



D Commerce Bank AD

Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT

TO
THE SHAREHOLDERS OF
D COMMERCE BANK AD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of D Commerce Bank AD (“the Bank”) and its subsidiaries (jointly “D Commerce Bank Group” or “the Group”), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a disclosure of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants* (including the International Independence Standards) of the International Ethics Standards Board for Accountants (*IESBA Code*) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We



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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter included in the table below, the description of how this matter was addressed in our audit was made in this context.

Key Audit matter	How this key audit matter was addressed in our audit
<i>Impairment of expected credit losses on loans and advances to customers according</i>	
The Group's disclosures regarding the impairment of credit losses on loans and advances to customers are provided in Note 2.11.1.7 Impairment of financial assets, Note 2.24.1.2. Determining credit losses by types of financial assets, Note 3.1. Credit Risk and Note 14 Loans and advances to customers to the consolidated financial statements.	
<p>Loans and advances to customers represent a substantial proportion (55.94%) of the Group's total assets as at 31 December 2021. The gross carrying amount of these loans and advances to customers as at 31 December 2021 is BGN 801,792 thousand, and the respective allowance for accumulated credit losses therefrom is BGN 21,463 thousand. The Group applies an impairment model based on expected credit losses (ECL) on loans and advances to customers on an individual and collective (portfolio) basis, in accordance with IFRS 9 <i>Financial Instruments</i>.</p> <p>Determining the impairment of credit losses on loans and advances to customers by means of applying such model is related to using a high level of complexity in the calculations and assumptions, as well as more significant judgement on the part of the Group's</p>	<p>In this area, our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Inquiries, walk-through and obtaining an updated understanding of the Group's process of monitoring and determining the impairment of credit losses on loans and advances to customers in the Group, including additionally introduced procedures due to the specific social and economic circumstances imposed by the continuing COVID-19 pandemic. • Inspection of documents and review of the methodology applied by the Group, the internal policy and procedures, and the impairment model used, as well as on changes related thereto made in the current year. Inquiries to Group experts responsible for the modelling and management of credit risk. • Review and assessing the internal procedures and key controls at application level regarding the application of the impairment policy and model, including model documentation, as well as

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management regarding the identification of loans and receivables with credit losses, and in determining the amount of credit losses. The key assumptions, judgements and parameters in determining ECL are related to the development of quantitative and qualitative indicators for:

- monitoring and identifying a significant deterioration of the credit quality of exposures, the presence of low and/or significantly increased credit risk, respectively exposures with objective evidence of impairment – for the allocation of individual credit exposures into stages (Stage 1: Exposures without a significant increase in credit risk; Stage 2: Exposures with a significant increase in credit risk, but without objective evidence for impairment, and Stage 3: Exposures with objective evidence for impairment);
- determining the components “probability of default” (PD), “loss given default” (LGD) and “exposure at default” (EAD). The calculation of expected credit losses on loans and advances on a collective (portfolio) basis in Stage 1 and Stage 2 is characterized with a higher degree of approximation and estimation uncertainty, which depends on the extent to which the Group has supporting historical information about testing the assumptions used and calibrating the accuracy of PD and LGD calculations in the impairment model;

monitoring and frequency of update and soundness of the parameters and macro indicators applied.

- Obtaining an updated understanding, assessment of the design and application, and respectively – testing the operating effectiveness of certain key controls appropriate for audit, in the process of monitoring, and staging, incl. in relation to the COVID-19 monitoring, and determining the amount of impairment of credit losses on the portfolios of loans and advances to customers. We involved our IT experts in the performance, testing and evaluation of general IT controls of the Group’s internal information system used in the process of monitoring of loans and advances to customers and determining expected credit losses.
- Assessing the consistency of application and continuing appropriateness of the methodology, the specific models for identification of credit losses and impairment calculation, incl. of key assumptions and judgements used therein, in accordance with the requirements of IFRS 9 and in the context of the specifics of the Group’s individual loan portfolios. Additionally, reasonability analysis and assessment were carried out of:
 - relevance of the criteria to identify a significant increase in credit risk;
 - appropriateness of the allocation made of exposures into stages according to the classification criteria determined by the Group;
 - the calculations of the indicators “probability of default” (PD) and “loss given default” (LGD) by checking the assumptions and outputs used;
 - the approach of including forecast information in the models; and
 - the analysis and accounting for the effects of the COVID-19 pandemic also in 2021.

- the scope, accurateness and completion of the inputs and calculation logic, since the Group applies models based on input parameters originating from internal and external sources;
 - including information on the future development of macro-economic factors in view of different scenarios in estimating ECL;
 - the assumptions and estimates applied by the management in the review of significant credit-impaired exposures in Stage 3, mostly related to the set of probability scenarios for the amount and time allocation of future cash flows and the final results therefrom, and for future collection of collaterals;
 - determining the impact of the social and economic consequences of the continuing COVID-19 crisis, including moratorium measures in 2021 and the effects therefrom, regarding the resulting assumptions, judgements, parameters and expected cash flows applied in the model.
- Independent recalculation, including checking the mathematical accuracy and logic of certain parameters used in the calculation of impairment of individual portfolios, as well as performing procedures, on a sample basis, on the respective inputs.
 - Tracking the calculation of expected credit losses by the Group, for the purpose of accrual of impairment for credit losses as at 31 December 2021, including data input, data processing, and calculation. Independent recalculation of expected credit losses, for a sample of loans, and tracking the results of the Group's calculation.
 - Performing detailed tests, based on a risk-based sample of loans at all stages, for the purpose of assessing the relevance and accuracy of the impairment charged of credit losses. For the relevant exposures, the following audit procedures were performed:
 - analysis of the financial position and results of borrowers, and inspection of information and documents related to loan servicing;
 - review of collateral valuation reports of the respective exposures; for some collaterals, we used our expert appraisers regarding the assumptions and methods applied in the valuations of collateral realisable value;
 - analysis of the effects on the financial position and operating results of borrowers and on the collaterals provided thereby;
 - analysis and assessment of the key assumptions and judgments of the Group's management in the calculation of specific allowances for credit losses for individual exposures at Stage 3;
 - test recalculations of specific parameters in the model and the total amount of the expected credit losses at a collective level for Stage 1 and Stage 2 loans in the sample.

Due to the significance of the above described circumstances that: a/ the materiality of loans and advances to customers as a reporting item for the Group's consolidated financial statements, and b/ the complexity of the process, multiple significant judgements and assumptions, the high inherent uncertainty in the estimate of expected credit losses set in the model for impairment of loans and advances to customers on an individual and collective (portfolio) basis, according to the requirements of IFRS 9, we have considered this matter as a

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<p>key audit matter.</p>	<ul style="list-style-type: none"> • Analysis of the Group’s credit portfolio and other analytical procedures as to its structure, composition and development trends, including of the interrelations of trends in the expenses on impairment losses and trends in the loan portfolio development, as well as accounting for the effects of the development of the continuing COVID-19 pandemic. • Performing audit procedures for subsequent events focused on the development of the loans and advances to customers from the sample mentioned in the above paragraph after the reporting date, in order to assess the consistency of the Group’s assumptions regarding expected future cash flows. • Assessment of the relevance, completeness and adequacy of the Group’s disclosures in relation to the impairment of credit losses on loans and advances to customers. Analysis of the Group’s credit portfolio and other analytical procedures as to its structure, composition and development trends, including of the interrelations of trends in the expenses on impairment losses and trends in the loan portfolio development.
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Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the management report, including information about the Bank’s activity in its capacity as investment intermediary, and the corporate governance statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

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consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process (the Audit Committee and the Supervisory Board).

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

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error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure of information about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditors' Report Thereon* section, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines Regarding New Extended Reports and Communication by the Auditor" of the professional organisation of Registered Auditors in Bulgaria – Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

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

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

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

- AFA OOD and Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2021 by the General Meeting of Shareholders held on 3 December 2021, for a period of one year.
- The audit of the consolidated financial statements of the Bank for the year ended 31 December 2021 represents a seventh total consecutive statutory audit engagement carried out by AFA OOD and a fifth total statutory audit engagement carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated 29 June 2022, provided to the Group's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services, referred to in Art. 64 of the Independent Financial Audit Act, were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit firm

AFA OOD:



Valia Iordanova

General Manager

Legal Representative

Registered Auditor in Charge of the Audit

**38, Oborishte Street
1504-Sofia, Bulgaria**

Audit firm

Baker Tilly Klitou and Partners EOOD:



Galina Lokmadzhieva

General Manager

Legal Representative

Registered Auditor in Charge of the Audit

**5, Stara Planina Street, floor 5
1000-Sofia, Bulgaria**

30 June 2022

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