;
3. Elkabel AD, UIC 102008573, Burgas, 15, Odrin Street – shareholder with about 98% interest and Chairperson of the Supervisory Board;
4. Aidatour AD, UIC 836143710, Haskovo, 1, Atlanticheski Square – Member of the Board of Directors and Executive Director, ultimate owner of the capital;
5. ET Shop Shipka Fuat Guven, Turkey, Reg. No in the Istanbul Commercial Register 192291, Istanbul, Semilie Iskele D zad 37, Üsküdar;
6. Emelda Deri Konfeksiyon Turizm Insaat Sanayi Ve Dis Ticaret Anonim Sirketi, Republic of Turkey, Reg. No in the Istanbul Commercial Register 281 558, Istanbul, Zeytinburnu, Kazlicesme, Demirhane Caddesi, Beskardesler Sok 8-10 – majority shareholder and representative;
7. Shop Shipka Fuat Given OOD, UIC 175205415, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
8. Emelda EOOD, UIC 175205365, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
9. Trakia 97 EOOD, UIC 126073031, Svilengrad, Garata Quarter, Duty Free Zone – ultimateowner of the capital and General Manager;
10. Stil 93 OOD, UIC 831303003, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;

11. Eleforce OOD, UIC 131237742, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
12. Kardzhali Tabak AD, UIC 108024351, Kardzhali, 1, Republikanska Street – ultimate owner of the capital, Member of the Board of Directors and Executive Director;
13. Shipka-Fuat-Guven-Varna OOD, UIC 000100591, Varna, St. St. Constantine and Helena resort complex, Commercial Centre constituting part of St Constantine And Helena – ultimate owner of the capital and General Manager;
14. Svilengrad-Gas AD, UIC 200462966, Svilengrad, Svilena Hotel, floor 1, apartment 2 – majority shareholder;
15. SHIPKA OIL EOOD /Prior name Svilengrad Gas Service EOOD/, UIC 201025058, Svilengrad, Svilena Hotel, floor 1, apartment 2 – sole owner of the capital and General Manager;
16. Vassilevi Bros OOD, UIC 010752510, Sofia, Izgrev Region, 5, Shteryu Atanasov Street – owner of the capital – personally and through Le Roi Enterprises Limited, London, United Kingdom of Great Britain and Northern Ireland, and General Manager;
17. Alfa Deri Konfeksiyon Tourism, Turkey, registered in the Commercial Register, Turkey, Istanbul, Zeytinburnu, 8-10 Kazlicesme – majority shareholder;
18. Inter Kim Petrol Ve Petrokimiya EOOD, Turkey, Istanbul, majority shareholder;
19. Plas Kim Petrol Ve Petrokimiya Urulenti Dis Tic OOD, Turkey, Istanbul, majority shareholder;
20. Beta Turistik Tesis Isletmeciligi Ltd Sti, Turkey, Istanbul, majority shareholder;
21. Delta Balonchuluk Havandzaluk Turism ve Energy Tidzaret, Turkey, Istanbul – General Manager;
22. Gama Turistik Tesis Ishl. AS, Turkey, Istanbul – General Manager;
23. AO Fregat, Moscow, Izmaylovo Quarter, 1, Uralska Boulevard, sole owner of the capital;
24. Le Roi Enterprises Limited, London, United Kingdom of Great Britain and Northern Ireland – sole owner of the capital and General Manager;
25. Elmateriali EOOD, UIC 205149060, Burgas, 15, Odrin St. – ultimate owner of the capital;
26. Ariete Gallery EOOD, UIC 206446449, Kardzhali, 34, Dobrudzha Street – ultimate owner of the capital – for the period from 24.03.2021 to 21.05.2021.

Plamen Ivanov Dermendzhiev - Member of the Management Board (in the period 1 January 2021 - 31 December 2021):

Fund for Sustainable Urban Development of Sofia EAD, UIC 202033232 - Member of the Supervisory Board.

- Item 5 - To the best of our knowledge no contracts were concluded in 2021 under Art. 240, b) of the Commercial Act.

II. Seat and headquarters of the Group

The seat and headquarters of D Commerce Bank Group is: Sofia, Sofia Municipality, Krasno Selo Region 8, Totleben Blvd.

III. Group management responsibilities

The management of D Commerce Bank Group is required by the Bulgarian legislation to prepare annual financial statements for each financial year that give a true and fair view of the property and financial position of the Group as at the end of the respective reporting period and of its financial performance for that period.

The management confirms that in the preparation of these reports:

- appropriate accounting policies have been used and applied consistently;
- that reasonable and prudent judgements and estimates have been used;
- the statutory applicable accounting standards have been followed consistently;
- the annual consolidated financial statements have been prepared on a going concern basis.

The management hereby states that:

- it has made the best estimates and decisions, as necessary;
- has complied with the requirements of all International Financial Reporting Standards applicable in accordance with the national banking accounting legislation in Bulgaria;
- the annual consolidated financial statements present the Group's performance with a reasonable extent of accuracy;
- it has undertaken all possible measures to safeguard the assets of the Bank and its subsidiaries and to prevent fraud.

IV. Membership and associations

- Association of Banks in Bulgaria;
- Bulgarian Stock Exchange - Sofia AD;
- BORICA- Bank service AD;
- National Card Scheme Bcard;
- Central Depository AD;
- MasterCard International;

- S.W.I.F.T.;
- European Payments Council - SEPA Credit Transfer Scheme;
- Association of Bank Payments Safety (ABPS);
- Bulgarian - Turkish Business Association;
- Association of Bulgarian and Turkish Businessmen (ABTBM);
- Turkish-Bulgarian Business Association;
- Bulgarian Industrial Association;
- Confederation of Employers and Industrialists in Bulgaria (CEIB).

D Commerce Bank Group participates or is an agent in the following payment systems and payment service providers:

- Bank Organisation for Payments Initiated by Cards (BORICA);
- Bank Integrated System for Electronic Payments (BISERA and BISERA7-EUR);
- Real-Time Interbank Gross Settlement System (RINGS);
- Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET2);
- WESTERN UNION agent;
- EasyPay agent.

V. Branch network

In accordance with Art. 39, item 7 of the Accountancy Act the Group presents its structural units and the changes made in 2021.

In 2021, structural changes were made to the branch network. Eight locations were closed down: FC Royal City, Bulair Office at FC Burgas, Aida Office at FC Haskovo, Cherven Bryag Office at FC Pleven, RWP Antonovo at FC Targovishte, RWP Elkabel at FC Burgas, RWP Hitrino at FC Shumen and RC Pleven. FC Chataldzha was transformed into Chataldzha Office at FC Vatna and FC Kazanlak was transformed into Kazanlak Office at FC Stara Zagora. As at 31 December 2021, the Bank operates through 45 business units, including: Headquarters, 4 regional financial centres (FRC), 29 financial centres (FC), 4 offices and 7 remote workplaces (RWP) in various cities in Bulgaria. The regional centres operate (RC) focus on servicing medium-sized and large corporate customers - RC Sofia, RC Plovdiv, RC Burgas, and RC Varna.

VI. COVID-19- impact, 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 extension of the adopted "Procedure for deferral and settling of payables due to banks and subsidiaries thereof – financial institutions, in relation to the state of emergency imposed on 13 March 2020 by the National Assembly" (Deferral Procedure) until 31 March 2021. The document constitutes a private moratorium pursuant to the Guidelines of the European Banking Authority (EBA) amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. The Guidelines adopted by the Management Board of BNB by means of a decision dated 2 December 2020 were published on the EBA webpage.

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 deadline for including loans in the guarantee 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.

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 7,529 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;
- Introduced daily monitoring of the loan portfolio for express indication of problems of the borrowers and urgent measures for reaction and risk management;
- Provided a possibility to extend the term of revolving loans;
- Introduced daily monitoring of markets in securities and forecasts thereon in order to take specific measures;
- Introduced ongoing monitoring on real estate markets and forecasts thereon;
- Pursuant to the provisions of the EBA Guidelines, the Bank has developed and applies 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 Group 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.

VII. Financial performance of the Group

In accordance with Art. 39, item 1 and 2 of the Accountancy Act the Group presents its financial and non-financial performance indicators representing its development.

Thanks to the measures applied as early as 2020 to reduce the negative impact of the coronavirus pandemic, the Group continued to overcome successfully the challenges related to the intense competition at the Bulgarian banking market, the aggravating economic situation and the significant uncertainty and difficulty in forecasting events. During the year D Commerce Bank Group focused its business strategy primarily on:

- Continuing work on the optimisation of the bank's assets and liabilities management;
- Retaining excellent business relations and providing competent support to the Bank's corporate and individual customers in the light of the new economic reality;
- Further enhancement of the quality and effectiveness of the bank services and products offered;
- Close and continuous monitoring of the loan portfolio quality;
- Increased efficiency of risk management;
- Provision of competitive services through development of information technologies and digital channels;
- care for the health and safety of customers and employees.

The Group's financial position in 2021 remained stable and sustainable, with increased efficiency and profitability. The adverse economic effects were well addressed, monitored and managed in view of minimization and/or elimination thereof.

MAIN FINANCIAL INDICATORS - CONSOLIDATED DATA

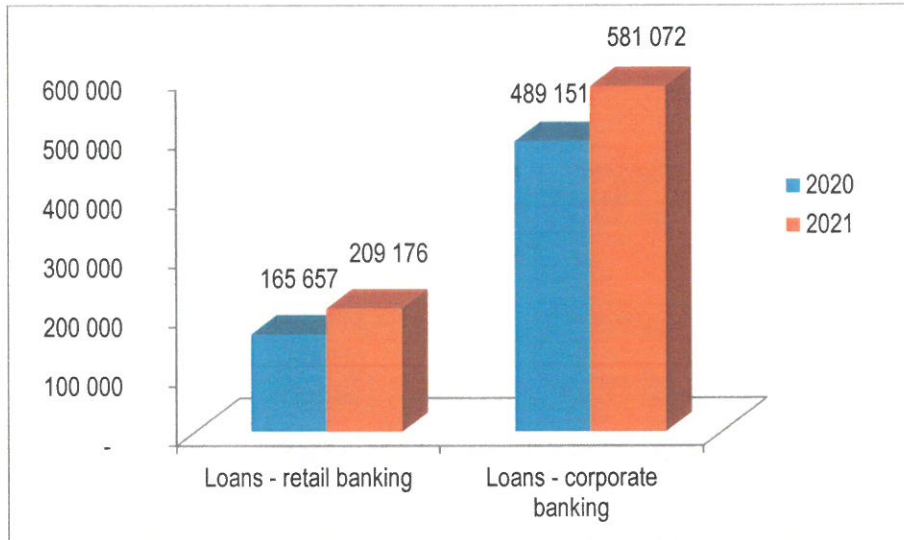
Financial results (BGN'000)	2020	2021
Net interest income	26,689	27,509
Net fees and commissions income	7,519	8,595
Net trading income	1,686	5,756
Net gain/(loss) on impairment of financial assets	(3,766)	(1,678)
Operating income	32,128	40,182
Administrative operating expenses	(25,571)	(26,953)
Other operating income, net	1,885	3,260
Profit before income tax	8,442	16,489
Income tax expense	(856)	(1,658)
Net profit for the year	7,586	14,831
Balance sheet (BGN'000)	2020	2021
Total assets	1,158,701	1,395,056
Loans and advances to customers	686,921	801,792
Due from banks	20,416	57,675
Securities	195,515	172,139
Due to customers	994,421	1,220,113
Due to banks	10,695	7,488
Equity	144,757	157,871
Key ratios (%)	2020	2021
Loans to deposits ratio	69.1	65.7
Balance sheet provisions to loans	5.4	2.7
Net interest margin	2.5	2.2
Impairment to loans ratio	- 0.5	- 0.2
Return on assets	0.7	1.2
Return on equity	5.4	9.8
Total capital adequacy	20.80	18.32

In 2021, the Group reported profit before tax at the amount of BGN 16.4 million, and return on equity reached 9.8%, and return on assets – 1.2%.

The total amount of D Commerce Bank assets as at the end of 2021 reached BGN 1,395 million, which is an increase by 20% as compared to 2020.

Gross loans and advances to customers are up by 17% or BGN 115 million year-on-year. The amount of customer borrowings as at 31 December 2021 is BGN 1,220 million, increasing by 23% on annual basis.

Loans granted



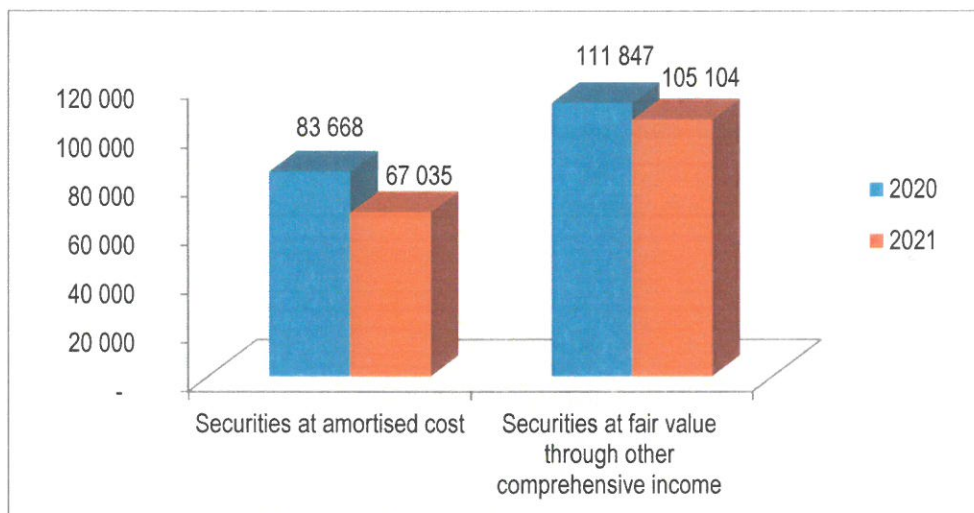
* Corporate banking includes budget and public companies (court and awarded loans are excluded)

* Retail banking includes individuals and small businesses (court and awarded loans are excluded)

In 2021 the Group's corporate loans share of the gross portfolio is 72%. Corporate portfolio increased by 19% on annual basis or by BGN 92 million.

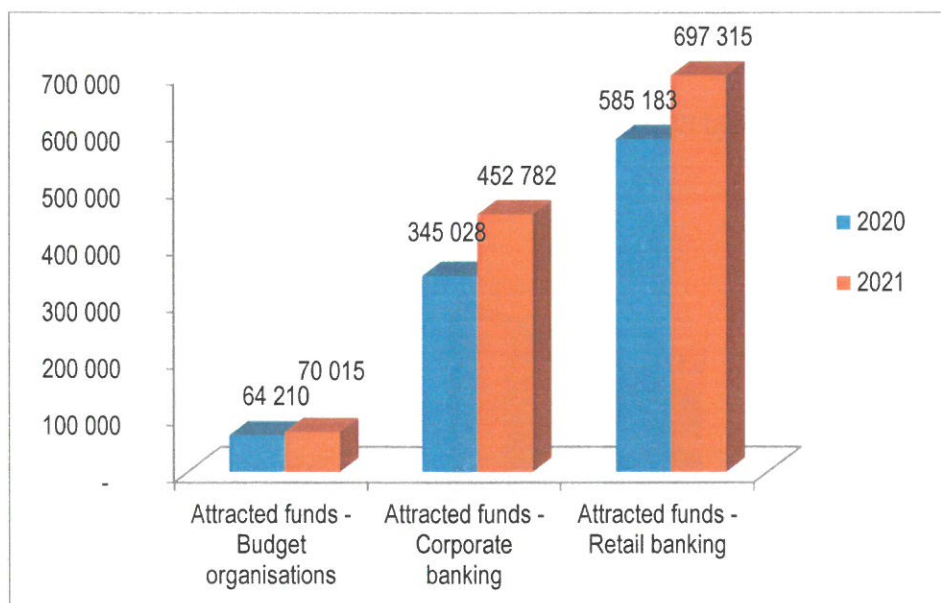
Retail loans increase by 26% year-on-year, mainly due to an increase in housing loans and consumer loans with mortgage.

Securities portfolio



In 2021 the Group through the parent (the Bank) decreased its securities portfolio by BGN 23 million, with the decrease in securities measured at amortised cost amounting at BGN 16.6 million and the decrease in securities at fair value through other comprehensive income of BGN 6.7 million.

Attracted funds



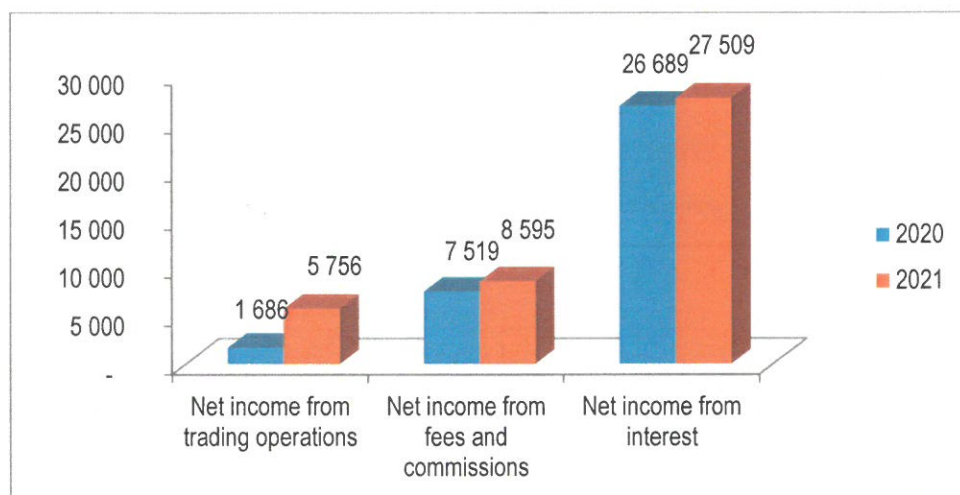
The Group follows a balanced asset and liability management policy aimed at optimising the results attained.

Attracted funds in corporate banking have increased on an annual basis by 31% or BGN 108 million.

Funds attracted from budget organisations increased by 9% on annual basis.

The increase in funds attracted from retail banking amounts to BGN 112 million or 19% on annual basis.

Operating income

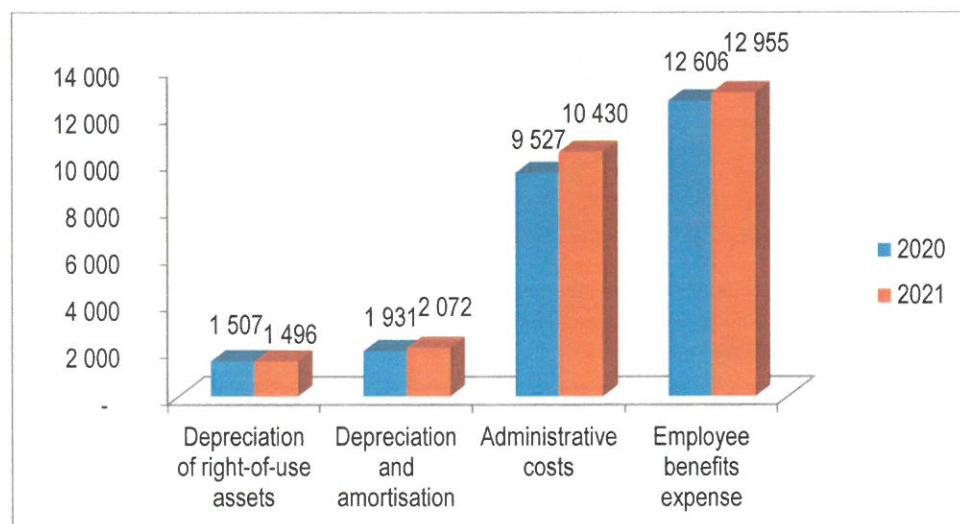


In 2021 the net operating income of the Group excluding impairment of financial assets reached BGN 40 million, increasing by 25% on an annual basis.

Over the period, net interest income increased to BGN 27.5 million, or 3% on an annual basis.

Net fee and commission income reached BGN 8.5 million, increasing by 14% on an annual basis.

Operating expenses

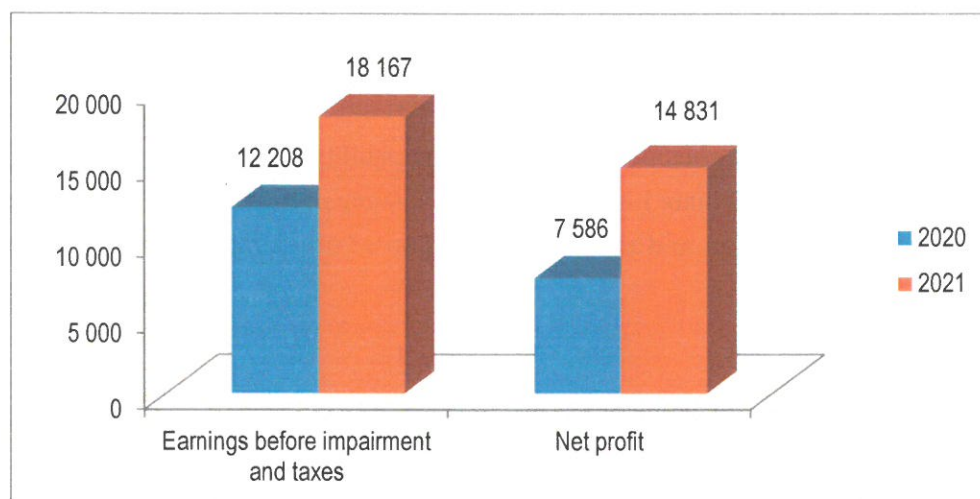


As a result of the strict control policy and maintaining high efficiency, operating expenses increased by 5% on an annual basis.

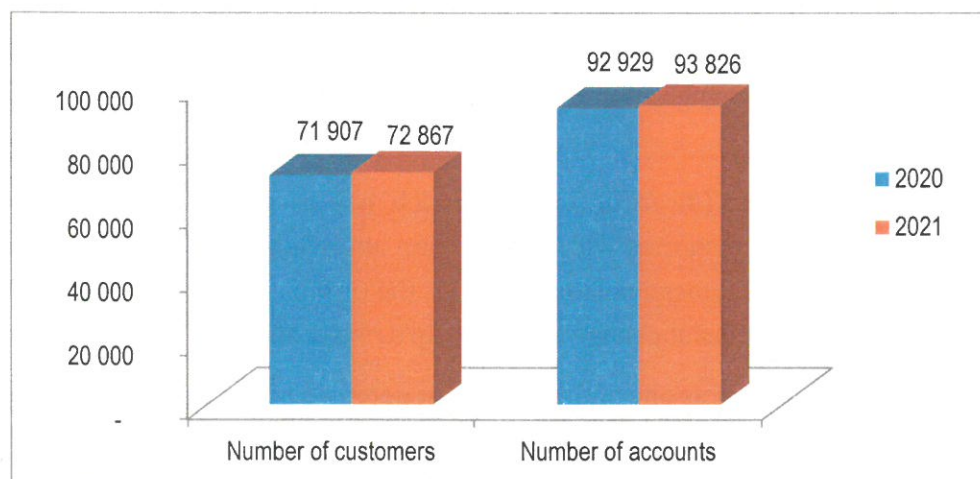
Additional audit services

The audit firms which perform audit of the Bank’s annual financial statements (separate and consolidated) carried out in April 2022 an engagement for agreed-upon procedures under International Standard on Related Services 4400 Engagements to perform agreed-upon procedures, and issued a Report of factual findings in relation to the reliability of internal control systems in accordance with Art. 76, Para 7, item 1 of the Credit Institutions Act and Ordinance 14, Art. 5 on the contents of the auditor’s report for supervisory purposes as at 31 December 2021 (AFA OOD and Baker Tilly Klitou and Partners EOOD also issued such reports to the Bank as at 31 December 2020, in April 2021). In addition, AFA OOD performs services related to compliance review of Bank’s transfers for both 2020 (in 2021) and 2021(in 2022).

Net result



Number of customers and accounts



VIII. Risk management

In accordance with Art. 39, item 8 of the Accountancy Act the Group presents its risk management policies and its exposure to the respective type of risk.

1. Credit risk

Credit risk and counterparty risk is the present or potential risk to the income and capital of the Group arising due to the failure of the debtor to discharge the requirements of any agreement signed with the Group and / or failure to act in accordance with the contractual terms and conditions. Credit risk includes transaction risk, collateral risk (residual risk), sovereign risk and concentration risk. Credit risk arises mainly in relation to the lending activities of the Group companies, including corporate and retail banking. The Group is exposed to credit risk arising from other activities, such as investment in debt securities, trading activities, capital markets and other arrangements. Credit risk is the biggest risk the Group is facing. It is managed and controlled through centralised special risk units within the Group.

Transaction risk is associated with the specific loans and the probability of the borrower's ability to repay the liability, as well as the ultimate loss in case of insolvency of the borrower, following realisation of the collateral on the loan and the implementation of other mitigation factors, is assessed.

Collateral risk involves mainly:

- Risk of sudden decline in the value of the collaterals;
- Collaterals becoming illiquid and non-marketable;
- Insufficient procedures or non-performance of the appropriate steps to verify the applicability of the collateral agreements in all relevant jurisdictions.

The risk of deterioration of the credit rating or financial position of the borrower is the current or potential risk to the Group's income and the capital arising as a result of the deteriorated financial position of the borrower and / or downgrading of the internal or external credit rating of the borrower.

Concentration risk refers to exposures (direct or indirect) which may arise within a certain risk category or between different risk categories within the Group and which may lead to: losses significant enough to jeopardise the financial position and / or the Group's ability to continue its principal activities or may cause significant change in the Group's risk profile.

The Group identifies concentration risk as one of the important potential sources of material loss which may have significant impact on its financial result and capital.

Concentration risk is considered both in view of the Group's balance sheet exposures, and in view of its off-balance sheet exposures and exposures resulting from the different financial instruments. Asset concentration risk is closely related to credit risk, analysed and measured as part of the overall credit risk management process, but it can be manifested in any other type of risk.

The Group structures the level of credit risk undertaken by setting tolerable risk limits to a single borrower, or a group of borrowers, and by sector. Exposures to banks and financial institutions are limited further by sub-limits covering balance and off-balance sheet exposures. The efficient diversification of the Group's loan portfolio is a major priority.

Specific credit risk management is performed by the Committee on Expected Credit Losses at the Bank and is monitored by the Management Board. The credit risk management function ensures the implementation of appropriate policies and the compliance of these policies with the related procedures and controls for current monitoring of each type of credit exposure.

The parent company management currently monitors the credit risk resulting from the concentration of financial assets by economic sectors, as well as by counterparty on the basis of approved limits. The regulatory limits and intra-bank limits for maximum exposures to a single person and economically related persons, including counterparty banks are assessed and analysed periodically. The overall credit exposure to a single sector as a percentage of the total risk-weighted assets is monitored periodically and is reviewed by the Management Board of the Bank.

The Group's maximum exposure to credit risk, including financial assets recognised in the consolidated statement of financial position and contingent liabilities carried off-balance sheet is disclosed in *Note 3.1. Credit risk* to the consolidated annual financial statements of the Group for 2021.

2. Market risk

Market risk is the risk that the value of an instrument may fluctuate due to changes in the market prices, whether due to instrument- or issuer- (counterparty)-specific factors, or factors relevant to all instruments traded at the market and the probability of such changes having an adverse effect on the Group's financial position. The most frequent market risk factors include interest rates, foreign exchange rates, commodity prices, equity instrument prices and other market variables. Market risk may be the function of one, several or all factors and in many cases in may be extremely complex.

One of the objectives of the parent is to set the market risk level it is ready to undertake. Market risk appetite should be assessed in view of safeguarding the capital of the Group companies and the possibility for exposure to other risks. The main objective is to increase the return, while at

the same time keeping exposures susceptible to market risk within or below a level that is set in advance.

The Group has defined the risk framework concerning transactions and investments in financial instruments by implementing limits by type of financial instrument, by counterparty, by country, securities portfolio VaR limits, modified duration limit, individual limits. The benchmark reflects the long-term strategy concerning the combination of market and credit risk that the Group companies managements are ready to undertake in order to attain the investment targets set for the Group. Market risk management is aimed at:

- protecting the Group against unforeseen market losses and contributes to stable profits through independent identification, assessment and understanding of the market risks underlying the business;
- development of transparent, objective and consistent information regarding market risk as basis for the decision making process;
- setting the framework and minimum market risk management and control standards within the Group;
- ensuring compliance with the regulatory requirements of the local and foreign regulators;
- development of a framework which will allow the Group to gain competitive advantage through risk-based decision making;
- strict monitoring and control with respect to internal and regulatory investment restrictions as a result of the COVID-19 pandemic.

In 2021, like in 2020, the market situation was extremely complicated and hard to forecast. Added to the pandemic were other global and local processes that made the economic environment even more complicated. The global ones include the problems related to natural gas prices and energy prices as a whole, as well as the inflation processes that commenced in the USA in the beginning of the year. The local ones include the political uncertainty throughout most of 2021. Therefore, the Bank applied a conservative policy regarding its investments in securities in 2021. It was focused on purchases of sovereign securities, which have the highest liquidity and lowest risk in the pandemic. The Bank was also restricted in its investments by the newly introduced restrictions by BNB in relation to taking macro-prudential measures in relation to the COVID-19 coronavirus.

The recovery of growth was based on the first news of successful acceleration of the process of permits, production and distribution of vaccines, as well as the vaccination campaigns. The global economy, still recovering from the pandemic, is faced with new risks related to the jump in energy prices following the Russian invasion into Ukraine. The conflict, which may turn out to be the biggest one in Europe after WWII, is crushing hopes for strong global economic recovery from COVID, at least in the short term. Russia's invasion into Ukraine on 24 February 2022 shocked the

financial markets, and the rising geopolitical pressure spiked inflation and risks along the energy supply chains. According to the economists, the direct impact of reduced trade with Russia, the economic sanctions imposed on Moscow by the USA and the EU will probably exceed the indirect consequences and the impact on business confidence and users and stock markets. These effects may range from relatively limited to extremely severe.

2.1. Interest rate risk

Interest risk is the current and estimated risk of an institution's revenue and economic value, resulting from unfavourable movements in interest rates, which influences interest-sensitive instruments.

The Group is exposed to interest rate risk, when the interest rate sensitivity of its assets and liabilities is mismatched. Through interest rate risk management the Group strives to smooth out the interest income and interest expense gap, in order to ensure adequate profitability and high value at tolerable risk level.

Upon managing interest risk, the Group complies with guidelines regarding interest risk management, in a manner proportional to the size, complexity and intensity of its activity. The main aim of the interest risk analysis is to identify risk areas, and in particular – the specific risk sub-types to which the Group is exposed and to establish whether they are in accordance with the financial institution's objectives, strategy and policy. The interest risk analysis is performed for all business processes and for all products and services provided by the Group.

Considering interest rate risk both from the point of view of income and from the point of view of economic value is extremely important. The volatility of income is the starting point for interest rate analysis, since significant decrease in the income may jeopardise the capital adequacy level. However, measurement of the effect on the economic value (the present value of the expected net inflows to be received by the Group) provides more comprehensive view of the potential long-term effects on the Group's overall exposure. The difference between interest-sensitive assets and interest-sensitive liabilities in the separate maturity ranges is the so-called imbalance or GAP method.

The following approaches to interest rate risk management are used through the application of the imbalance method, depending on the specific conditions:

- Balance - ensuring parity between the Group's interest-sensitive assets and liabilities;
- Restructuring of the asset and liability portfolios in case of occurrence of cyclic movements in interest rates;
- Setting of the interest rates, and their type (fixed or floating), on the Group's assets and liabilities depending on the development trends at the domestic and international financial markets.

- The Group's exposure to interest rate risk as at 31 December 2021 is disclosed in *Note 3.2.1. Interest rate risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2021.

2.2. Currency risk

Currency risk is the risk of losses related to the Group's positions in foreign currency. These positions give rise to specific risk resulting from the movements of the exchange rates of the different foreign currencies to the national currency. This is predetermined by the fact that when the Group has an open position in foreign currency (the assets in foreign currency are not equal to the liabilities in the same currency), the translation of the latter generates foreign exchange gains or losses for the Group. The Group controls currency risk through strict daily monitoring scrutiny and an implemented system of limits.

The Group's exposure to currency risk as at 31 December 2021 is disclosed in *Note 3.2.2. Currency and price risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2021.

2.3. Liquidity risk

Liquidity risk is the risk of the Group's failure to meet its current and potential payment liabilities as they fall due without incurring unacceptable losses.

The Group controls liquidity risk through main principles, formal criteria and indicators to monitor the liquidity of financial instruments and markets.

To manage risk, the Group maintains highly liquid assets in various currencies at all times. The Management Board of the parent company (the Bank) has appointed an Asset and Liabilities Management Committee of the Bank (ALMC) as the body responsible for managing liquidity, market, interest and currency risk.

The Group's exposure to liquidity risk as at 31 December 2021 is disclosed in *Note 3.3. Liquidity risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2021.

3. Transaction risk

Transaction risk is the risk of loss resulting from inadequate or non-functional internal processes, individuals and systems or external events as a result of internal fraud, external fraud, inappropriate employment or safety at work practices or recruitment of employees, through customer, product or business practices, break-downs or destruction of assets or functional sites,

breakdowns of the IT system, telecommunications or other technologies, or failures or errors in the execution of the transactions, entry, processing or delivery. This risk includes IT risk, legal risk and non-compliance risk.

The parent maintains and upgrades an internal operational risk analysis and assessment system, which was updated in 2019 and which includes the internal regulations and a specialised internal body – the Risk Events Assessment Committee, responsible for coordination of operational risk management activities and supporting the process of achieving effectiveness and efficiency of the control environment at the parent. The main objective in the management of transactional risks is to safeguard (keep) the Group's assets and its reputation and to ensure organisational and financial optimisation (efficiency). Priority is placed on introducing and applying guidelines of the European Banking Authority, in particular the management of operational risk in the field of information and communication technologies and security, the assessment of operational risks in relation to the payment services provided by the Bank; to create the conditions for health and safety at work and equal treatment of the employees; to ensure sufficient insurance coverage and compliance with the requirements of the effective regulatory framework; to undertake measures to prevent any damage, loss, injury, death, as well as reduction of the cost of risk; to ensure ways and opportunities for sharing, better awareness and training to all employees of the Group for the detection of risks and their impact.

The Group's exposure to transaction risk as at 31 December 2021 is disclosed in *Note 3.5. Capital management* in the notes to the consolidated annual financial statements of the Group as at 31 December 2021.

IX. Operating activities

1. Corporate banking

The past 2021, as well as 2020 before it, were marked by the global COVID-19 pandemic, the dynamics of the political situation in the country and the highly volatile prices of energy resources at the end of the period. As a result of these factors, a number of sectors suspended development and investments and remained “on hold”.

Despite the difficult situation and the multiple early repayment of big exposures, corporate banking reports a net growth in the loan portfolio of BGN 54,23 million for the year or +12,5%, compared to the previous 2020, against a growth of 4.1% in the segment for the banking sector.

The portfolio distribution between the big and medium-sized segment is 31%/69%. The numeric representation of this ratio is as follows:

- Big corporate clients – BGN 140,5 million;

- Medium-sized corporate clients – BGN 311,1 million.

The ratio between the two segments preserved the priority position of the medium-sized segment, which is in line with the policy for risk diversification and non-permission of big concentrations.

The corporate portfolio of D Commerce Bank AD is allocated by sectors, as follows: construction, (18%), commerce (17%), followed by agriculture and light industry, with 9% each, real estate and leasing and energy with 8% each and finance and insurance and tourism with 7% each, and other sectors with concentration below 4%. The good diversification protects the Bank from adverse changes in the condition of the respective industries that might threaten the quality of the entire portfolio. Moreover, the varied customer portfolio allows the monitoring of the economic performance of multiple economic sectors by gathering data from the main participants, receiving reports on new prospective customers, fast checking of market potential, etc.

In order to retain and increase loans to agricultural producers against expected subsidies for the subsequent agriculture campaign, there is ongoing update of the product “agricultural loan for subsidies”, in accordance with the new possibilities, rules and legislative amendments, in order to optimize decision making processes and rights. The sales tool – calculator which was created, sales are maximally facilitated, and so is the calculation of the amount of permissible funding.

Over 2021, in accordance with interest rate pressure and EU regulation, we continued to analyse the Bank’s charges and commissions income, suggesting changes to achieve higher profitability, while maintaining good market positioning.

Throughout the year, the trend of reduction and maintaining low interest rates on deposit and savings product for all participants in the country’s business processes – including corporate business, was retained.

In 2022 the Bank will continue to pursue its aim for growth of the corporate portfolio and cross sales of the entire range of products and services to corporate clients, given the normalized health and political situation in the country. In order to achieve the set objectives, the team of the Corporate Banking Directorate will count on both the provision of high-quality and flexible services to existing clients, who are expected in 2022 to recover, and initiate delayed business endeavours, and attracting new clients using various banking products, with a potential for transaction business. We will focus on increasing the number of products used per client, and on enhancing clients’ banking intensity. New products are planned to be developed – corporate client packages, as well as a new standardised product for financing secured by agricultural equipment. In view of the expectations for gradual withdrawal of economic incentives and a gradual increase in interest rates, there will be greater interest in hedging interest on corporate loans, therefore, Corporate Banking will also offer a new interest swap service, which should generate additional profits for the Bank. The sectors with good perspectives and growth opportunities in 2022, which the Corporate Banking Directorate will target, are subsidized programmes related to agriculture, the food industry, infrastructural programmes, projects servicing the chemical and

pharmaceutical industry, energy, as well as agricultural producers who have been the Bank's clients. Traditionally, the Corporate Banking Directorate will develop its positive experience and best practices in the construction and tourist sector, where it has proven good results.

2. Retail banking

In 2021 the Bank continued the successful development of the retail banking segment, also focusing on the quality of service and increasing the level of satisfaction. We continued to successfully combine in the branch network the servicing of existing customers and proactive sales of new products and services and creates conditions for attracting new customers by means of various sales campaigns and marketing initiatives. The main sales channel for products and services in 2021 continued to be the branch network. The Bank offers reliable and convenient service at FC/Office/RWP, providing customised client solutions, in line with specific needs and preferences.

In 2021, in Retail Banking we managed to achieve higher efficiency by optimizing the existing structure of the branch network, of products, and through more effective management of regulatory changes. During the year, we continued to automate and digitalise processes in order to enhance customer experience and satisfaction at lower operational risk levels.

Our priority was to maintain customer service quality and achieve growth in the sales of the main products while complying with the anti-epidemic measures partially imposed in relation to the COVID-19 pandemic. The sales focus was on clients with continuous cash flows/ income whose sources were slightly affected by the pandemic's restrictions. In order to protect our clients and maintain the quality of the loan portfolio, we applied in the first quarter of 2021 the possibilities for renegotiation of payables pursuant to BNB's Procedure for deferral and settlement of payables due to banks and their subsidiaries – financial institutions in relation to the actions taken by the Bulgarian authorities to restrict the COVID-19 pandemic and the consequences thereof.

Over the last year, the number of newly disbursed loans increased, with a high quality of the loan portfolio. We achieved an annual growth in the Bank's retail loan portfolio by 27,60%, and of attracted funds – by 19,50%.

The market of loan products to natural persons was strongly impacted by the pandemic and was characterised by lower demand and restrictions on consumer loans. In home loans there was demand and growth in sale, despite the higher creditworthiness requirements imposed. The market was characterised by increased competition on the part of banking and financial institutions. In order to preserve the good pace of sales and increase the loan portfolio, we continued the campaigns related to increase in cross sales.

Over the year, we continued to actively endorse the Bank's brand and position it in the field of home and mortgage loans, despite the COVID-19 situation in the country. At the end of the year,

we participated at a national real estate conference with the support of the National Association of Real Estate, streamed live on leading real estate websites throughout the country. We also participated in two new projects for hybrid events, with live studio recording and parallel streaming online, thanks to the media partner *Moite Pari* (My Money), on the topic of investments in the future of real estate. In these events, we had product positioning of D Bank in the home loan segment. In 2021, there continued to be a strong focus on work with loan brokers and through wide associations we expanded our work with new partners and brokers. We supported the Bank's positioning in the field of home loans by means of increased advertising in targeted website and outdoor advertising in big cities and on roads. Over the year, we continued our efforts to improve processes and products.

In 2021, the changes in interests on attracted funds were more frequent compared to the previous year. The Bank continued to follow the market trend for a gradual decrease in interest levels.

In 2021 the Bank continued to actively attract new clients through remote sales of online deposits through the Bank's corporate website, through remote identification and Eurotrust e-signature. In 2021, the active offering of loans continued. In April 2021 there was an update of interest rates for home loans and mortgage consumer loans. The parameters and conditions of the consumer loans were also aligned with market interest rates.

A new loan product was created, MORTGAGE LOANS, created for purchase of real estate which however the borrower does not want to reside in (most often for the purpose of lease).

In 2021, sales continued of the new loan product introduced in 2020, "Protection" consumer loan, in accordance with the Financial Agreement concluded between the Bank and Bulgarian Development Bank AD. BDB AD's programme includes guarantee of interest-free loans as protection for people deprived of the possibility to work due to the COVID-19 pandemic. The parameters of this product were amended pursuant to a decision with the Council of Ministers and a Supplementary Agreement concluded with BDB in January 2021.

Following the changes to tariffs in 2020 in line with the requirements of Regulation (EU) 2019/518 of the European Parliament and of the Council as regards unification of charges on cross-border EUR-denominated transfers in the EEA and the amount of charges on BGN-denominated transfers, in 2021 the Bank continued to gradually increase the amount of fees on main banking transactions. In 2021 we fulfilled the budget for fees and commissions for the natural persons segment at 97%, and for small business – at 112%.

The sales focus over the year was on attracting new business clients with good financial profiles by means of lower interest, charges, and commissions.

In order to improve the results and efficiency of the small business segment, in the first quarter of 2021 we established new organisation of work that covered the cities of Sofia, Plovdiv, Varna and Burgas.

The focus in lending was on developing the loan portfolio to small businesses with a high potential and agricultural clients. Parallel to funding this client profile, we also extended the scope of products and services used thereby. In 2021, we continued to reinforce the Bank's position and develop partnerships with high-potential clients by creating overall bank service solutions for such clients and conducting various sales initiatives, including:

A sales initiative for funding small business clients with preferential parameters, effective in the last two quarters of 2021, to boost the development of the loan portfolio of small business clients.

Despite the continuing epidemic and the shirking of economic activity in the country as a result of the imposed restrictive measures, in 2021 the small business segment marked 16% grown in the loan portfolio. The funds attracted in the current accounts and deposits of small business clients increased by 48% on an annual basis.

In 2021 there was again a stable growth in clients using the D Bank Online remote banking service, For one year, the active users of the internet banking platform increased by 20%, most of them continuing to be natural persons. The number of transactions made through the main electronic channel marks a permanent increase – 11% compared to 2020, and there was particularly big increase in transactions with remote payment for utility bills – almost 42%. The stable interest in the online banking platform compared to prior years is the result not only of the pandemic situation, but also of the improvements made – in order to meet the growing demands of clients, the service is being continually developed and improved, and in the year, a number of add-ons were planned and successfully implemented, with respect to various functionality aspects.

In order to meet the growing demand for use of digital services, the Bank continued to be actively working on D Mobile – an elaborate customized mobile banking platform, with software token and biometric authentication solution for internet card payments. The integrated D Mobile application will include a wide range of functionalities, multiple customization options, intuitive design and uncompromised security to ensure the best customer experience, and will be launched in the first half of 2022.

In 2021, the Bank continued to successfully pursue its approved strategy for development of the card business, in order to meet clients' demand and optimise processes. The long-term synergy achieved with the electronic channels laid the foundations of faster and high-quality customer service, with higher operability and better readiness for management of forthcoming projects in the field. Parallel with that, capacity increased for new business activities and improving market presence. In the year, in the number POS businesses serviced increased by 5%, turnovers of retail terminals increased by almost 22%, and the payment cards issued increased by almost 10%.

Again as part of its customer care and in view of increasing the security of card payments over the Internet, as from February 2021 D Commerce Bank AD introduced new Mastercard standards for use of two-factor, including biometric, authentication for websites marked with the Mastercard

Identity Check logo. The 3D Sec application is developed by BORIKA AD, and at the next stage the biometric identification functionality will also be integrated in the D Mobile platform.

In addition, D Commerce Bank AD successfully migrated its ATM network to the new information system of BORIKA AD, also renewing its devices by installing 12 new contactless machines at key locations.

Collaboration with the card operator BORIKA AD continued with the preliminary plans for migration of the car management system to the national operator.

Last, but not least, in 2021 D Commerce Bank AD concluded a 5-year support agreement with the international card organisation Mastercard, applicable for diversified divisions such as: Customer Delivery Services: new developments (incl. card tokenization, portfolios); Academy Support: trainings at Mastercard Academy, Incremental Volume Support and Marketing Support: marketing initiatives (campaigns for activation, usage, cross-sell, up-sell and other activities), boosting sales (bonuses to clients and employees), Loyalty&Benefits Support: increasing the added value of products (Concierge, Priority Pass), etc. The agreement will also ensure access to consulting expertise and the latest innovations in the field of digitalization and payment, and will also change the attitude of a global leader in payment technologies to the Bank, thereby enhancing its image.

3. Public customers

As part of the administrative structure of D Commerce Bank AD, the Public Customers Department is responsible for the relations of the Bank with external financing institutions, as well as with budget customers and business entities with prevailing state and/or municipal interest which are contracting authorities under the Public Procurement Act, the Public Entities Act and other applicable regulations related to the implementation of the public procurement procedures.

The Department creates and maintains with clients relations based on mutual trust and a consistent policy. For this segment, most important is the knowledge and consideration of the specifics of budget spenders and public entities, their specific needs, rules, and procedures. Due to the differences resulting from the nature of their activities and form of management, public clients constitute special subjects that require an individual approach at each stage.

In 2021, the Department continues its successful collaboration with already attracted clients, in the meantime expanding the scope of services offered. This led to an increase in the volume of transactions – loan transactions, cessions, etc. The individual approach in our work also contributes to making the Bank's products popular among natural persons. In 2021 there was also growth in sales of products to natural persons at public clients. The quality of the Department's services is also reflected in the Bank's popularity, which in 2021 was significantly better recognized and sought after by public entities and budget spenders.

The highly qualified servicing, financing and consultations provided by the Department in 2021 resulted in mutually beneficial fruitful collaboration and determining future perspectives. Planning and forecasts are possible and reliable, due to the specifics in the management of public clients. The PCFI Department's clients place a priority on funding long-term objectives, which creates conditions for new market niches over time – for either the client or its employees. The team's efforts are focused on achieving competitive market levels for lending and overall banking service to public clients.

Building on the Department's 2020 objectives, in 2021 work was focused on achieving growth in the public clients segment, both in terms of the loan portfolio and the attracted funds, and in terms of the number and volumes of the client base.

The increase in the customer base of public and budget customers, apart to volumes of the business specific to the department, provides a possibility to increase the growth in products to both natural persons (the staff of all our clients) and legal entities (suppliers and counterparts thereof). Through active participation in the procedures for selection of banking institutions for complex banking service to public and budget contracting authorities, conditions are creating for increasing volumes in other banking segments.

In 2021 the department managed to organize and carry out the bank's participation in all procedures in which it was an eligible tenderer, and won a significant number of them, achieving good performance of the target volumes for lending and for attracted funds in the conditions of a dynamically changing market.

4. Financial markets and investments

Over 2021 the Directorate continued work on ongoing tasks in its capacity as Bank treasury to ensure liquidity and investing available funds.

The Directorate provides the operating liquidity needed for current payments through money market transactions.

In 2021, due to the partial lockdown because of the pandemic and the maintenance of higher liquidity, the Directorate managed a bigger securities portfolio at the amount of BGN 172 million. As a result of the continuing pressure on interest rates on financial markets, the overall profitability of the portfolio decreased from 1.43% in the prior period to 1.02%.

The continuing extraordinary measures as a result of the COVID-19 pandemic impacted the operation of the Bank and the Directorate as a whole. The closure of multiple economic sectors resulted in lower turnovers and the retention of funds in clients' accounts, which continued to increase liquidity. Nevertheless, by means of the new investments in financial instruments, during the year the Bank improved its liquidity position.

In the field of foreign exchange trade, 2021 was very successful. Against a target of BGN 1.78 million, the Directorate generated BGN 5,598 million from foreign exchange trade.

In the past year, the Directorate met and exceeded the indicators set in the budget, not only in terms of investments in securities, but also for foreign exchange trade and revenue therefrom.

5. D Insurance Broker EOOD

The principal activity of D Insurance Broker EOOD is intermediation in the assignment of insurance contracts and the consulting services related thereto.

In 2021 the subsidiary has underwritten 3,000 non-life insurance contracts and life insurance contracts.

The total premium income underwritten in 2021 amounted to BGN 1, 446 thousand.

Commissions realised on the insurance contracts amounted to BGN 322 thousand.

D Insurance Broker has contracts with the following insurance companies:

- Allianz Bulgaria IJSC
- Allianz Bulgaria Life
- Armeets IJSC
- Asset Insurance IJSC
- Bulins AD
- Bulstrad Life VIG IJSC
- Bulstrad VIG EAD
- IJSC Bulgaria Insurance AD
- DZI General Insurance EAD
- DZI Life Insurance EAD
- Generali Insurance AD
- Euroins AD
- Euroins Life AD
- IC Lev Ins AD
- OZK Insurance AD IJSC
- IC Unica AD
- IC Unica Life AD
- Groupama Insurance EAD

Net accounting profit amounting to BGN 175 thousand was reported in 2021 (2020: BGN 151 thousand).

6. D Leasing EAD

The subsidiary D Leasing EAD provides leasing services both to customers of the D Commerce Bank Group and to external customers.

As a commercial entity one of the objectives of D Leasing EAD is to provide financing at the most market relevant and efficient terms, so as to maximise the profits for its shareholder, while at the same time addressing the ever changing expectations of its customers. The aim is to develop and update the products and services offered all the time and thus become a recognised financial institution at the leasing market in Bulgaria and expand the product range offered by D Commerce Bank Group.

As at 31 December 2021 the subsidiary's assets amount to BGN 13,317 thousand. The company has provided financing to its target groups in the form of finance leases at the amount of BGN 12,277 thousand.

The liabilities of the subsidiary represent mainly liabilities under loan agreements signed with D Commerce Bank AD amounting to BGN 10,295 thousand, as well as with the Bulgarian Development Bank AD amounting to BGN 508 thousand, under the Leasing Line Programme, supported by the European Investment Fund and the Microfinance Mechanism of the European Union.

7. D Imoti EOOD

The primary business of D Imoti EOOD involves the acquisition and sale of real estate, design, furnishing, and construction of real estate for sale, leasing.

As at 31 December 2021, the Company's assets amount to BGN 10,216 thousand.

8. D Park EOOD

D Park – the company's principal activities include: 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.

As at 31 December 2021, the Company's assets amount to BGN 6,892 thousand.

X. Development plans

In accordance with Art. 39, item 4 of the Accountancy Act the Group presents its expected strategic development plans for 2022.

In 2022, the Group plans to focus its efforts on:

- Sustainable growth and development of the Group;
- Optimisation of the branch network;
- Establishment of full synergy between corporate and retail banking, activation of cross-selling;
- Modernisation of existing products and services and creation of new ones that correspond to clients' needs;
- Further developing alternative distribution channels to attract additional business, initiatives and sales campaigns, marketing support;
- Improving the internal organization in order to reach market standards with respect to processes and loan transactions approvals;
- Intensive employee training and excellent customer service;
- Simplification and digitalization of the main front office and back office processes;
- Investments in technical and application infrastructure;
- Commencing and finalizing already commenced Group's strategic projects.

XI. Events after the date of the financial statements in accordance with Art. 45 in relation to Art. 39, item 3 of the Accountancy Act

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.

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.


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.

Date: 29 June 2022



Anna Asparuhova
Chief Executive Officer

D COMMERCE BANK AD



Martin Ganchev
Executive Director

D COMMERCE BANK AD



CORPORATE GOVERNANCE STATEMENT

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

Composition and operation of the administrative, management and supervisory bodies and their committees

The parent

D-Commerce Bank has a two-tier management system. The General Assembly of the shareholders elects the Supervisory Board, which in turn elects the members of the Management Board, the Chief Executive Director, the Executive Directors.

Role and responsibilities of the **Management Body** represented by the **Supervisory Board** and the **Management Board**.

The management body bears the full and ultimate responsibility for the Bank and determines, exercises control over and is responsible for the application of organizational rules and regulations on the Bank's internal management, which ensures its effective and reasonable operation.

The obligations of the management body are clearly set, and a distinction is made between the obligations of the Management Board – management (executive) function, and of the Supervisory Board – supervisory (non-executive) function.

The responsibilities and obligations of the Supervisory Board and Management Board are described in detail in the following documents:

- The Statute of D Commerce Bank AD;
- Rules on the scope of rights and responsibilities of administrators and persons holding key positions at the Bank;
- Rules regulating the terms and conditions for decision making at D Commerce Bank AD;
- Rules on the work of the Management Board of D Commerce Bank AD, approved by the Supervisory Board of D Commerce Bank AD;
- Statute of D Leasing EAD;
- Statute of D Insurance Broker EOOD;
- Statute of D Park EOOD;
- Statute of D Imoti EOOD.

All members of the management body are fully acquainted with the structures and responsibilities thereof, as well as with the allocation of tasks between the different units of the management body and its committees. In order to have appropriate mechanisms for control and counteraction in place, decision making should not be dominated by one member or a small group of members. The supervisory and management functions shall effectively interact. The two functions should provide each other sufficient information to allow them to perform their respective roles.

The management body is responsible for determining, approval and control of the application of:

- The overall business strategy and key policies of the institution in the applicable legal and regulatory framework, taking into consideration the Bank's long-term financial interests and solvency;
- The overall risk strategy, including the institution's risk appetite and its framework and measures for risk management so as to ensure that the management body devotes sufficient time to risk-related matters;
- Adequate and effective internal management and internal control framework including a clear organizational structure and well-functioning independent units for internal risk management, legal compliance and audit, which possess the necessary rights, status and resources to perform their functions;
- The amount, type and allocation of internal and regulatory capital so as to adequately address the Bank's risks;
- Bank's liquidity management objectives;
- Remuneration policy compliant with the effective legislation;
- Rules aiming to ensure that individual and collective assessments of the management body's fitness are performed effectively, that the composition and continuity planning of the management body are appropriate and that the management body performs its functions in an effective manner;
- Selection and a procedure for assessing the fitness of persons holding key positions;
- Rules aiming to ensure the internal functioning of each Committee of the management body, when created, providing detailed information about:
 - the role, composition and tasks of each of them;
 - appropriate information flow, including documentation about the recommendations and conclusions, and the reporting levels between each committee and the management body, the competent bodies and other parties;
- Risk taking culture referring to risk awareness and behaviour regarding the institution's risk taking;
- Corporate culture and values which encourage responsible and ethical behaviour, including a code of conduct or a similar tool;
- Policy regarding conflict of interests on an institutional level and for staff;

- Rules aiming to ensure the reliability of accounting and financial reporting, including ensuring financial and operational control and compliance with the legal requirements and respective standards;
- Processes, mechanisms and methodologies for credit risk management and culture, credit risk appetite; strategy and limits of credit risk; credit risk policies and procedures; policies and procedures on making credit decisions; frameworks for credit risk management and internal control.
- Strategy for non-performing exposures aimed to deadline-related decrease in non-performing exposures, representing the Bank's approach and objectives regarding effective management of non-performing exposures in order to achieve maximum collection and minimizing the number of non-performing exposures;
- Effective and efficient internal control processes within the framework of collection of non-performing exposures to ensure full compliance between the strategy for non-performing exposures and the operational plan, on the one hand, and the overall business strategy and the Bank's risk appetite, on the other hand.

The management body exercises control over the process of disclosure and communication with external stakeholders and competent bodies;

All members of the management body are informed about the overall activity, financial position and the institution's conditions regarding risk, in view of the economic environment, as well as about the decisions made that have a significant impact on the institution's operations.

Chief Executive Director – performs control over the overall operations of the Bank and the activities of the other Executive Directors and members of the Management Board. Bears responsibility for implementation of the decisions made by the MB and SB.

Executive Directors and Board Members - they organise the work related to the proper implementation of the risk management policies adopted and the compliance with the approved limits, which they are directly in charge of, they control the work of the individual structural levels with respect to risk analysis and assessment.

Committees at the Bank's management body

There are committees at the Bank which support the work of the Bank's management body.

Each Committee performs its work based on Rules for activity, adopted by the Management Board and approved by the Supervisory Board.

Committees at the Supervisory Board

Risk Committee - the Supervisory Board of the Bank performs the Risk Committee functions by advising and providing guidance to the Bank's Management Board in relation to the overall

current and future risk strategy and the Bank's risk appetite and supports control over its implementation by the top management team. The Supervisory Board, in its capacity as Risk Committee, may also use human and other resources as considered necessary and appropriate to perform its activities, including external experts to obtain consultations. The Supervisory Board performs the functions of a Risk Committee pursuant to the requirements of the Credit Institutions Act and Ordinance 7 of the Bulgarian National Bank on the organization and management of risks at banks. Upon performing its functions as Risk Committee, the Supervisory Board complies with the preliminarily approved rules for work of the Supervisory Board as Risk Committee.

The Bank's Supervisory Board performs the functions of a **Selection Committee** and organises and carries out its activities in accordance with the provisions of the Credit Institutions Act, Regulation (EU) 575/2013, Ordinance 20 of the Bulgarian National Bank on issuing approval of members of the Management Board (Board of Directors) and Supervisory Board of a credit institution in relation to performance of their functions, EBA's Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12). Upon performing its functions as a Selection Committee, the Supervisory Board complies with preliminarily approved rules on the work of the Supervisory Board as a Selection Committee.

The Bank's Supervisory Board performs the functions of a **Remunerations Committee** pursuant to the provisions of the Credit Institutions Act and Ordinance 4 of the Bulgarian National Bank regarding requirements for remuneration at banks. Upon performing its functions as a Remunerations Committee, the Supervisory Board complies with preliminarily approved rules on the work of the Supervisory Board as a Remunerations Committee.

Audit Committee – it functions in accordance with the provisions of the Independent Financial Audit Act. The Audit Committee monitors the financial reporting process thereby ensuring transparency, truthful and fair presentation of the Bank's financial statements. It monitors the effectiveness of the Bank's internal control, the internal control system and risk management system.

Standing committees at the Management Board

Asset and Liability Management Committee - it is a liquidity management body authorised to draw up action plans in case of unforeseen outflows due to unexpected or adverse circumstances, taking into account the possible impact of the alternative scenarios on the Bank or on the market as a whole, as well as combinations thereof; it exercises current control and analyses the Bank's capital adequacy and proposes to the MB draft resolution for changes in the asset and liability structure and the possibilities for their diversification, if necessary; it reviews all policies, rules, procedures and limits concerning the management of all types of risks and submits them for approval by the Management Board; analyses the current condition of the Bank's assets and

liabilities, monitors the risks related to the management of its liquidity and the financial instruments market and proposes specific measures in case of deviation from the approved limits or in case of extraordinary situations.

Credit Committee - a standing collective body the main activity of which is aimed at assessment of credit risk arising in relation to specific loan transactions or the total loan exposure of a party or a group of related parties and approval of the parameters thereon within its powers, and with its proposals and resolutions facilitates the increase of the loan portfolio through efficient choice of loan transactions. It analyses the quality of the loan portfolio and the trends for its development;

Committee on determining expected credit losses - it is a specialised advisory and control body of the Bank's MB the primary activity of which is aimed at minimising the risk of losses to the Bank through a system for monitoring, assessment, classification and provisioning of the risk exposures; determining expected credit losses pursuant to IFRS 9 and categorisation of risk exposures pursuant to Regulation (EU) 575/2013, general aims and tasks of the Bank, and by means of its proposals and decisions it supports the Management Board in effective credit risk management;

Risk Events Assessment Committee - it is a specialised internal body of the D Commerce Bank AD management in the area of transaction risk management and control; it makes decisions as to the final recording of operational events occurred, assesses the potential losses, analyses the data recorded in the accounting ledgers.

Complaints, Signals, and Objections Review Committee - it is a standing internal banking body responsible for the review of complaints, signals and objections filed with D Commerce Bank AD, discussing, analysing and making decisions on the cases brought before it.

Personal Data Protection Official, pursuant to General Regulation 679/2016 – he/she monitors compliance with the organizational measures to ensure data security.

Coordination Group on the Implementation of the Measures Against Money Laundering, Financing of Terrorism and Specialised Regulatory Control, Working Conditions Committee.

Subsidiaries

D Leasing EAD

D Commerce Bank AD is sole owner of the capital of the company. The Management Board of D Commerce Bank AD is representative of the sole owner of the capital.

The company is represented jointly by each two of the three members of the Board of Directors.

Board of Directors - it manages the company in accordance with the requirements of the effective legislation and the Articles of Association of the company, as well as the resolutions of the sole owner of the capital and is responsible for its operational management.

Impairment Committee - it makes decision as to the classification and definition of the impairment loss on risk exposures.

D Insurance Broker *EOOD* is managed and represented by its General Manager.

D *Imoti EOOD* is managed and represented by its General Manager.

D *Park EOOD* is managed and represented by its General Manager.

Diversity policy applied to the administrative, management and supervisory bodies

The policy ensuring the diversity in the selection of the members of the Management Board of the parent sets out the legal requirements to the Management Board members, including the executive members of the Bank's MB members, the requirements aimed at ensuring diversity in the selection of the Bank's Management Board members are set out, there are underlying detailed criteria the members of the Bank's management body need to meet and the qualities they have to possess.

Main features of the internal control and risk management systems of the Group companies related to the financial reporting process

The internal financial reporting control system and D Commerce Bank Group reporting system is developed based on analysis of the good reporting and control practices in Bulgaria and big multinational groups, and in compliance with the national legislative requirements, including those concerning companies and groups listed at regulated markets. It is subject to continuous monitoring, further development and enhancement by the management.

The internal financial reporting control system and the reporting of the parent is a set of behavioural and technical principles, rules, tools, procedures and controls, which are customised and adapted to the Bank's specifics, its operations and reporting system. It is aimed at:

- Ensuring current monitoring and direction of the reporting activities towards their objectives and the expectations of the various users and towards achieving the required effectiveness and efficiency, including with respect to the utilisation of the resources; and
- Ensuring adequate and timely addressing of detected business risks, which influence the financial, management and operational reporting.

It is specifically developed to give the management satisfaction that:

- The Bank is in compliance with the applicable legislative requirements in the area of accounting, reporting and the other areas directly related thereto, and particularly the requirements of the Accountancy Act and the International Financial Reporting Standards;
- The directions and guidelines of the top management with respect to reporting and documentation are complied with in the Bank;
- The required efficiency and effectiveness of the financial - accounting process, including consolidation and documentary support are in place;
- There is high level of certainty with respect to the safeguarding and maintenance of the Bank's assets, including prevention of fraud and errors; and
- There is trustworthy, quality and timely financial and operational information available to internal and external users.

The main components of the internal control system with respect to financial reporting include:

- Adoption and compliance with the ethical principles and conduct rules that have been introduced with the Code of Ethics of D Commerce Bank AD also with respect to financial reporting and all processes, procedures and actions of each staff member of the Bank related thereto;
- Development and definition of an optimum structure of units engaged in financial reporting-related processes, with clearly defined responsibilities and delegated powers and duties, including through written internal documents;
- Development of recruitment, training and development policies concerning the personnel engaged in the accounting and financial reporting processes;
- Development, implementation and maintenance of control procedures and rules at each stage of the processes related to the accounting and financial reporting, with a priority on the gradual introduction of the formal written procedures;
- Development of procedures for risk identification, monitoring and management in relation to the accounting and financial reporting, including development of adequate measures and steps to minimise them; and
- Development and maintenance of adequate organisation of the information system, including access control, entry, processing and retrieval of data, changes in the system, allocation of the duties between the people engaged therewith, as well as storage and protection of the integrity and authenticity of the data in the system.

Control environment

Ethical principles and rules related to the accounting and financial reporting processes

The management at the various levels within D Commerce Bank Group has introduced and monitors continuously the compliance with the ethical values such as integrity, independence and

impartiality as the foundations of the professional conduct of all individuals involved in the Bank's accounting and financial reporting related processes. They represent the framework underlying the control environment and have had impact on the efficiency of the model design, the administration and current monitoring of the remaining internal control elements in the accounting and financial reporting area. A conduct with integrity and ethics is the result of the established general ethics and conduct standards of the Bank. They are clearly communicated with the entire financial - accounting and control personnel, and are constantly reaffirmed in the practice.

The ethical principles governing the professional conduct, which all individuals engaged directly or indirectly in the accounting and financial reporting processes should comply with include: objectivity; impartiality; independence; prudence; transparency; methodological justification; consistency and use of independent experts. The principles are applied at all stages of the financial reporting process in: the selection of accounting policies; the closing of the accounts for accounting purposes; the drawing up and application of accounting estimates and the drawing up statutory and management financial statements, other statutory reports and documents, containing financial information.

The Code of Ethics regulates and relates to the professional conduct of the employees, the relations between the Bank's customers and its officers, the relations between the employees, protection of the Bank's interests, prevention of conflicts of interests, as well as the ways to address such, if they occur. The Code of Ethics is aimed at:

- setting the ethical standards for the professional conduct of the employees;
- offering norms of conduct to facilitate the employees in making a decision to taking appropriate action in areas where conflicts may arise between the ethical principles, the tasks assigned and the personal culture of the employee;
- creating unity through overcoming conflicts and disagreements;
- creating amicable atmosphere between the employees, facilitating sharing of experience and building and development of professionalism.

The creation and assertion of the Bank's positive image is aimed through the compliance with the rules of conduct underlying the Code and accepted by all employees. The conduct rules set out in the Code form an unfaltering part of the daily work of the Bank's employees, whereby the compliance with the ethical rules of conduct ensures the lawfulness of their actions and protection against ungrounded accusations by the Bank's customers. The work of the employees is carried out in compliance with the principles of lawfulness, loyalty, integrity, impartiality, responsibility and accountability. The recruitment process to employ individuals to work at the Bank takes into account the personal qualities meeting the professional ethics requirements. Each individual appointed to work for the Bank is obliged to perform the tasks assigned to the best of their abilities.

The subsidiaries follow the approved rules, policies and procedures of the parent taking into account their own specifics.

Bodies in charge of the individual components of the overall accounting and financial reporting process in the Group

The parent (the Bank)

The bodies responsible and authorised with respect to the financial reporting process and other related processes include: the management body of the Bank, represented by the Supervisory Board and the Management Board, the Director of the Planning, Financial Reporting Control and Central Accounting Directorate, the Head of the Internal Audit Unit. Their functions and responsibilities may be summarised as follows:

- The management body of the Bank, represented by the Supervisory Board and the Management Board adopts and approves: the accounting policies and changes therein in each reporting period, the accounting estimates made as at the date of each reporting period, including the methodology applied; the financial statements and reports and other publicly available documents, containing financial information; the functions, organisation and responsibilities of all structural units and their managers, engaged in and related to financial reporting; the development, implementation and current monitoring of the functioning of the individual components of the internal control system, obtains timely information on the activity from the Internal Audit Department;
- Chief Economist, The Director of the Planning, Control, Financial Reporting and Central Accounting Directorate organises and manages the accounting reporting of the Bank - controls and provides methodological guidance of the bookkeeping, is responsible for the development and implementation of the accounting reporting methods and techniques; is responsible for the process of closing of the accounts and all accounting estimates, proposes and develops accounting policies and changes therein, follows up on any current amendments in IFRS; Performs for the overall organisation, methodological support and implementation of the process for preparation of the separate and consolidated financial statements of the Bank, including the ongoing control, guidance, monitoring and analyses of the financial statements for consolidation purposes of the D Commerce Bank Group companies, communicates with the regulators, draws up analyses, projections and management reporting information, is in contact with internal and external expert bodies, consultancy and audit firms;
- The Internal Audit Unit performs independent assessment of activities related to the preparation of the Bank's financial statements and the effectiveness and compliance with the internal controls introduced in relation to the individual recurring and non-recurring processes. It monitors and provides assistance for the attainment of the Bank's

objectives and tasks. It facilitates the efficient, effective and economic utilisation of the resources, as well as the introduction of adequate control mechanisms for the various risks. It provides support for the protection of the value of the Bank's assets. The Unit monitors the lawfulness of the operations, the proper implementation of the policies, plans, internal rules and procedures. Expresses opinions on the adequacy of the internal control systems and the risk management of the process arrangement, as well as the monitoring and reporting systems and their adequacy and efficiency.

Subsidiaries

D Leasing EAD - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the Board of Directors and the Chief Accountant.

D Insurance Broker EOOD - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the General Manager and the Chief Accountant.

D Imoti EOOD is managed and represented by its General Manager - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the General Manager and the Chief Accountant.

D Park EOOD managed and represented by its General Manager - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the General Manager and the Chief Accountant.

Human resource policies and practice in the finance and accounting departments

At the Group companies there are policies and rules and established practices related to the management of human resources involved in the process of financial reporting and the other processes related thereto. During selection, the focus is on both the need of specialized education in the field of finance and accounting, and on relevant professional experience, in addition to very good computer literacy and personal characteristics necessary to ensure accuracy, time management and correctness in carrying out the activity. Upon the selection of applicants for each position in the Bank's finance and accounting units, the leading professional requirements are those envisaged in the job descriptions of the respective positions, as well as the personal qualities corresponding to the Bank's Code of Ethics.

The staff management policies include policies related to continuous additional professional training, updating and expanding the knowledge and skills of the specialists hired, increasing their expertise and long-term retention. On an annual basis, the Bank updates and approves an annual

plan for forthcoming trainings, structured based on topics and area of work of employees. Mandatory trainings are carried out in case of amendments to statutory acts, IFRS, taxation laws and other that are directly related to the work. The aim of this policy is to update and increase the expertise of employees and improve their skills in order to ensure accuracy and enhance effectiveness in the performance of their work duties.

Risk assessment process related to the financial reporting of the Group

The Management Board and Chief Economist of the parent play a key role in the process of continuous identification, monitoring and control over the business risks, including the identification and control of the effects thereof, which also influence directly certain accounting processes and items, the financial reporting of D Commerce Bank Group. They perform joint overall monitoring on the risk management process.

The risk factors concerning the reliable financial reporting include external and internal events, transactions and circumstances that may occur and may have adverse impact on the Group companies' ability to create, maintain and process accounting and operating data in a way ensuring trustworthy financial reporting, statements and reports. The key factors identified by the Group include the following:

- The following are identified as external risks: changes in the business and market environment of the parent (the Bank) and its subsidiaries, as well as in the products and services offered by the Group; the activities of the competitors; changes in the legislation and the regulatory framework; changes in key suppliers or customers / groups of customers; unscrupulous or ill-natured acts of external parties; fast corporate growth and growth of the Group; development of the entities in which the Bank holds significant investments in the form of interests and / or loans granted.
- The following are identified as part of the internal risks: changes in the technical infrastructure of the Group, in the way and intensity of use of the available assets and resources; launching of new products and services; new accounting policies and IFRS; changes in the staff of the directorates responsible for the financial reporting; changes in the information systems; errors in the work and / or insufficient knowledge or skills of the personnel; fast expansion of the operations; use of many estimates - in particular use of fair values and calculation of recoverable amounts of certain non-current assets involving external experts.

The risk factors of recurring nature and / or related to the application of the accounting policies and estimates are monitored currently by the Planning, Control and Financial Reporting Directorate and Central Accounting, which propose solutions concerning the management and appropriate recording of their effects in the financial statements. The newly emerging risk factors are identified, assessed and developed by the Director of the Planning, Control and Financial

Reporting Directorate and Central Accounting. Consultancy assistance provided by independent consultants is used as necessary, including with respect to the application of new IFRSs. The Management Board of the parent (the Bank) is responsible for the overall monitoring of the risk management process in relation to financial reporting.

Bodies responsible for the control functions over the financial reporting process

The Supervisory Board reviews the annual financial statements - separate and consolidated and the profit distribution proposals and presents to the shareholders the annual management report of the parent, including the consolidated management report.

The Audit Committee monitors independently the implementation of the financial reporting processes, the accounting policies applied and the effectiveness of the internal control system of the Bank, including risk management, as well as the performance and results from the internal and external audit.

Information system

Parent

The information system of D Commerce Bank AD includes infrastructure (physical and hardware components), software, people, procedures and data.

The information system relevant to the financial reporting objectives and process encompasses methods and documentation which:

- identify and record all valid transactions;
- describe the transactions in a timely fashion and with sufficient detail allowing their proper classification for financial reporting purposes;
- measure the transactions in a way allowing the recording of their appropriate monetary amounts in the financial statements;
- cut-off the period during which the transactions have been originated in order to allow their recognition in the respective accounting period;
- present the transactions and the related financial statement disclosures appropriately in accordance with the requirements of the reporting framework.
- provide detailed log files of user actions for the purpose of exercising control.

Different departments within the structure of the Information Technologies Directorate are responsible for the smooth and risk-free operation of the Bank's information systems. Their functions are allocated in accordance with their functional characteristics as follows:

IT Operations - a structure directly responsible for the current support of the applications used in the Bank and the interfaces between them. Testing of development products. Implementation of releases;

IT Development - a structure directly responsible for the change management process through which changes in the Bank's applied systems are made. Testing of development products

IT Infrastructure - a structure maintaining the hardware, communications and server infrastructure of the Bank;

IT Help Desk - a structure assigned with the first line of support to the external IT service users.

Chief Economist, Director of Planning, Control and Financial Reporting and Central Accounting Directorate

Chief Accountant, directly subordinated to the Chief Economist, and functions related to direct accounting reporting

Directly subordinated to the Chief Accountant are a deputy chief accountant, department managers, and experts. Structurally subordinated to the Chief Accountant are the Accounting Methodology Department, Taxes Department, Accounting Reporting Department, Budgetary Orders Department, Nostro Accounts and Balances Department and Account Bans Department. According to its functional description the Directorate aggregates and carries out fully the Bank's accounting - reporting functions, the internal accounting control. The Chief Accountant's responsibilities include the appropriate and consistent application of the developed accounting policies, the development and implementation of internal chart of accounts; reporting methodologies, current bookkeeping, the preparation and / or processing of the inputs to the accounting estimates jointly with the involved experts, as well as the reporting of deviations and mismatches to the Management Board and the compliance with the regulatory requirements in the area of accounting, taxation and other related fields form part of the responsibilities of the Directorate.

The accounting policies of the Bank are reviewed as necessary and are subject to approval by the Management and Supervisory Boards. The revised accounting policies are published through the internal system for disclosure of updated and new policies.

The choice of the reporting framework is based on the requirements of the Accountancy Act. D Commerce Bank AD applies International Financial Reporting Standards (IFRS), endorsed by the European Union. Ongoing control for the appropriate application of IFRSs is exercised by the Chief Economist. Further confirmation of the accuracy of the application is obtained by the internal auditors.

Functions related to planning, control and financial reporting, directly subordinated to the Chief Economist at the parent company

The functions related to planning, control and financial reporting are allocated to the following departments in the PCFRCA Directorate:

The Budgeting and Planning Department develops annual and mid-term business development plans and the budget of the Bank, as well as control over the attainment of the business targets set and the execution of the annual budget. It develops an annual budget system by profit centre, product and segment. It prepares analyses and reports of the bank system and benchmarks the Bank's key indicators against the market (market share, interest rates, etc.).

The Management Information and Income and Expenses Control Department organises and manages the control over the reported income, volumes and execution of the annual budget targets. It participates in the development of the methodology rules and procedures for the setting of business objectives, income, expenses and investments. The Directorate prepares daily schedules concerning the financial position of the Bank against certain indicators for management purposes, as well as monthly reports on the Bank's financial position. It is in charge of the control over the Bank's expenditures and the budgetary spending during the year. The Planning, Control and Financial Reporting Directorate exercises control over the spending of the investment funds allocated in the Bank's budget during the year.

The Strategic Development Department prepares information and analytical reviews, reports on macroeconomic development, political and other events and the impact thereon on the Bank's business and plans.

The Financial Reporting Department prepares annual financial statements in accordance with IFRS, annual financial statements for local needs, for the Deposit Insurance Fund, the Financial Supervision Commission, the Bulgarian Stock Exchange, international financial institutions providing external financing. It participates in the preparation of different reports for supervision purposes, in relation to BNB regulation, bank statistics, payment balance. The Directorate is involved in the development of the internal regulations framework of the Bank, as well as in the enhancement of the planning methodology. Makes proposals for optimisation of the Bank's asset structure. It organises, coordinates, manages and controls the overall activities related to the collection, summary, analysis and dissemination of the statutory statistic and financial information about the Bank.

The preparation of the Group's financial statements for public use is the result of a comprehensive closing of the accounts process in each reporting period. This process is made formal as a result of the rules and guidelines documents approved by the management. They are related to certain actions and procedures, and respectively the drawing up of documents by officers from the Planning, Control and Financial Reporting and Central Accounting Directorate or other responsible officers and such actions and procedures are dealing with: stocktaking; account analyses; mailing of confirmation letters; best estimates such as depreciation and amortisation, revaluation, impairment and accruals, which have to be based on reasonably justified

assumptions; study and analysis of various legal documents (agreements, lawsuits, legal adviser opinions); study and assessment of expert reports (valuators, actuaries, internal auditors, other external experts and officers); preparation of schedules and consolidation packages; preparation, analyses and discussion of draft financial statements.

With respect to the subsidiaries the functions related to the consistent application of the adopted accounting policies, the development and implementation of the internal charts of accounts; reporting methodologies, current bookkeeping; ongoing accounting analysis and control of the reporting data and documentation, the development of annual and mid-term business development plans and the Bank's budget, as well as the preparation of annual financial statements in accordance with IFRS, annual financial statements for local needs are performed by the Chief Accountant of the respective company and the Department he or she is heading.

Control activities

The control activities envisaged in the developed and implemented internal controls by process include: reviews of the execution and performance results; processing of the information; physical controls and allocation of duties and responsibilities.

The general controls related to the financial reporting may be categorised as procedures related to ongoing and periodic reviews and analysis of the financial indicators and the inputs thereto. They include reviews and analysis of the actual reported results against the budgeted, projected, prior period results, against the system as a whole and against the target group. They may usually contain proposals for optimisation or revision of certain budgets.

The controls underlying the information systems of the Group cover both applied programme controls and the overall IT controls, which represent policy and procedures facilitating the ensuring of the continuous proper functioning of the information systems. The typical controls underlying the applied programmes include: checks of the mathematical accuracy of the records, maintenance and review of accounts and trial balances, automated controls, such as input checks and numbering sequence checks, and non-automated follow up of the exception reports. The overall IT controls include: programme change controls, controls restricting the access to programmes or data, controls over the implementation of new releases of software applications and system software controls restricting the access or the ongoing monitoring of the use of system auxiliary functions which may change financial data or records without leaving a trail for subsequent tracking.

Physical controls applied include:

- measures ensuring the physical safeguarding of the assets - secure facilities and premises, and special access terms to assets and documents;
- special approval procedure for access to computer programmes and data files;

- periodic stock-taking - procedures for the organisation and conducting of stock-taking by means of counting / weighing the stocks / sending suitable confirmation letters and comparison of the amounts in the checklists and in the accounting documents / ledgers.

Internal controls are also envisaged in the developed and implemented procedures for the management, organisation and implementation of the main routine processes (delivery and sales), as well as the processes for the drawing up and acceptance of the complex estimates (depreciation and amortisation, impairment, revaluation, actuarial calculations and long-term provisions). These are focused on: authorisation of individual transactions and the primary documents issued; reviews and checks of the documents issued and the assets involved in the transaction; subsequent re-calculation and comparison with other documents (agreements, orders, confirmations, price lists, etc.) and individuals, as well as separation of the duties and responsibilities of the officers involved in each step of the respective process in order to ensure mutual control, and to reduce the possibilities to put an individual in a position to both execute and conceal error or fraud in the ordinary course of performance of his / her duties.

The Group is in process of continuous expansion of the formal control procedures and activities.

Ongoing monitoring of the controls

An important high-priority objective for management, represented by the Chief Economist, is to establish and maintain ongoing and efficient internal control. The current monitoring of the controls by the management includes judgement as to whether they function as envisaged and whether they are appropriately modified in order to reflect the changing conditions.

The ongoing monitoring of the controls may involve activities such as management review as to whether internal management reports are prepared in a timely manner, and whether key data therein are reconciled by means of confirmation from third parties and its expectations, assessment by the internal auditors as to the compliance with the policies and procedures related to the implementation of the routine processes by the personnel involved, supervision over the observance of the ethical norms or the generally accepted business practices. The ongoing monitoring is carried out in order to ensure that controls continue to function effectively over time.

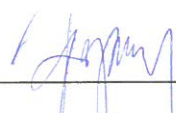
The internal auditors as well as the officers charged with supervision, monitoring or control functions also contribute to the ongoing monitoring of the internal controls over the entities processes through their assessment of individual controls or groups of controls. They usually provide such information periodically in the course of performance of their duties and functions, as well as their assessments regarding the functioning of specific internal controls, with a specific focus on the assessment of their effectiveness, they communicate information regarding the strengths and weaknesses in the internal controls with the respective individuals and make recommendations as to their improvement.

The Supervisory Board may check any action related to the Group's operations, may check the accounting documentation and ledgers at any time and make conclusions as to the Group's position.

The Audit Committee monitors the effectiveness of the internal controls of the parent (the Bank) and the risk management system, recommends the appointment of the registered auditor (external auditor) of the Bank and assesses the external auditor's independence, the Bank's policy concerning the compliance with the requirements of the regulations significant for the true and fair presentation of the financial statements.

The ongoing monitoring activities include the use of information from outside sources which depicts issues or outlines areas that need improvement. Such sources are the customers, suppliers, the supervision authority, namely the BNB, the regulatory, namely the FSC. Furthermore, in implementing the ongoing monitoring activities the management always takes into account the communications with the external auditors related to the internal controls and any weaknesses and recommendations made by them.

The Group companies are not issuers of securities and have no plans of becoming public entities. The Corporate Governance Code in relation to the requirements of Art. 100 (n), Para 8, items 1 and 2 of the Public Offering of Securities Act (POSA) is not applicable to D Commerce Bank Group.



Anna Asparuhova
Chief Executive Officer

D COMMERCE BANK AD



Date: 29 June 2022



Martin Ganchev

Executive Director

D COMMERCE BANK AD